Postal Regulatory Commission
Submitted 6/14/2016 4:10:57 PM
Filing ID: 96252
Accepted 6/14/2016

**BEFORE THE**
**POSTAL REGULATORY COMMISSION**
**WASHINGTON, DC 20268-0001**
**PI2016-3**

**June 14, 2016**

In accordance with the Postal Regulatory Commission's (the Commission) open docket (PI2016-3) for the Commission's request for public input and comment as it prepares a statutorily mandated report to the President and the Congress on specific areas of interest related to the operation of the amendments to the Postal Accountability and Enhancement Act.

CAGW is a private, nonpartisan, nonprofit organization founded in 1984, with more than 1 million members and supporters nationwide. The group's mission is to identify, publicize, and eliminate waste, mismanagement, and inefficiency in government.

CAGW has long been concerned with the practices and financial position of the U.S. Postal Service (USPS), including its misguided ventures into new commercial ventures outside of its core mission of delivering letter mail.

As such, these comments focus on "nonpostal services" as they relate to the postal laws. In previous comments to the Commission, CAGW raised several issues surrounding these expansions from core service and asked for evidence as to whether these new products and services are self-sustaining or money-losing ventures supported by revenue from market dominant, monopoly-protected products.

A February 5, 2015 USPS Office of Inspector General (OIG) report on a same-day delivery experiment in San Francisco, California found that "The Postal Service did not properly implement the pilot. During the program only 95 packages were sent by the six participating retailers over a 5-month period. As a result, the Postal Service earned $760 and incurred costs of $10,288, with a net loss of $9,528." Despite the clear failure of the project, the OIG released a subsequent report that called for additional tests of same-day delivery.

While the USPS was forced to pull the plug on the bungled program, the Commission has continued to give USPS management the green light to squander even more of its dwindling resources on such initiatives. The partnership with Amazon to make Sunday deliveries of Amazon products, as well as AmazonFresh groceries in select cities, is an experiment "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."

With the details of the arrangement and the financial justification for the project continuing to be largely unknown, CAGW continues to argue, as it did in its 2105 Commission filing, that:

> [The program] 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."

An October 21, 2015 independent analyses by the consulting firm Sonecon entitled "How the U.S. Postal Service Uses Its Monopoly Revenues and Special Privileges to Subsidize Its Competitive Operations," concluded that, as a result of its monopoly status, the USPS receives $18 billion in annual federal subsidies, both directly (reduced borrowing costs and special tax breaks), as well as indirectly (exclusive access to residential and business mailboxes, for example).

In a May 10, 2016 *Federal Times* article, National Association of Letter Carriers president Fredric Rolando was quoted as saying, “If lawmakers adopt a smart, targeted reform package that includes addressing pre-funding, allowing USPS the flexibility to use its invaluable networks for some new products and services, and adopting best private-sector practices in investing the USPS retiree health benefits fund, USPS can continue to provide Americans and their businesses with the world's most affordable delivery services.”

CAGW strongly opposes this plan, under which the USPS would offload its pension and retiree healthcare liabilities to taxpayers and simultaneously be liberated to leverage its valuable monopoly status to compete unfairly against highly successful businesses already operating in the private sector. This strategy rationalizes a bloated and inflexible workforce and fails to address head on the rampant mismanagement intrinsic in the USPS’s current business model, which the Government Accountability Office has aptly described as “broken.”

The USPS has posted its ninth consecutive net loss since FY 2007, and its net cumulative deficit since then is $56.8 billion. The agency has exhausted its borrowing capabilities with the Treasury and has a host of accounting problems. According to the OIG, the USPS assigns only 55 percent of its expenditures to specific products or services, leaving the remaining 45 percent of costs categorized as “overhead.” Without full transparency in detailing costs, the USPS faces limitations in determining that each competitive product is covering the attributable costs. Furthermore, there is scant assurance that current or future nonpostal products can be accurately priced by USPS and not be subsidized by market dominant monopoly products.

It is incumbent upon the PRC 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 or may embark.

While postal reform legislation was not enacted during the 113$^{th}$ Congress, any future efforts must include a requirement to thoroughly, accurately, and transparently account for the USPS’ finances. Without that information, the agency’s broken business model will not be repaired. We appreciate the Commission’s consideration of CAGW’s comments 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

Leslie K. Paige
Vice-President, Citizens Against Government Waste