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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Review, 2021	)))	Docket No. ACR2021

COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE ON FY 2021 PERFORMANCE REPORT AND FY 2022 PERFORMANCE PLAN
(March 1, 2022)

Pursuant to Order No. 6982, the Association for Postal Commerce ("PostCom") submits these comments on the Postal Service's Fiscal Year 2021 Performance Report ("FY 2021 Report") and Fiscal Year 2022 Performance Plan ("FY 2022 Plan").[1] As detailed below, the Postal Service continues to miss its service performance targets, and while it has made improvements in its performance plan, PostCom has concerns about the Postal Service's reporting of performance and setting of standards. These comments also explain that the Postal Service is likely in better financial health than it consistently claims, but that the Commission's lack of definition around the "Financial Health" metric makes it difficult to contextualize and evaluate Postal Service results, which have far surpassed the projections contained in the Fiscal Year 2021 plan and the Delivering for America strategic plan. It should also be noted that on the date that these comments are being filed, the 2022 Fiscal Year is nearly half over, which renders the Commission's consideration of comments and suggestions a purely formal matter; lacking in practical import. There is no reason to expect that any recommendations issued by the Commission in this proceeding would produce results in the current year.

[1] The FY 2021 Report and FY 2022 Plan are included within the Postal Service's Fiscal Year 2021 Annual Report to Congress ("Annual Report"), provided with the Postal Service's FY 2021 Annual Compliance Report as Library Reference LR-USPS-FY21-17.

I. THE POSTAL SERVICE DOES NOT PROVIDE THE SERVICE THAT ITS CUSTOMERS PAY FOR

As shown in the Postal Service's Annual Report, the Postal Service failed to meet service standards for most of its market dominant products during FY 2021 despite waiting until well into FY 2021 to create service targets. The only category of market dominant product that met its service target – Marketing Mail and Periodicals composite – is an amalgam of different products with markedly different customers, service standards, and uses. As an indicator, its purpose appears to be to obscure how truly poor service performance on Periodicals (which accounted for less than four percent of the volume in this composite category) has been. Unfortunately, this state of affairs is not unusual. Last year, PostCom's comments included a table (see below) indicating how rare it is for the Postal Service to meet its service targets. By reporting two separate market dominant products as a composite, an updated summary table is rendered meaningless, though the general pattern continues. As 2022 results will reflect altered service standards for First-Class Mail and Periodicals, comparisons with prior years will present a distorted picture of service performance changes. While the Commission might lack the authority necessary to prohibit degradation of service standards, the Commission must require that the Postal Service report on service performance for market dominant products relative to the standards in place prior to the implementation of reduced service standards at the commencement of FY 2022.

USPS Service Performance Summary: 2010-2020

Category	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
First-Class Mail											
Single-Piece Overnight	96.3	96.2	96.5	96.1	96	95.6	NA	NA	NA	NA	NA
Single-Piece Two-Day	93.6	93.4	94.8	95.3	94.9	93.2	94.7	94.7	93.8	92	91.5
Single-Piece 3-5 Day	91.6	91.2	92.3	91.6	87.7	76.5	83.7	85.6	82.5	80.9	78.8
Presort Overnight	93.4	90.8	96.8	97.2	97	95.7	96.2	96.5	96	95.5	94.7
Presort Two-Day	92.7	89.1	95.7	97	96.4	93.6	95.1	95.6	94.9	94.1	92.8
Presort 3-5 Day	88.2	90.6	95.1	95.1	92.2	87.8	91.7	93.7	92	92	89.9
Periodicals	76.7	75.5	68.7	82	80.9	77.7	80.1	85.6	85.6	85.7	80.9
Marketing Mail											
Origin Entry	59	38.4	56.5	63.3	63.5	59.6	65.9	69.8	66.4	66.2	72.2
Destination Entry	83.4	70.8	82	88.8	89.9	89.1	92.3	93.7	91.6	91.9	91.5
Package Services	79.4	76.7	87.2	87.5	86.3	84	82.5	89.6	89.2	87.3	85.8

As PostCom has noted in previous ACR proceedings, the Postal Service's disappointing results represent an overly rosy depiction of what users of the Postal Service's market dominant products have to contend with. For instance:

- All of the Postal Service's targets are highly aggregated and therefore obscure worse performance on subcategories. For example, service performance on flats is routinely much worse than on letters within the same category. Because letters greatly outnumber flats, reported service performance levels in fact reflect performance on letters alone.
- The Postal Service does not begin measuring compliance with standards until a mail piece has an acceptance scan. In the event that trucks bearing commercial mail are held at postal facilities awaiting unloading despite having confirmed

appointments, such delays are not reflected in the way the Postal Service self-reports.

- Mail pieces may be excluded from measurement for a number of reasons, including pieces that get lost in the USPS network. Unedited service performance reports would certainly show that service is worse than depicted.
- Nearly a third of mail falls out of measurement for various reasons. Yet pieces that are excluded from measurement are not entirely devoid of service information.
- For instance, a mailpiece that does not have a valid start-the-clock scan will still be scanned by the Postal Service and produce trackable data. To help increase the proportion of mail that is measured, the Postal Service should make available piece-level data for pieces that are excluded from measurement. This would facilitate identification of the myriad causes that prevent a more complete picture of service performance.

The table presented above is ample evidence that the ACR process has not been effective in driving improved service performance. Consequently, while the issuance of an Annual Compliance Determination technically satisfies a basic statutory requirement, the result is that the spirit of the Postal Accountability and Enhancement Act is thwarted to the extent that the Act vested regulatory authority to oversee service with the Commission. A new approach is needed to ensure that postal customers receive the service that they pay for.

II. REPORTING ON SERVICE PERFORMANCE IS TOO OPAQUE

As noted above, the highly aggregate way that the Postal Service prefers to report on—and set targets for—service performance presents a misleading view of how the Postal Service is performing. When the Postal Service transitioned from external measurement of service to an internal, Intelligent Mail Barcode ("IMb") based system, one of the presumed benefits was greater availability of performance data. Indeed, since that time, the Postal Service has imposed numerous requirements on its commercial customers, such as conversion to Seamless Acceptance, that have the effect of providing the Postal Service with greater information about the mail in its network. Simultaneously, the Postal Service has invested heavily in its Informed Visibility platform and scanning equipment to track mail and packages through its system.

Given these changes, the Commission's continued reliance on quarterly data that is highly aggregated and edited by the Postal Service is a disservice to the mailers who depend on the Postal Service. Late in FY 2020, the Postal Service implemented structural changes in its field operations that will further reduce the amount and specificity of service reporting information. While pending legislation will require the Postal Service to modernize its reporting capabilities, the Commission maintains an obligation to ensure that the Postal Service provide accurate and usable reporting on its performance.[2]

For service performance targets—and results—to be useful and meaningful, they should correspond to how customers use the Postal Service. The current classification schedule, largely unchanged in fifty years, does not provide a usable framework for determining whether the Postal Service is actually delivering "High-Quality Service." For instance, Single-Piece First-Class Mail contains not only personal correspondence between individuals, but also remittances that are aggregated at destination for retrieval by commercial mailers. The information available on the exterior of a mailpiece has increased significantly thanks to the IMb, Performance targeting and reporting should evolve to reflect emergent technological capabilities and customer

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[2] The initiation of PI2022-1, Public Inquiry on Service Performance Dashboard, is an encouraging development in this direction.

expectations. For instance, the presence of facing identification marks ("FIM") on reply mail pieces, coupled with delivery point data, enables separate reporting for mail pieces sent to consumers compared with pieces sent to businesses.

Frequency and timeliness are also issues. Thanks in part to a judicial ruling in advance of the 2020 election season, the Postal Service has demonstrated the ability to isolate election mail for tracking performance,[3] indicating an ability provide much more granular and current information on performance than has been supplied in this proceeding. Postal stakeholders are poorly served by continued reliance on quarterly reports that are filed weeks after the conclusion of a quarter, presumably because data are highly edited as reports are prepared for filing.

The Postal Service's reporting on election mail is a useful example of how different categories of mail are important to different constituencies. Reporting at a class level obscures differences in performance and hinders a meaningful evaluation of service results.

III. THE POSTAL SERVICE'S 2022 PERFORMANCE TARGETS

In seeking an Advisory Opinion before its predetermined decision to reduce First-Class Mail and Periodicals service standards, and in numerous public pronouncements, the Postal Service has touted a goal of achieving 95 percent on-time performance. Yet none of the FY 2022 service performance targets for market dominant products is set at or above 95%.[4] This despite lower standards and the fact that 95% performance has been achieved many times in the past for First-Class Mail overnight. The Commission must demonstrate some willingness to hold the Postal Service accountable for providing the level of service that customers pay for.

With respect to other indicators, PostCom is pleased to note that the Postal Service has set targets that are more realistic than in previous years, though planned relative improvements

[3] *See* Annual Report at 22.

[4] *See* Annual Report at 35-36

vary widely. However, the chosen targets still reflect an apparent effort to craft a pleasing narrative rather than achieve improved performance. This is most clearly reflected in the handling of employee engagement.

In ACR2021, the Engagement Survey Response Rate Target was clearly set arbitrarily to just exceed more than 50 percent. It is gratifying to see the Postal Service acknowledge that its previous target was faulty, but doing away with the indicator altogether seems to be an effort to quelch bad news. While mean engagement score may be a useful indicator, if the topic is employee engagement, then the proportion of employees willing to respond to the survey would appear to also be a relevant indicator. We urge the Postal Service to retain this particular indicator and exert efforts to improve.

IV. <u>FINANCIAL HEALTH</u>

Although the Postal Service does not devote much space in its FY 2021 Report and FY 2022 Plan to its Financial Health metrics, the information that is presented raises important issues for the Commission's oversight responsibilities. The information demonstrates that the Postal Service is on sounder financial footing than the Commission has generally assumed, and it further demonstrates that the bleak scenarios of the Postal Service's future painted in prior public statements, the Delivering for America plan, and prior performance plans are unrealistic. In evaluating the Postal Service's performance and assessing its initiatives, and in determining the Commission's own approach to regulation, the Commission should ignore rhetoric about the threats facing the Postal Service and focus on key considerations: what can the Postal Service do to more efficiently provide service, and how best can the Commission ensure mailers receive adequate service at reasonable prices?

A. The Annual Report Does Not Provide a Useful Assessment of the Postal Service's Financial Health

Although the FY 2021 Report provides basic information on the Postal Service's finances, including a high-level discussion of its controllable income and non-controllable expenses, it does not provide the information necessary to accurately assess the "Financial Health" of the Postal Service, and some of the information presented provides a potentially misleading picture of the Postal Service's FY 2021 performance. The FY 2022 Plan fails to meaningfully describe how Postal Service initiatives and secular trends will affect the Postal Service's Financial Health in the upcoming year. Fundamentally, however, the report and plan lack utility because there is no consensus around how to define a financially healthy Postal Service. Below, we discuss how the Commission could develop consistent metrics of financial health and how the failure to do so in the past has led to a situation in which it is difficult for the Commission and the public to contextualize and evaluate the results reported by the Postal Service.

1. <u>The Commission should develop better metrics to evaluate Financial Health</u>

The Postal Service reports cash holdings of $23.858 billion at the end of FY 2021, up from $14.358 billion at the end of FY 2020 and $8.795 billion at the end of FY 2019.[5] It has debt of only $11 billion, meaning it was able to pay off $3 billion in debt in FY 2021 while still increasing its cash holdings by $9.5 billion.[6] Nearly all of this improvement occurred before the Postal Service implemented above-CPI price increases on its Market Dominant products on August 29, 2021. These are not the results of a desperately struggling organization.

[5] Annual Report at 24.
[6] *Id*.

The Postal Service reports in its 10-k that it had an average daily liquidity balance of $20.7 billion in FY 2021.[7] Again, it was able to maintain this balance while still operating under the CPI cap. While this liquidity might seem significant, the Postal Service claims that it is "insufficient to support an organization with approximately $82 billion in annual operating expenses, to make capital investments necessary for continuity of operations and to prepare for unexpected contingencies and unfavorable economic events."[8] This statement is in line with the Postal Service's historical position. But it raises several important questions the Commission has not provided firm answers to, including: What level of liquidity is adequate to meet these purposes? Does the Postal Service need to maintain a quarter of its operating expenses in a contingency reserve? What capital investments are necessary, and does the Postal Service have sufficient cash and/or available borrowing authority to fund these investments? Given this consistent growth in liquidity, at what point does the need protect mailers from unjust rate increases and provide stable and predictable rates start to outweigh the Postal Service's need for additional revenue?

The FY 2021 Report and FY 2022 Plan do not answer these questions. And the Commission has not provided the Postal Service with the guidance necessary for it to answer these questions in its reports. The Commission must develop methods to fairly evaluate the Postal Service's financial condition and determine what levels of liquidity are appropriate.

One approach could be to compare Postal Service financial metrics to those of private sector entities or other posts. For instance, the Royal Mail Group describes its 2020-21 financial

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[7] FY 2021 Annual Report of the United States Postal Service, Form 10-k, at p. 45 available at https://about.usps.com/what/financials/10k-reports/fy2021.pdf.

[8] *Id*.

results as "strong" and its balance sheet "[r]obust."[9] Its underlying data, however, is not dissimilar from the Postal Service's. It reports holding only £1.532 billion in cash,[10] with operating expenses of £11.938 billion.[11] This cash to expense ratio of 12.8% is far lower than the Postal Service's 29% ratio. Unlike the Postal Service, Royal Mail Group is subject to a minimum liquidity requirement—but this minimum is only £250 million,[12] or what amounts to 2% of operating expenses. While the Postal Service and Royal Mail operate different businesses in different markets, comparisons such as this could inform the Commission's assessment of the Postal Service's financial health. Similar analysis could be performed with respect to private companies in comparable capital-intensive industries, looking at cash-to-expense and debt-to-asset ratios, comparing amounts of debt outstanding, and evaluating other publicly available metrics.

The Commission should also reassess whether the Postal Service's cumulative net losses have any meaningful impact on the Postal Service's ability to provide service or invest in its network, especially when the Postal Service has cash and borrowing authority available to it. The primary driver of the net losses are payments the Postal Service did not make to the U.S. Treasury. The Postal Service has suffered no consequences for failing to make these payments, and there is no indication that the Federal government has any intention to collect. And the Postal Service Reform Act of 2022, if enacted, would affirmatively cancel "[a]ny payment required from the Postal Service under section 8909a of title 5 . . . that remains unpaid as of such date of enactment."[13] Put simply, operating losses from 10 years ago have no impact on the

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9 Royal Mail plc, Full Year Results 2020-21 at 29 (May 20, 2021), available at https://www.royalmailgroup.com/media/11448/royal-mail-plc-full-year-2020-21-results-analyst-presentation.pdf.

10 *Id.* at 63.

11 *See id.* at 8 (reporting revenue of £12.638 billion and operating profit of £702 million, indicating expenses of approximately £11.938 billion).

12 *See id.* at 63.

13 H.R. 3076, Section 102(c)(1).

Postal Service's ability to meet its obligations in the current year or future years. If the Postal Service has the liquidity to invest in its network today, it does not require additional funds to make up for losses in prior years.

2. The Postal Service was profitable in FY 2021, but its reporting obscures its results

Unfortunately, the Annual Report does not provide the information that will help the Commission answer these questions. Rather, it obscures the Postal Service's financial condition by selectively presenting revenues and costs and ignoring sources of funding. Indeed, the Postal Service's discussion of its performance on its "Financial Health" metrics begins with a misleading statement: that "the Postal Service receives no tax dollars for its operating expenses and relies on the sale of postage, products and services to fund its operations."[14] As the Postal Service acknowledges soon after, it has in fact received substantial tax dollars in the form of a $10 billion grant from the Coronavirus Aid, Relief, and Economic Security Act. Yet the Postal Service does not account for this influx of cash when discussing its financial performance. For instance, the Postal Service cites "supplies and services costs associated with the COVID-19 pandemic" as one of the "major factors" impacting its controllable loss.[15] It claims that "[i]ncreased use of employee leave and expenditures on personal protective equipment have also contributed to increased expenses."[16] The CARES Act grant, however, was specifically targeted to these pandemic-related costs. Any fair reporting of Postal Service results would offset the income from this grant against the expenses it was intended to recover. Instead, the Postal Service includes pandemic expenses in its controllable income figure while ignoring the CARES Act grant used to cover those expenses. The $2.4 billion controllable loss figure—already a

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14 Annual Report at 46.
15 Annual Report at 48.
16 Annual Report at 46.

major improvement over the FY 2021 target of $5.6 billion—misleadingly includes pandemic-related costs, but not pandemic-related revenues.

This misalignment of costs and revenues flows into total (controllable and non-controllable) income and loss figures as well. The Postal Service reports $77.1 billion in FY 2021 income against $82.0 billion in expenses, for a net loss of $4.9 billion.[17] Again, this figure includes increased expenses resulting from the pandemic, but not the CARES Act grant revenue provided to cover those expenses. Adding the $10 billion grant turns the $4.9 billion loss into a $5.1 billion profit. And the Postal Service achieved this result during a pandemic, which must surely qualify as "unexpected contingencies and unfavorable economic events."

One might counter that the CARES Act grant was a one-time, anomalous event, and it should not be considered when evaluating the long-term financial condition of the Postal Service. But the treatment of this funding in the Annual Report raises important issues for the Commission. The first is a simple matter of transparency: even if the CARES Act grant was a one-time grant, it was still a grant of real money to the Postal Service that the Postal Service used to cover its expenses. Excluding that income from financial statements—indeed, excluding income from any source—provides a distorted view of the Postal Service's financial condition. Including the particular expenses the grant was designed to recover distorts this view further. Assuming the pandemic recedes, those expenses will not exist in the future, just as grants from Congress may not be a recurring feature of postal finances. One cannot accurately evaluate the change in postal revenues and expenses, nor evaluate projections in the growth of either, when the Postal Service asymmetrically reports its costs and revenues.

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17 Annual Report at 48.

A second is that the CARES Act funding highlights the unique position of the Postal Service as a government entity providing an essential service. The Postal Service is directed to operate in a business-like manner, but it is not a private business. It is simply not realistic to think that if the Postal Service were to decline to the point where it could not cover its operating expenses, Congress would simply allow it to shut down its operations. While no one wants to see the Postal Service in that position, the fear that the Postal Service will one day run out of money should not be a primary factor driving the Commission's decision making. Congress has already demonstrated that it is willing to support the Postal Service in emergency situations to ensure continued operations. Even if the Postal Service's longstanding claims of a perpetual liquidity crisis had any basis in reality, they would not equate to a real threat that the Postal Service will stop delivering the mail. The Commission should be mindful of this dynamic when exercising its regulatory authority.

3. Postal Service financial projections have been overly pessimistic

The Postmaster General states that the initiatives of the Delivering for America plan "will reverse a projected $160 billion in financial losses over the next 10 years,"[18] and much of the Postal Service's justification for its initiatives derives from the sense of urgency such a projected loss would deservedly inspire. In evaluating the Postal Service's implementation of the plan, however, the Commission should take a more dispassionate view. The financial projections contained in the plan were unsupported from the start and have already proven radically pessimistic. The FY 2022 Performance plan, unfortunately, continues this pattern.

The FY 2021 Performance Plan projected a $5.6 billion controllable loss for FY 2021.[19] The Postal Service bested this figure by $3.2 billion, recording a controllable loss of only $2.4

[18] Annual Report at 2.
[19] *See* Annual Report at 47.

billion. Yet the Postal Service plans for a controllable loss of $4.1 billion in FY 2022, which would be higher than any controllable loss the Postal Service has experienced since at least FY 2018.[20] The Postal Service provides no detailed explanation for this projection, which is especially curious given that the Postal Service will hopefully be starting to realize benefits from the Delivering for America plan by the end of FY 2022. One of the prongs of the Delivering for America Plan, legislation that would free the Postal Service from the burden of much of its onerous retirement benefit funding requirements and cancel payments missed in prior years, is progressing through Congress. While the Postal Service understandably would not want to provide a plan based on legislation that has not yet passed, its projected losses are unrealistic even without this legislation. If the legislation were to pass, there would be no reason at all to expect the Postal Service to have controllable losses of over $4.1 billion in FY 2022.

A similar dynamic plays out with the Postal Service's cash projections. In the Delivering for America plan, the Postal Service projected that it would have a cash balance of $2.0 billion at the end of FY 2021, a decline of $12.7 billion from its cash position at the end of FY 2020.[21] Instead, the Postal Service grew its cash by $11.5 billion—a *$23 billion* swing from its projections. The Postal Service would have to have a disastrous FY 2022 to meet the Delivering for America plan's forecast of a *negative* cash balance of $14.3 billion at the end of FY 2022.

The FY 2022 Plan does not specifically address the cash projections of the Delivering for America plan, but it does not disavow them. Further, the FY 2022 plan does not provide enough detail to truly assess the basis for the Postal Service's projections—including how much of its capital it plans to spend, what efficiency improvements it expects to make, and whether or not

20 *Id*.
21 Delivering for America plan at p. 46, Fig. 48.

Postal Service costs will rise in line with inflation (and if not, why not). Regardless, in light of the wild divergence between past projections and actual results, the Commission should closely monitor the Postal Service's financial results and press for more information regarding the basis of its projections.

None of this is to suggest the Postal Service should not pursue initiatives in the Delivering for America plan. Rather, it is to urge the Commission to take a clear-eyed look at the Postal Service's true financial condition when evaluating proposals that may come before it and assessing the need for particular reforms. Most importantly, the Commission should not allow overstated fears about the viability of the Postal Service as an enterprise to distract it from its core mission of safeguarding the interests of users of the Postal Service.

V. CONCLUSION

PostCom respectfully offers the foregoing comments on the FY 2021 Performance Report and FY 2022 Performance Plan. As noted above, the Postal Service's performance plan is improved, but serious concerns remain. Given perpetual underperformance on service, we believe that the ACR process is inadequate to drive the necessary improvements and therefore urge the Commission to continue efforts to develop a performance review process that will enable customers of the Postal Service to receive the service for which they have paid. We likewise urge the Commission to take a fresh look at Postal Service finances and expected results to develop a clear regulatory strategy that appropriately protects that interests of those dependent on the Postal Service.

Respectfully Submitted,

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