

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001**

Docket No. R2006-1

Postal Rate and Fee Changes

BRIEF OF THE DMA NONPROFIT FEDERATION

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INITIAL BRIEF OF THE DMA NONPROFIT FEDERATION

I. Introduction

The Direct Marketing Association Nonprofit Federation ("DMANF") represents a broad cross section of the charitable fund raising community. The DMANF's more than 400 members consist of nonprofit religious, educational, and charitable organizations and professional fund raising consultants with particular expertise in direct response fund raising.

The DMANF urges the Postal Rate Commission to consider the impact that the proposed postal rates will have on Nonprofit Standard Mail volume. When nonprofits mail fewer solicitation mail pieces, they raise less money. It's that simple. Less revenue means less money to spend on the programs that nonprofit organizations provide, from local safety net services, to the expansion of arts and education, to aiding and curing disease, and serving as the first responders during tragic events.

The nonprofit mailers that make up the DMANF membership are a broad cross section of the more than 200,000 nonprofits that are authorized to mail at the nonprofit rates of postage. Together, nonprofit mailers account for about 12 percent of the total

mail volume, representing a unique and important part of those served by the United States Postal Service.

The DMANF membership consists of very large national organizations whose names are household words; smaller but still good-sized nonprofits with a high level of name recognition nationwide; and medium-sized, small, and local nonprofit organizations, even individual churches and synagogues.

The nonprofit community that the DMANF represents is vital to the well being of this Nation both at this very moment and in the future. These organizations are committed to provide safety net social and spiritual services, to support education, and foster the arts and science without government funding or in the face of government cutbacks.

This nation's universal postal delivery system, particularly Nonprofit Standard and Periodicals Mail, is the lifeblood of these organizations. Nonprofits use the mail to solicit contributions from the public, disseminate news and information, and communicate with donors, supporters, and the public at large about critically important issues.

The list of how our society has come to rely increasingly on nonprofit organizations is lengthy. Suffice it to point out that this reliance that we all place in nonprofit organizations means that their funding needs should be taken seriously.

Not only will the proposed rates have a negative impact on the economics of nonprofit organizations on whom our society has grown increasingly reliant for social safety net services, education, and the arts but also on the economics of the Postal Service. When nonprofits mail fewer solicitations, it has a negative impact on First

Class volume. Donors pay First Class rates to return contributions in response to solicitations mailed at the Nonprofit Standard rates.

The negative impact on U.S. Postal Service should not be taken lightly. The pricing strategy that postal management has proposed in this rate case and management's selection of the next generation of flat sorting equipment, which is to some extent driving that pricing strategy, will exacerbate the current predicament in which the Postal Service finds itself.

Standard Mail is the only class of mail that is expanding and has a base that is large enough to have the potential to offset a continued decline in First Class Mail volume. The proposed R-2006-1 rates will work to stifle that growth.

That will serve to exacerbate the current trend where each year the Postal Service must deliver to almost two million new delivery addresses, yet the number of pieces per stop is declining. To cause volume to contract further is not the answer, but that is precisely the effect of postal management's pricing strategy and the new generation of flat sorting equipment—to discourage growth of First Class Mail and Standard Mail. The impact on nonprofit organizations is explained further below.

II. The magnitude of proposed rates for Nonprofit Standard

Mail will have a deleterious effect on volume.

The increases that postal management proposes for Nonprofit Standard Mail, both letters and flats, are enormous. When postage increases are as large as those proposed in R-2006-1 for Nonprofit Standard Mail, it will leave most nonprofits with no choice but to slow the growth of their mail budgets.

A. Letters

(i) Nonmachinable

With respect to letters, postal management proposes enormous double-digit increases for nonmachineable letters, from 38 percent for the Mixed ADC Nonmachineable rate category to 15 percent for Nonmachineable Letters presorted by like five-digits. This is far from the overall average rate increase announced by the USPS at the start of this proceeding.

Postal management contends that these huge increases are justified because it cannot use its automated sorting equipment to process such letters. Nonetheless, the magnitude of these increases will have a devastating impact on small nonprofits across the country that need to use these categories of mail.

To cope, small nonprofit mailers will free up revenue to pay for postage by reducing funds for program service, and nonprofits will cut outbound mail volume. Because outbound fund raising mail generates returned mail at First Class rates, it will have a deleterious impact on both Standard and First Class Mail volume.

(ii) Machinable

What is particularly troubling is postal management's proposed rate hike for Machineable Letters. The proposed increase is almost the same for the finest depth of sort, 9.3 percent for machineable mail presorted by all five digits, as it is for the least finest depth of sort, 9.5 percent for Mixed AADC. There is hardly any additional postage savings to pay for the extra presort work by the mailer.

The increase that postal management proposes for Enhanced Carrier Route (“ECR”) Letters is even more onerous: 11 percent for Basic ECR and nine percent for Saturation ECR Letters.

In essence, postal management contends that the cost to process Nonprofit Standard Automation and ECR Basic and Saturation letters has increased faster than its overall average increase in the cost to process mail.

Only ECR letters than can qualify for the High Density rate category would increase less than the average overall increase in R-2006, and that’s hardly anything to write home about: It’s still an eight percent increase.

Management’s proposal for Automation and ECR Letters is difficult to comprehend. With respect to bulk mail that can be sorted by the automated sorting equipment and that is presorted to five digits or by carrier route, logic would suggest that postal management’s cost to process such mail would have increased less than its overall average cost increase.

A major justification for its investment in automated sorting equipment was to reduce labor inputs. Presumably the reduction of labor inputs outweighed the increase in the capital input. Nonetheless, it doesn’t speak well for a system of automated sorting when the cost to use it to sort letters is increasing faster than average overall cost increase.

Traditionally, Nonprofit Standard letters have been characterized by being relatively low-cost to process. Nonprofit solicitation letter pieces tend to be uniform in size and weight. Nonprofits use the smaller, courtesy size carrier envelopes, and the packages are lightweight. That has not changed.

What has shifted over the past several years is that increasingly a greater proportion of Nonprofit Standard letter mail has migrated from non-automation and ECR rate categories into the automated rate categories, yet postal management's pricing scheme suggests that the cost to process this particular mail stream has increased faster than its overall average cost. If the R-2006 pricing scheme is supposed to reflect actual processing cost, it does not appear to reflect reality with respect to Nonprofit Standard automated letter mail.

B. Flats

(i) Minimum per piece rates

Whether nonprofit flats are in the Nonautomation or Automation rate category, postal management proposes huge increases for the minimum per piece rate. For Nonautomation Flats, the proposed hike ranges from 20 percent for Mixed ADC to 17 percent for flats presorted by all five digits.

The proposed increase for the minimum per piece rate for Automation Flats differs little than the increase for Nonautomation Flats. In essence, postal management suggests that its costs have increased 26 percent to process Mixed ADC Automation Flats and 12 percent to process Automation Flats presorted by like five digits.

Again, it's difficult to comprehend. For letters, one may accept the rationale that machinability and preparation in conformity with the automation rules account for the difference in proposed rate hikes--15 to 38 percent for Nonmachinable Letters versus 9.5 to 9.3 percent for Machinable Letters, Automation Rates.

For flats, however, at the minimum per piece rate, postal management proposes virtually the same magnitude of rate hike whether the nonprofit standard flat qualifies for the Nonautomation or Automation rate category.

Postal management further contends that nonprofit mailers may mitigate those huge increases by entering their mail at a Bulk Mail Center (“BMC”) or a Sectional Center Facility (“SCF”). But because it costs money to hire a trucking service or a consolidator, the impact of the destination entry “discount” on mail volume is negligible. The nonprofit mailer must look at the total cost to mail, including transportation.

(ii) Piece pound rates

The increases that postal management proposes for Nonautomation and Automation flats at the piece pound rate is only less onerous if the nonprofit flat is very heavy and the total number of pieces in the mailing is relatively small.

The proposed increase for Nonautomation Flats at the piece rate ranges from 39 percent for Mixed ADC to 43 percent for pieces presorted by all five digits. For Automation Flats at the piece rate, postal management’s proposed rate hike ranges from 65 percent for Mixed ADC to 34 percent for 5-Digit.

In contrast, the pound rate is a three percent increase, and it’s a rollback for the pound rate if the mailer bears the cost to enter the flats at a BMC or SCF.

By definition, the type of flat that pays the piece pound rate and that would benefit from the relatively tiny increase in the pound rate—or a rollback—is a specialty flat that doesn’t account for much volume.

(iii) Not Flat-Machinable and parcels

Nonprofit flats that would no longer qualify for automation rates because of the new restrictions that postal management is imposing would face staggering increases because they will have to pay the new Not Flat-Machinable (“NFM”) rates or, worse, pay postage as a parcel. The proposed increases are upwards of double and triple current rates. This is particularly harsh since there would be no other options left for the nonprofit mailer that is bumped into the much higher parcel category. These increases will drive such flats out of the mail stream.

Postal management contends that some of these new restrictions are necessitated by its new generation of flat sorting equipment. For example, its proposed “uniform thickness” requirement, if met, would enable nonprofits to continue to mail flats that contain a front-end premium at the flats automation rate, but at a much greater cost because of the additional expense required to surround the premium with padding—for example, mailing a calendar that is smaller than the envelope or that has a spiral binder may cause unevenness in the mail piece requiring new efforts to meet the test.

While solicitation packages that use the front-end premium technique tend to generate a greater response rate and average gift than “straight” solicitation packages, it’s unlikely that response would be sufficient to offset the cost of the extra padding. That assumes that the premium piece would also meet the proposed new “rigidity” requirement.

Perhaps some small fraction of commercial mail may survive at the higher NFM or parcel rate if there were sufficient demand for the product to pay the substantially higher postage. Commercial mailers are equally concerned about the new uniform thickness and rigidity requirements due to the drastic rate increase they face.

Nonprofits, however, are soliciting, not selling. Donors don't increase the amount of their contributions based on postage rate increases. Increased costs are felt directly by nonprofits that must then face the difficult and painful task of cutting programming and services to some of the most needy individuals in society.

Rather than design equipment that could sort most flat mail, or sort a larger proportion of flat mail than the old flat sorting equipment, postal management elected to buy equipment that can handle only a portion of the existing automated flat mail stream and has placed nonprofit organizations in a very difficult position. R-2006-1 is the vehicle to drastically raise the price to mail flats that management's new equipment can't process, a back door approach to raising rates through narrowed equipment choices.

C. Conclusion: Postal management's pricing strategy is contrary to the public interest.

The rate hikes that postal management seeks for Nonprofit Standard nonmachinable letters and flats are onerous, and the increases for automation mail are much greater than the average overall increase in this proceeding. These increases will have a deleterious effect on the varied missions of nonprofit

organizations that count on the USPS and on the volume of the letters and flats they mail.

The onerous increases that postal management is proposing will price nonmachineable letters and flats out of mail stream. The proposed increases for automation mail will slow the growth of nonprofits' mail pieces that can be sorted on the automated equipment. The net effect is to reduce Nonprofit Standard Mail volume significantly.

To be sure, it is in the public's interest to ensure nonprofit organizations have affordable rates to continue their work rather than being forced to pay above-average rate increases. The proposed rate structure, however, that prices Nonprofit Standard Mail above the average rate increases for other categories adds to other forces at work that have slowed the growth of mail volume. Such a rate structure only serves to hasten the day when the economics of universal mail delivery no longer work. For these reasons, we respectfully request that the Commission reduce the Postal Service's rate increase request for the Nonprofit Standard Mail rate categories in its recommendation to preserve and protect this extremely important part of the mail stream.

Respectfully submitted,
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