Postal Regulatory Commission
Submitted 3/15/2022 4:13:16 PM
Filing ID: 121129
Accepted 3/15/2022

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

ANNUAL COMPLIANCE REVIEW, 2021	Docket No. ACR2021

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE

The United States Postal Service (Postal Service) hereby replies to the comments received on its FY 2021 Performance Report and FY 2022 Performance Plan. Comments came from three sources: the Public Representative (PR), the Prison Policy Initiative (PPI), and the Association for Postal Commerce (PostCom). The Postal Service addresses their more substantive comments below.

I. Despite Pandemic Impacts on Service Performance, the Postal Service Began to Implement Long-term Solutions through its Plan.

In observing that the Postal Service's service performance results declined in FY 2021, the Public Representative acknowledged some of the various factors that contributed to the year's decline; these factors included poor peak performance, unusual employee absenteeism, supplier capacity limitations, and weather and other natural disruptions beyond the Postal Service's control.[1] However, there were two overarching considerations that must be taken into account for context in any comprehensive review of service performance during FY 2021. Although these were

[1] PR Comments at 4. Unlike the Public Representative, PostCom does not even acknowledge the specific factors that the Postal Service identified as contributing to the service performance results, let alone dispute these causal conclusions.

not mentioned in the other parties' comments, they are intertwined with most of the factors listed above.

First, in FY 2021, service performance was undeniably impacted by the effects of the COVID-19 pandemic, which caused, among other things, the significantly high employee absences, historically high peak season package volume, and substantially reduced supplier transportation capacity.[2] But, as the United States and the Postal Service worked to overcome these effects, overall service performance for market dominant products improved to the point that performance for some products exceeded pre-pandemic levels.

Second, during FY 2021 the Postal Service initiated a strategy designed not only to address the near-term challenges of the pandemic, but also to help ensure quality and sustainable postal services for the long term. Specifically, on March 23, 2021, the Postal Service published its 10-year strategic plan, entitled *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (Plan or *Delivering for America* Plan).[3] The Plan sets forth a comprehensive and balanced set of initiatives to address the Postal Service's long-standing financial, service, and operational challenges. Ultimately, the Plan is designed to achieve two fundamental goals: service excellence, defined as meeting or exceeding 95 percent on-time delivery across all product categories, and financial sustainability, by enabling the Postal Service to achieve break-even performance over the next 10 years while making the necessary investments in its people and infrastructure. By achieving these goals, the Plan will ensure that the American people receive prompt, reliable, and

[2] *See* ACR21 at 49-50.
[3] *See* ACR21 at 53-56.

efficient universal postal services, through a postal system that is self-sustaining and capable of meeting their evolving needs.[4]

PostCom complains that the FY 2022 targets are not already set at 95%.[5] However, the Postal Service intends to transition to 95% over several years as the infrastructure and network changes necessary to achieve this performance are implemented, rather than immediately implement unrealistic changes to that level that are not achievable absent other fundamental changes.[6] Indeed, PostCom itself praised the Postal Service's decision to "set targets that are more realistic than in previous years."[7] That realism extends to the timing for the transition to the targets as well. Moreover, the Postal Service has further explained that its targets are one-year targets, with an expectation that they could be adjusted upward as the Plan continues to be implemented in FY 2022 (and beyond).[8]

Beyond the targets themselves, PostCom raises a variety of concerns about the Postal Service's measurement and reporting of service performance results, none of which is well-founded. First, PostCom wishes for greater granularity in a number of miscellaneous suggested ways. PostCom asserts that structural changes in field operations will result in reduced reporting,[9] obliquely referring to the reduction in the number of geographic Areas and Districts for Postal Service processing and/or retail operations. As an initial matter, in FY 2021 and the first quarter of FY 2022, the Postal

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[4] *See id.; see also* Response to Question 20, Responses of the United States Postal Service to Questions 1-29 of Chairman's Information Request No. 1, Jan. 18, 2022.
[5] PostCom Comments at 6.
[6] *See* Response to Question 15, Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 6, Feb. 1, 2022.
[7] PostCom Comments at 6.
[8] *See* Response to Question 15, Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 6, Feb. 1, 2022.
[9] PostCom Comments at 5.

Service continued to report its results using the former structure even after the operational changes had been implemented. Moreover, the changes to the internal geographic operational structure do not alter the substance of the performance reported. To the extent that the results–using the same kind of metrics–will eventually be organized under the current structure, they will better reflect reality and provide the most meaningful insight on differences in performance across the organization. It makes little sense to evaluate performance and develop improvements using data reflecting outdated operations that are therefore not actionable.

In addition to geographical granularity, PostCom criticizes "the highly aggregate way that the Postal Service" reports service performance.[10] PostCom points to the measurement and reporting of the USPS Marketing Mail and Periodicals composite, suggesting an ulterior motive to hide Periodicals results amidst the more voluminous Marketing Mail data.[11] The reality, however, is that the composite was created years earlier, not to obscure Periodicals performance, but for purposes of the internal National Performance Assessment (NPA), which is used for pay-for-performance adjustments to supervisor and managerial salaries. Before the composite, the NPA did not account for these Periodicals results; far from ignoring those results, the composite was a means to take them into account. Given the relatively low volume of Periodicals, though, it was reasonable to incorporate the Periodicals results proportionally with Marketing Mail results to avoid allocating too much weight to the Periodicals for the NPA adjustments.

In any event, to the extent that the composite is used externally, it is only an additional metric, on top of the ordinary disaggregated product service performance

[10] *Id*. at 4; *see also id.* at 3, 5.
[11] *Id*. at 2.

reporting that also occurs. That is, quarterly and annually, the Postal Service reports its market dominant performance results by product, separately for the different USPS Marketing Mail and Periodicals products.[12] For the same reason, PostCom's similar critique of the composite reporting of certain First-Class Mail letters and flats is similarly flawed.[13] These composites are only in addition to, not in lieu of, the regular disaggregated reporting under 39 C.F.R. Part 3055, which includes separate letter and flats products.[14]

Based on the Postal Service's success in reporting certain discrete Election Mail, as well as the Postal Service's technological advances, PostCom speculates that it should be feasible to require the Postal Service to report new, vaguely defined disaggregated categories of its own creation, such as mail to consumers versus mail to businesses.[15] Beyond the ambiguity of these undefined categories, there are sound reasons why mail is reported in the class groupings that exist today, such as Single-Piece First Class Mail. For example, the Postal Service relies on First Mile and Last Mile sampling; at the same time, it needs to ensure that its measurement and reporting remain statistically accurate, reliable, and representative, which are tenets that PostCom's vague suggestions do not address.

PostCom's criticisms of the Postal Service's service performance measurement methodologies are baseless. First, PostCom erroneously alleges that the Postal Service's reporting ignores delays that occur when trucks with commercial mail cannot

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[12] *See* 39 C.F.R. Part 3055, Subparts A & B*; see, e.g.*, USPS-FY21-29 (Dec. 29, 2021); *see also, e.g.*, FY 2022 Quarter 1 Service Performance Measurement Data (Feb. 9, 2022).
[13] PostCom Comments at 3.
[14] *See* USPS-FY21-29.
[15] PostCom Comments at 6.

immediately unload.[16] The Postal Service, however, does incorporate such delays. That is, the Postal Service's start-the-clock business rules take into account when unloading scans occur in the context of its Facility Access and Shipment Tracking (or "FAST") appointment program.[17] Mailers schedule FAST appointments. If they arrive on time in accord with their appointments, then their appointment times are used to start the clock, and the unload scans are not used.

The Postal Service already reports publicly on a quarterly basis on mail in measurement.[18] As reflected in such reporting, to be included in mail in measurement, mail must be Full Service, meet certain business rules, and utilize the Intelligent Mail barcode. Given the extensive data collection and reporting that the Postal Service already performs (including the quarterly public reporting for mail in measurement), pursuing additional reporting is unnecessary and likely counter-productive.[19] PostCom nevertheless suggests that, for mail not in measurement, the Postal Service should provide piece-level data.[20] This suggestion, however, overlooks the fact that mailers already have access to piece-level scan data for mail in visibility (i.e., even if not in

[16] *Id*. at 3-4.
[17] FAST is a Postal Service initiative that improves the drop shipment and Origin Entry appointment scheduling processes through allocating appointment availability and decreasing dock wait times. *See* https://fast.usps.com.
[18] *See, e.g.*, FY 2021 Q4 Service Performance Measurement System – Audit Report, Audit Response, and Measured/Unmeasured Volumes Report (Nov. 29, 2021).
[19] Indeed, as PostCom itself commented earlier this year in this same docket in the context of certain other data, after first recognizing the "exhaustive information" that the Postal Service already currently reports: "To the extent that the Postal Service must expend additional resources collecting and supplying information on … performance, the overall costs of the Postal Service – which are ultimately borne by mailers – will increase. If there are no corresponding improvements in productivity or performance, the Commission's actions will further compound an already acute problem." PostCom Comments (Jan. 31, 2022) at 7-8.
[20] PostCom Comments at 4.

measurement) through the Postal Service's Informed Visibility-Mail Tracking & Reporting tool.[21]

PostCom further claims that the Postal Service files its quarterly service performance reports "weeks" after the end of each quarter "presumably because data are highly edited."[22] Not only is PostCom's "editing" accusation ambiguous, but also PostCom offers no reason to question the veracity or completeness of the quarterly data. First, the Postal Service provides the data that the Commission requires; if the reporting were somehow inadequate, the Commission would request supplemental information. Second, the timing of the quarterly reporting is consistent with the Commission's rules that set a forty-day deadline, 39 C.F.R. § 3055.30, and certainly such rules are not designed by the Commission to facilitate any nefarious Postal Service "editing" to eliminate unflattering results. To the contrary, the Commission's forty-day period after the end of each quarter typically allows the Postal Service sufficient time to gather the data and further helps to ensure that the data are final and accurate. Far from problematic, this bolsters the utility of the Postal Service's service performance reporting and thus inures to the benefit of the Commission and the public alike.

PostCom's ad hominem accusation that the Postal Service sets targets so as "to craft a pleasing narrative rather than achieve improved performance"[23] is likewise without merit. PostCom flags the Employee Engagement indicator as proof of this alleged tendency, questioning the Postal Service's decision to change its response rate

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[21] *See* https://postalpro.usps.com/informedvisibility.
[22] PostCom Comments at 6.
[23] *Id.* at 7.

target to a grand mean engagement score target. Given the size of the Postal Service's organization, an employee survey response rate between 5 percent-30 percent is typical. The Postal Service's current response rate of 25 percent is, therefore, considered sufficiently representative of its employee population. This year, a grand mean engagement score target was also added in lieu of a response rate target because grand mean engagement scores correlate significantly with a variety of the Postal Service's key performance metrics, such as improved productivity, improved customer satisfaction, and reduced leave usage, accidents, and injuries. This does not, however, detract from the Postal Service's emphasis on increasing the response rate of its engagement survey.

II. The Postal Service's Financial Reporting Does Not Present a Distorted View of Its Financial Health.

PostCom devotes considerable attention to the Postal Service's Financial Health metrics, asserting that the Postal Service "is on sounder financial footing than the Commission has generally assumed"[24]; and, relatedly, 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."[25]

Surveying the Postal Service's reported cash holdings, PostCom declares, "[T]hese are not the results of a desperately struggling organization."[26] Yet the Postal Service's cash revenues are where they are because it has defaulted on retiree health benefits (RHB) and pension payments, and because of the one-time infusion of $10

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[24] *Id.* at 7.
[25] *Id*.
[26] *Id.* at 8.

billion due to the CARES Act.[27] In addition, the Commission has previously recognized that liquidity is but one factor in assessing the Postal Service's overall financial condition.[28] In this regard, the Postal Service has continued to incur net losses even as its cash position has improved due to these factors, and continues to have liabilities that far exceed assets. The Postal Service's current cash position therefore does not negate the systemic financial challenges it faces or render moot the measures it has proposed in the *Delivering for America* Plan to face them.

PostCom also recommends that the Commission "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."[29] Identifying delinquent payments to the U.S. Treasury as the primary cause of these net losses, PostCom states that "[t]he Postal Service has suffered no consequences," and then proceeds to announce that

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[27] PostCom alleges that the Postal Service failed to account for CARES Act funding when discussing its financial performance. The Postal Service acknowledged receipt of the CARES Act grant in its FY 2021 Annual Report to Congress. At 46. Information concerning the grant was also recently disclosed in "Note 3-Liquidity" of the 2021 Report on Form 10-K: "In March 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act, enacted as Public Law 116-136 (the 'CARES Act') in response to the coronavirus ('COVID-19') pandemic. In December 2020, the President signed Public Law 116-260, the Consolidated Appropriations Act, 2021, amending the CARES Act. The CARES Act, as amended, allowed the Postal Service to receive up to $10.0 billion from the U.S. Treasury to fund operating expenses. As of September 30, 2021, total funding received pursuant to the CARES Act, as amended, was $10.0 billion, all of which was recorded as a capital contribution in the accompanying Balance Sheets." 2021 Report on Form 10-K United States Postal Service, at 64.

[28] See, *e.g.*, the PRC's Analysis of the Postal Service's FY 2020 Annual Performance Report and FY 2021 Performance Plan, Docket No. ACR2020, June 2, 2021, at 109, which notes that to evaluate the Postal Service's financial status, it examines "volume, revenue, and cost trends as well as the Postal Service's sustainability, liquidity, activity, and financial solvency" in detail. That cash revenues are not viewed in isolation from other important factors is apparent in the PRC's yearly Financial Analyses. *See, e.g.*, the PRC's Financial Analysis of United States Postal Service Financial Results and 10-K Statement Fiscal Year 2020, Docket No. ACR2020, Nov. 4, 2021. This detailed report includes a "Balance Sheet Trend Analysis," which takes into account the debt ratio (i.e., the ratio of total liabilities to total assets), the current ratio (i.e., the degree to which current assets meet current liabilities), and the cash ratio (i.e., the ratio of total liquid assets to current liabilities), at 35-38; as well as an "Analysis of Statements of Cash Flows," which takes into account the asset efficiency ratio (comparing operating cash flows to total assets), the current liability ratio (measuring the ability to generate cash that can be used to cover current debt), and the long term debt ratio (comparing cash earned from operations to long term debt), at 39-42.

[29] PostCom Comments at 10.

"there is no indication that the Federal Government has any intention to collect."[30] However, and as the Commission has recognized, the Postal Service has an obligation to be self-sufficient, and this includes making statutorily-mandated payments to pay for retirement obligations. There is no legal basis to conclude that these obligations can simply be ignored. Moreover, while the Postal Service Reform Act of 2022, if signed by the President, would reduce annuitant premiums, officially cancel certain retiree health benefits payments, and extend the RHB Funds' ability to pay such premiums, it remains the case that the Postal Service will remain subject to "top-up" payments, and more generally will be required to pay annuitant premiums when the Fund assets are eventually extinguished. The bill also does not alter the Postal Service's pension liabilities. This demonstrates that, while the Reform Act constitutes a vital step to restoring the Postal Service to financial sustainability, it is also critical that the Postal Service move forward with the other elements of the Plan.

Turning to the FY 2022 Performance Plan, PostCom notes that the Postal Service's controllable loss in FY 2021 fell short of the projections in the FY 2021 Performance Plan; it then expresses bafflement at the controllable loss projections in place for FY 2022.[31] The Annual Report to Congress does in fact supply reasons for predicted trends in income and expenses. Recent history also proves an illuminating guide. Before FY 2021, controllable income declined every year since FY 2014; it has furthermore been negative (i.e., a controllable loss) since FY 2017, the year immediately following the elimination of the exigent surcharge. The year-over-year improvement seen in FY 2021 stands out as an anomaly, one largely due to an increase

[30] *Id.*
[31] *Id.* at 13-14.

in package revenue fueled by the COVID-19 pandemic. Already in Quarter 3 of FY 2021, package volumes began to decline; and they have moreover remained below their FY 2021 peak in FY 2022, and controllable loss is accordingly projected to resume its trend of increasing year over year, absent enactment of the Plan.

In sum, what PostCom perceives as a long-term trend toward financial sustainability is in large part illusory. Far from symptomatizing a core state of financial soundness, the cash reserves that PostCom cites arose from two unsustainable sources: the Postal Service defaulting on its legal obligations, and a one-time cash infusion under the auspices of the CARES Act. Even when factoring in the Postal Service Reform Act, the Postal Service will have closed only a portion of its long-term financial shortfall. To acknowledge such realities is not to affect a "radical pessimism," but merely to underscore the necessity of the *Delivering for America* Plan's cost-saving, revenue-generating initiatives.[32]

III. The Postal Service Continues to Prioritize Customer Satisfaction.

The Prison Policy Initiative critiques the Postal Service's process for measuring customer satisfaction, specifically pointing out that when the Postal Service measures customer sentiment, it does so through survey methods that prevent incarcerated people from participating.[33] The Postal Service aims to listen actively to its customers and provide them with the highest levels of service and satisfaction across all classes of mail. The Postal Service's Delivery survey gauges a customer's overall experience with

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[32] As the *Delivering for America* Plan states: "While reasonable people may disagree on particular assumptions, the overall conclusion is inescapable: the status quo is not sustainable and unless we undertake a comprehensive plan to address our challenges, the Postal Service as we know it cannot survive." At 45.

[33] *See generally* Opening Comments of Prison Policy Initiative, Docket No. ACR2021 (March 1, 2022) (PPI Comments).

the delivery of letters and packages from the Postal Service. For incarcerated individuals, the prison's mailroom is responsible for the final delivery of letter and packages. The Postal Service's role is thus to deliver to the prison mailroom. Customer needs, therefore, seem to be dependent on an external body that exercises authority over incarcerated persons, thereby making it less clear that survey responses from such individuals would reflect accurately on the Postal Service's performance. Thus, while the Postal Service values these observations, it does not believe they merit changes to its respondent pool.

IV. PostCom's and PPI's Requests for Relief Are Outside the Scope of this Proceeding.

Pursuant to 39 U.S.C. § 3653(d), the Commission must annually evaluate whether the Postal Service met the performance goals established in the annual performance plan and annual performance report. The Commission may also "provide recommendations to the Postal Service related to the protection or promotion of public policy objectives set out in" title 39. Thus, in its final report analyzing the Postal Service's FY 2021 Performance Report and FY 2022 Performance Plan, the Commission may not issue directives that require the Postal Service to take specific actions. Any requests for relief—e.g., requests that the Commission direct the Postal Service to take actions in line with specific critiques and recommendations[34]—are therefore outside the scope of this portion of the ACR docket, and must be disregarded by the Commission.

[34] *See*, *e.g.*, PostCom Comments at 2, 5, 6; PPI Comments at 4.

Respectfully submitted,

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March 15, 2022