Postal Regulatory Commission
Submitted 2/2/2015 4:18:23 PM
Filing ID: 91335
Accepted 2/2/2015

**COMMENTS OF CAGW**

**CITIZENS AGAINST GOVERNMENT WASTE**
**FEBRUARY 2, 2015 COMMENTS**
**BEFORE THE**
**POSTAL REGULATORY COMMISSION**
**WASHINGTON, DC 20268-0001**

In accordance with the Postal Regulatory Commission's (the Commission) open docket (ACR2014) for the U.S. Postal Service's Annual Compliance Report for Fiscal Year 2014 ("FY 2014 ACR"), Citizens Against Government Waste (CAGW) submits the following comments for consideration.

CAGW is a private, nonpartisan, nonprofit organization founded in 1984 that represents more than one million members and supporters nationwide. The group's mission is to identify, publicize, and eliminate waste, mismanagement, and inefficiency in the federal government. CAGW has always been concerned with the practices of the U.S. Postal Service (USPS), particularly the agency's risky and opaque accounting practices.

The true costs of all of the agency's products are currently not transparent or available. The lack of reliable and accurate cost data directly impacts the solvency of the USPS and taxpayers, who would be called upon as a financial backstop if current fiscal trends persist. CAGW urges the PRC to analyze and reveal the true costs of all of the USPS's activities, in particular new lines of business such as same-day delivery services, in order to determine whether these new products and services are self-sustaining or money-losing ventures supported by revenue from market dominant, monopoly protected products.

For example, a February 5, 2014 USPS Office of Inspector General report on a same-day delivery experiment in San Francisco, California found that "The Postal Service did not properly implement the pilot. They did not have sufficient participation from the six selected retailers to achieve the required daily minimum target of 200 packages per delivery day. Only 95 packages were sent by the six participating retailers over a 5-month period…. However, only one large retailer agreed to participate in the pilot, and later withdrew prior to implementation due other operational priorities. The Postal Service was left with small local retailers that could not produce the target daily package volume. The Postal Service earned $760 and incurred costs of $10,288, with a net loss of $9,528."

Despite the clear failure of this project, just over a month later, the IG released a report on March 13, "Same-Day Delivery: An Opportunity for the Postal Service?" that called for additional tests of same-day delivery. The OIG stated that "As First Class Mail continues to decline and further disruptions to postal operations are sure to come, new revenue streams will be crucial to the Postal Service's survival. … Same-day delivery raises challenging questions for the Postal Service. Will consumer demand increase as the service becomes more widespread? How will it disrupt the parcel delivery business, which the Postal Service is relying on to replace revenue lost from declining First Class Mail? Do the potential rewards for providing the service now outweigh the risks?" The IG concluded that, "The Postal Service is right to test same-day delivery on a relatively modest scale. As First Class Mail continues to decline and further disruptions to postal operations are sure to come, new revenue streams will be crucial to the Postal Service's survival."

When asked about the future viability of same-day delivery services, eBay Chief Executive Officer John Donahoe, said he didn't know and didn't think anyone else did either. The company shut down its own same-day delivery service in 2014, just as USPS was planning to enter into the business. The most successful same-day service as started by Amazon in 2009, and it is only available in 12 large metropolitan areas.

Although the OIG amply documented how the USPS bungled its own pilot same-day delivery service in San Francisco and had to pull the plug on that experiment, the PRC has given the USPS the green light to squander even more of its dwindling resources on another pilot same-day delivery service in Washington, D.C.

Similarly, the USPS has been permitted to launch a partnership with Amazon to make Sunday deliveries of Amazon products, as well as AmazonFresh groceries in select cities. USPS spokespersons have said that the point of the experiment is "to determine if delivering groceries to residential and business addresses would be feasible from an operations standpoint and could be financially beneficial for the organization." The details of that arrangement have been kept largely under wraps, but it represents another example of the USPS jumping into new competitive ventures in a sector of the economy that is financially risky and already served by large private-sector companies, such as WalMart, Safeway, and Peapod, whose core business is to sell and deliver groceries. At the same time, the USPS has been ratcheting back services to its core constituency, first-class mailers.

The USPS shouldn't be dabbling in financially volatile, nascent start-up services. If the private markets have recognized a need and devoted resources to filling it, then the USPS should not be permitted to undercut those private-sector businesses. On the other hand, if the market is an emerging one, characterized by volatility and high failure rates, USPS is in no position to risk its capital and accelerate its rapid decline. The rationale for the USPS's dabbling in new competitive business sectors while degrading services to its monopoly mail customers, such as lowering delivery standards and hiking rates, is especially troubling in view of its opaque finances.

For eight consecutive years the Postal Service has incurred a net loss and the agency has now exhausted its borrowing capabilities with the U.S. Treasury. A $5.5 billion annual net loss is detailed in the agency's Form 10-K for fiscal year 2014.

39 U.S.C. § 3633(a)(2) requires the Postal Service and the Commission to determine that each competitive product is covering the attributable costs. CAGW contends that current accounting measures do not allow provide such transparency. Therefore, there is no public information available to determine whether the USPS is pricing its products correctly and not allowing market dominant products to subsidize products that compete with private sector businesses.

The USPS currently assigns 55 percent of its expenditures to specific products or services, leaving the remaining 45 percent of costs categorized as "overhead." While such vague attribution might be considered acceptable if all individual products within each mail classes were profitable, there can be little doubt that many suffer net losses.

For example, revenue from standard mail more than doubled its attributed operated costs last year, yet the price of stamps rose 6 percent. As competitive service offerings unrelated to letters such as parcels and periodicals continue to increase the USPS' debt, it is evident that mailing letters will only get more expensive. Further, reduced resources available for processing facilities across the country are contributing to decreased service standards, including slower average delivery times as detailed by the outgoing Postmaster General.

It is incumbent upon the Postal Regulatory Commission to receive and reveal the true costs and revenues attributable to each class of mail as well as any new demonstration projects and lines of business upon which the USPS has embarked.

While postal reform legislation was not enacted during the 113th Congress, any future efforts must include a requirement to thoroughly, accurately, and transparently account for the USPS' finances. Without that information, the USPS's broken business model will not be repaired.

We appreciate the Commission's consideration of CAGW's concerns regarding the Postal Service's product cost attribution and other matters of concern to taxpayers and ratepayers.

Respectfully submitted,

Thomas A. Schatz
President
Citizens Against Government Waste

**Docket No. ACR2014**

**Annual Compliance Report, 2014**

Dated: February 2, 2015