

Before the  
Postal Regulatory Commission  
Washington, D.C. 20268–0001

Annual Compliance Review, 2021

Docket No. ACR2021

Comments of the Lexington Institute  
(January 31, 2022)

The Lexington Institute appreciates the opportunity to offer the following comments about the U.S. Postal Service’s Fiscal Year 2021 Annual Compliance Report.

Due to several developments in fiscal year 2021, it is essential that the U.S. Postal Service (USPS) fundamentally reevaluate how it determines whether it has complied with Chapter 36 of Title 39 and that the Postal Regulatory Commission (PRC) drive that change.

Those fiscal year 2021 events include: the historic delays in mail delivery from December 2020-January 2021; the decision to slow delivery of 40 percent of first-class mail; the continuing shift to competitive package delivery from mail; and the issuance of the 10-year strategic plan on March 23, 2021 wherein USPS aims to place even greater emphasis on competitive package services at the expense of its preeminent historic mission, mail delivery.

### **Particularly Notable Items in the ACR**

As it has for quite some time, USPS reports that mail covered its costs better than packages. Total first-class mail covered 193.7 percent of its attributable cost; marketing mail was 130.5 percent; and package service was only 93.2 percent.

USPS also reports that competitive packages covered “just under 40 percent of all institutional costs.” In fact, USPS determined packages accounted for 39.2 percent of institutional costs even though they were 44 percent of Fiscal Year 2021 revenues. Given the dramatically lower profitability of packages, the institutional cost for packages should be well over 44 percent.

Furthermore, in the ACR USPS says, “Because no Competitive market tests were in effect in FY 2021, the overall net Competitive contribution amount remains at \$13.193 billion, which is 39.2 percent of total institutional costs.” Yet, in the November 10, 2021 news release, “U.S. Postal Service Reports Fiscal Year 2021 Results,” USPS said, “Shipping and Packages revenue increased \$3.5 billion, or 12.2 percent.”

It is disingenuous for USPS to say that the 39.2 percent figure should apply to both Fiscal Year 2020 and 2021 when there is 12.2 percent, or \$3.5 billion, growth in the competitive business. USPS also should have done the competitive market tests and be held to account for not doing so. At a minimum, USPS should have proactively stressed that the 39.2 percent amount is quite low.

Other fundamental factors illustrate why the 39.2 percent figure is likely dramatically understated. Mail is more compact and efficient to deliver. There can be several thousand dollars-worth of letters in the size of a large package.

Mail also tends to go to every home every day while packages are intermittent. A mail carrier may need to go out just once from a postal facility during the day to deliver a large amount of mail. A full day of package delivery will typically result in three to four trips back to the postal facility.

Postmaster General Louis DeJoy provided revealing testimony related to these matters on March 11, 2021 to the U.S. House of Representatives Appropriations Committee’s Subcommittee on Financial Services and General Government. He testified that a tractor trailer can hold 500,000 letters but only 5,000 packages. In other words, the average package is 100 times the size of the average letter.

USPS still delivers many more pieces of mail than packages. Based on figures from the Fiscal Year 2021 USPS 10-K, the Postal Service delivered 15 times the volume of mail (120.6 billion pieces) compared to packages (8.0 billion pieces).

Because USPS does not deliver 100 times as many letters as packages, packages take up disproportionately more space and incur higher delivery, storage, and processing costs. Indeed, USPS needs 6.6 times as much space for packages, as it does for mail, using the Postmaster General's 5,000/500,000 ratio.

Dividing the 120.6 billion Fiscal Year 2021 mail volume by 500,000, the number of tractor trailers required to hold USPS's mail volume is 241,200.

Dividing the 8.0 billion Fiscal Year 2021 package volume by 5,000 shows that 1,600,000 tractor trailers would be needed to store all packages, 6.6 times more space (1,600,000 vs. 241,200) than is needed for letters.

### **Other Fundamental Factors of Concern**

It is not just that the current volume of packages is taking up a highly disproportionate amount of USPS facilities' space, vehicles' space, and staff time for delivery and related actions. Through its 10-year plan issued on March 23, 2021, USPS plans to make \$40 billion in capital investments over the next decade, predominantly oriented toward growing its package business. This is also where USPS made major investments in Fiscal Year 2021.

As part of its 10-year plan, USPS has also slowed delivery times for 40 percent of first-class mail, beginning on October 1, 2021. The Commission expressed great concern about this action (Docket N2021-1), while noting that it was constrained in its resources in being able to evaluate USPS's proposal.

It is distressing in the ACR that USPS does not address in a full, more forthright manner the historically low mail service standards that occurred in December 2020-January 2021. Rather, at times, USPS even minimizes that event which harmed tens of millions of Americans due to lost and delayed mail.

The introduction gives passing reference to “package volume” as a reason for those mail delays, while emphasizing “The Postal Service was able to achieve sustained improvements in service performance as the year progressed.” The impact of packages on the historic mail service delays in Fiscal Year 2021 merits a full-fledged, exhaustive, and independent investigation.

### **Fundamental Concerns with USPS Cost Calculations**

USPS provides an enormous amount of information, via the 75 folders accompanying the ACR, to the PRC. But there are reasons to be concerned with the underlying accuracy.

In 2014, the USPS’s Office of Inspector General issued a report, *Greenfield Costing Methodology, an Opportunity to Deliver Transformative Change*. Based on interviews, with more than two dozen executives at USPS, it recommended that steps be taken to have more rigorous analysis of granular delivery costs and knowing the cost of every delivered item so that better decisions could be made.

The study found: “A modern bottom-up costing system would provide substantial and numerous benefits to the Postal Service, similar to those enjoyed by companies of comparable size. Key examples include support for performance management and cost reduction efforts, optimizing the product portfolio, driving investment decisions, making effective pricing decisions, and managing the customer base for profitability.”

Though the report’s recommendations were reiterated in a 2019 USPS Office of Inspector General report (*Costing Best Practices*), they have not been put into the effect. The estimated \$125 million cost and 18-month time frame for implementation have likely been too daunting for USPS management.

It is imperative, though, that USPS be able to evaluate its costs in a world-class manner and leverage the growing sophistication of data analytics to help accomplish this. Understanding such costs can and should be a fundamental factor in improving mail delivery and restoring it

to the much higher standards that the American people deserve. Today, it takes longer to deliver a letter than in the 1970s.

### **The PRC Needs to Be Empowered**

The size disparity between the PRC and USPS is alarming. While the PRC has a staff of about 70 and a budget of approximately \$21 million annually, USPS has more than 600,000 employees, with annual revenues of \$77 billion or so. USPS has four times as many attorneys as the PRC does staff.

While the PRC can and should ask Congress for much higher resources to perform its many duties, it should also recommend to Congress that the 2014 findings be implemented and mandated by law. Similarly, USPS should again hire a consulting firm, as it did in 2014, to determine how to best understand its costs and expeditiously implement a comprehensive, new methodology.

Short of such action, it is hard to see how USPS will be able to give a proper accounting of its costs, or effectively held to do so by the PRC. Improved, modern cost and reallocation information is important for the proper and efficient structuring of postal operations. It will help determine how mail service, USPS's central public mission, can be restored to service levels the public will find acceptable.

Thank you for your consideration and attention to these matters.

Respectfully,

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