



February 1, 2018

Comments of: Pete Sepp, President, National Taxpayers Union

To: Postal Regulatory Commission
901 New York Ave., NW, Suite 200
Washington, DC 20268-0001

Re: 2017 Annual Compliance Report Docket No. ACR2017

Dear Chairman Taub and Members of the Commission:

Pursuant to Commission Order No. 4323, National Taxpayers Union (NTU) hereby submits comments in response to the U.S. Postal Service's Annual Compliance Report for Fiscal Year 2017 (FY 2017 ACR). NTU and our supporters across the United States are pleased to have this opportunity to offer observations and recommendations which, in our view, can help build a future for the U.S. Postal Service (USPS) that is sustainable for consumers as well as taxpayers.

Since the 1970s, NTU has actively pursued postal service reform to benefit taxpayers, consumers, and businesses all of whom are directly concerned about both the financial management and business practices of USPS. First and foremost, however, we are dedicated to ensuring the best interests of taxpayers are protected from massive subsidization of bailouts, should USPS fail to remain financially viable. In our experience -- most recently with the government-sponsored enterprises Fannie Mae and Freddie Mac -- the federal government has been quick to assume the liabilities of many troubled entities despite assurances from public officials that taxpayers would never be placed in such a position. It is therefore of vital interest to all Americans that remedial steps be taken now to avoid such an outcome with USPS.

USPS reported a net loss of \$2.7 billion in FY 2017, and has lost a total of \$65.1 billion over the last 11 years. These figures are sufficiently alarming in their own right, but as the 2017 Compliance Report shows, in many aspects Service performance has been on a steady decline for years as well. For five years in a row, the USPS has failed to meet performance targets for Standard Mail. It has an even more disappointing record of meeting on-time delivery standards for First-Class Single Piece letters, which happen to be USPS's highest-volume product.

NTU is increasingly worried about the impact these shortcomings could have on American taxpayers. One way to make a major course correction would be more aggressive efforts to accurately allocate costs. That should begin with the Postal Regulatory Commission (PRC) encouraging a new business model that is effective, cost-efficient, and has the ability to prevent these inadequacies from continuing to occur in future years.

Throwing more money into a system whose mechanics are unclear in the first place is not a formula for managerial discipline. Letter mail is already USPS's most profitable service, ostensibly raising \$4.6 billion in revenue for Standard Mail and \$13.4 billion for First-Class Mail in 2017. These revenue levels have covered service costs by more than 200 percent. But taxpayers must ask where these dollars have gone, and whether their attribution to these business areas is accurate.

USPS has yet to provide complete, comprehensible information on the costs required to fund each line of business – data that is essential for crafting sensible reforms. In 2017, similar to 2016, Standard Mail Flats and Parcels appear to have lost approximately \$700 million. With results like these, many Americans could be forgiven for speculating whether USPS is using the profits made on Standard Mail, to financially preserve package deliveries on USPS's array of service offerings. So far, they are unable to independently assess whether such speculation is unfounded.

In 2015 comments to the Commission, NTU warned that:

Products such as letter delivery – which are mandated by the agency's original charter – are now further likely to be subjected to rate increases and diminishing, sorely-needed investments as the competitive products mix grows. In essence, the mail delivery services that Americans have come to expect are now likely to witness declining standards of reliability and affordability.

These dire predictions do not appear to have been addressed. Nor does there appear to be sufficient consideration given to the benefits of greater cost transparency, which we stressed in [2017 comments](#):

Enabling a complete analysis of these non-essential services will ultimately be critical for the Postal Service to realize the financial benefits of the core letter mail products that maintain wide profit margins. Narrowing the base of services will allow the agency to become more attentive to preserving mail quality for the sake of customers and mailers across the country who depend on the postal system most.

Not only is USPS falling short of promises made to its largest share of customers, it is also facing serious compensation problems with current postal workers, who are under the impression they will have the ability to retire with comfortable retirement savings. These employees are increasingly vulnerable in a financial sense, made all the worse by the fact that in 2017, USPS failed to pre-fund pensions and health benefit programs for postal retirees by \$6.9 billion. Could this deficiency force taxpayers to cover benefit payments that USPS may not be able to make? The question is not academic. Federal legislation has already been proposed in this Congress to put taxpayers on the hook for certain private-sector union-administered pension liabilities which, unlike USPS, have had no historical ties to the federal government.

NTU is well aware of USPS's objections over the prefunding arrangement, and [has noted](#) that this policy is actually an important taxpayer safeguard whose concepts ought to be applied to a wider setting of federal agencies and related entities. It is critical for the PRC to stand firm on the need for the Service to commit more seriously toward meeting prefunding obligations.

The PRC must also change its approach as a regulator. To propose rate-hikes on letter mail now, rather than a top-to-bottom reformed business plan, would be a disservice to millions of customers who, through USPS's monopoly on certain lines and its regulatory advantages, have little choice for going elsewhere.

Absent a complete market-based realignment that will allow competition for all types of delivery services, the responsibilities of USPS should be keeping letter mail as affordable as possible for people across the nation, and ensuring every piece of mail they receive is delivered efficiently -- not to utilize monopoly revenue to explore new markets.

Now is the time for the PRC to analyze the expenses of the USPS and propose a more effective system to transparently allocate the costs of each service. The PRC must work to establish a complete and transparent understanding of which products are profitable for the service, and which are financially unsustainable. The current system is not adequately providing these assurances.

Furthermore, NTU suggests the implementation of two different strategies to best utilize the money the USPS has at hand. First, the PRC must outline unmistakable directives for the USPS to meet delivery goals and institute consequences for continued lapses. This will help to ensure that mail customers are receiving the level of service for which they are paying. Second, the PRC must identify and combat the causes of USPS's declining finances, and propose realistic remedies beyond simply writing off debts to taxpayers or pursuing exotic business lines.

We believe the impact your decision will have on taxpayers across America when you are compiling the 2017 determination is quite significant, and we are therefore all the more grateful for your consideration of our views. Should you wish to discuss our recommendations in more detail, NTU staff is at your disposal.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Pete Sepp". The signature is fluid and cursive, with a prominent initial "P" and a long, sweeping underline.

Pete Sepp
President, National Taxpayers Union