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The American Consumer Institute
Center for Citizen Research

Comments of American Consumer Institute
Center for Citizen Research
Regarding Docket No. ACR2017
Submitted to the Postal Regulatory Commission, January 30, 2018

The conclusion of 2017's fiscal year brought the unfortunate continuation of some U.S. Postal Service trends. Yet again, the Postal Service is slated to raise prices on consumers even as service performance standards flounder and the organization's debt grows.

The U.S. Postal Service continues to oversee all the wrong changes. Without carefully thought-out adjustments, consumers will increasingly find little to no reason to opt for using the Postal Service. Unfortunately, the U.S. Postal Service's recent Annual Compliance Report (ACR) fails to reveal any true initiative to execute much-needed improvements.

The Postal Service's most recent fiscal year can be characterized by failing quality of service. Despite its already low standards, the service still managed to fall short of nearly all its performance goals. The USPS met performance goals for only 2 out of 27 total products within First-Class and Standard mail. Consumers' most basic expectation of the United States Postal Service is dependability, yet the service cannot even offer that assurance. The recent ACR fails to provide consumers with the faith that services will improve anytime soon.

Not only do consumers suffer from lagging service, but they also face steeper prices. Stamp prices increased yet again in January 2018. With most services, quality logically increases over time as additional improvements allow prices to decrease. However, the United States Postal Service continues to exhibit the opposite. What's more, under the Commission proposal, the Postal Service would be allowed to raise rates 2 to 3 percent on top of the rate of inflation for each of the next five years. It goes without saying that the ruling harms consumers. Again, these developments show that consumers will have to expect further price hikes even as they receive less in return.

Keep in mind that an Office of Inspector General report in 2016 showed the Postal Service to be averaging 1.3% per year in total factor productivity improvement since 2009. [1] Had the price cap formula appropriately incorporated a productivity offset (an X-Factor) consumers would have benefitted from lower prices, not higher prices, as currently being proposed. Yet, the Postal Service squandered this advantage and is now coming to the Commission for rate relief.

The continued price increases lack logic. The Postal Service raises prices on letter mail despite the fact that it is its core offering and already its most profitable service. Standard mail and first-class mail managed to generate more than twice as much revenue as their costs in 2017. On the other hand, flats and

[1] "Peeling the Onion: The Real Cost of Mail," United States Postal Services, Office of Inspector General, RARC-WP-16-009, April 18, 2016, Table I, p. 5.

parcels in the Standard Mail class – newly designated this year as "Marketing Mail" – lost $696 million.[2] In the absence of transparency and clear data on products and non-postal ventures, one is left to assume that the United States Postal Service is leveraging its profits from its standard letter mail service to subsidize other failing services. These practices take the focus away from the Postal Service's main service, causing its prices and quality to worsen. This combination of a deteriorating standard mail service with the financial backing of money-losing operations is one that must be addressed. It is no wonder the Postal Service's debt situation continues to languish.

The USPS wrapped up its 2017 fiscal year by losing a net $2.7 billion, with a controllable loss of $814 million. Altogether, the Postal Service has lost over $65 billion since the 2007 enactment of the Postal Accountability and Enhancement Act. The Postal Service cannot continue to go on this way. With the most recent ACR submission, the USPS is up to more than $122 billion in unfunded liabilities. By the end of 2017, the service was due to issue payments to the federal government totaling about $6.9 billion. These mostly fund retiree health and pensions, in addition to addressing the mounting debt. However, the Postal Service was ultimately unable to make any of these payments.

The intention of the Postal Accountability Enhancement Act was to create a formal system of reporting that gives the Postal Service an opportunity to demonstrate basic compliance. Unfortunately, the law has instead resulted in a yearly revelation into the incompetency of the Postal Service. Again, the report creates much cause for concern. The basic mission of the USPS, to provide reliable mail delivery at an affordable rate, repeatedly finds itself under threat.

Fiscal year 2018 presents the opportunity to enact reforms to improve the Postal Service's standing. The Postal Regulatory Commission would be well-served to introduce a system that more properly and transparently allocates costs for the USPS's services. It should be overtly clear just how profitable or unprofitable each offered service is. Additionally, there is a clear need for enforceable mandates that will end the ongoing failure to meet basic mail delivery performance goals. The PRC should also prioritize changes to reverse the financial woes of the USPS. If this trend continues, taxpayers may be stuck with a bailout to go with their higher postal charges.

Respectfully submitted,

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[2] Annual Compliance Review, 2017, p. 13, at https://www.prc.gov/docs/103/103292/FY.17.ACR.pdf.