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National Taxpayers Union

**February 13, 2017**

**Comments of**
**Pete Sepp, President**
**National Taxpayers Union**
**Before the**
**Postal Regulatory Commission**
**Washington, DC 20268-0001**
**On the**
**2016 Annual Compliance Report**

**Docket No. ACR2016**

Dear Members of the Commission:

Pursuant to Commission Order No. 3717, National Taxpayers Union (NTU) hereby submits these comments in response to the U.S. Postal Service's Annual Compliance Report for Fiscal Year 2016 ("FY 2016 ACR"). NTU and its supporters across the United States are pleased to provide these observations and recommendations.

NTU and its supporters have long been concerned about the financial management of the United States Postal Service (USPS) and the impact of USPS's business practices on the economy as a whole. NTU has been involved in postal reform issues since the late 1970s, advocating for taxpayers, consumers, and businesses on issues such as: pension liabilities from USPS's existence as a federal department, the First Class monopoly, impediments to private-sector competition, managerial improvements, and rate-setting accountability mechanisms.

We believe that taxpayers have a direct interest in many aspects of USPS, including operations, personnel compensation policies, and infrastructure acquisition. All of the decisions associated with these practices can impact the long-term financial health of USPS – in turn, impacting the likelihood that someday taxpayers may be unfairly saddled with liabilities the Postal Service is unable to pay. This is not idle speculation, in light of recent federal bailouts of Government-Sponsored Enterprises such as Fannie Mae and Freddie Mac. Although their structures are different from that of USPS, Fannie Mae and Freddie Mac's officials insisted that there was no explicit or implicit federal guarantee behind their finances. Taxpayers discovered otherwise during the Great Recession.

After the recent release of the USPS 2016 Annual Compliance Report, and the agency's first quarterly financial report issued in 2017, NTU has growing concern that if the USPS does not quickly find a way to implement a better system to properly allocate its costs and reorient its business model, the potential need for a taxpayer funded bailout greatly intensifies.

As evidenced in the ACR and year-end financials, the U.S. Postal Service saw a continuation of its multi-billion dollar losses, which have now reached $37 billion in the last five years. Additionally, last week's first quarter report for Fiscal Year 2017 detailed another loss of approximately $200 million, despite benefiting from the ideal market conditions that result from the increased seasonal delivery demand.

This loss even excludes some $1.7 billion of fluctuation in workers compensation costs due to interest rates. Although gross revenues from shipping and packages experienced healthy growth of nearly 15 percent, First Class mail revenue – effectively a monopoly line of business granted to the Service – once again experienced a decline. A USPS news release lamented the fact that a "temporary exigent surcharge" enacted to help the Service recover from recession-induced economic declines has expired, yet this advantageous situation was never intended to continue indefinitely. It is thus no surprise that reported "controllable income" at the end of 2016 has dropped precipitously compared to the same point in 2015. While the Service attempts to divert the attention of Americans from its fundamental business model defects with seemingly interminable complaints about prefunding requirements for retiree health benefits, the losses persist even as these liabilities have eased. As the Service's news release noted, "first quarter retiree health benefits expense declined by $1.3 billion compared to the same period last year …primarily due to changes in the Postal Service's funding of retiree health benefits that are to take effect in 2017." Yet, this huge windfall could still not lift USPS to profitability.

Understanding the source of these losses remains greatly challenged by the Postal Service withholding critical information regarding the costs required to fund each line of business. While the USPS announces gains in revenue generated by shipping and package offerings, it is impossible to ascertain the exact impact on their balance sheet when costs – such as growing costs of labor and transportation – are not properly attributed. We must once again direct the Commission's attention to a piece written by postal policy expert Don Soifer for the *Detroit News*, now nearly two years old:

> [O]nly half of that [institutional overhead] goes toward actual fixed costs, like utilities or vehicles, according to the latest report from its regulator. Add it all up, and there's no doubt that the Postal Service is understating billions of dollars in costs that could be attributed to specific products. … If USPS is to avoid handing taxpayers a huge bailout bill, the agency must scrap its opaque accounting in favor of a modern, bottom-up system similar to those in use in the private sector – and by seven of the top nine major postal economies nationwide.

These problems have not been fundamentally resolved, bringing to mind once again NTU's warning to the Commission from 2015:

> Products such as letter delivery – which are mandated by the agency's original charter – are now further likely to be subjected to rate increases and diminishing, sorely-needed investments as the competitive products mix grows. In essence, the mail delivery services that Americans have come to expect are now likely to witness declining standards of reliability and affordability.

Enabling a complete analysis of these non-essential services will ultimately be critical for the Postal Service to realize the financial benefits of the core letter mail products that maintain wide profit margins. Narrowing the base of services will allow the agency to become more attentive to preserving mail quality for the sake of customers and mailers across the country who depend on the postal system most.

Given such imperatives, NTU is in agreement with the comments made by Association for Postal Commerce on USPS's ongoing failure to meet performance standards. After two consecutive years of failed attempts to meet the performance targets for on-time percentage for nearly every First-Class and Standard Mail product, it is clear that USPS must be compelled by the Commission to provide solutions.

Fundamental changes will help to improve the financial operations and performance standards of the USPS without subjecting customers to below average mail delivery and pointless rate inflation. Permitting service deterioration would be ill-advised, especially when the burden of losses from these ventures would fall on taxpayers.

USPS has offered very few solutions to improve its management, and continues to gloss over its problems. Equally troubling, the Service's "reforms" all too often focus on entering exotic areas of business where it can use its government-conferred preferences to compete with the private sector, rather than focusing on the more difficult (but necessary) improvements to existing duties. Now, we look to you, the Commission, and encourage action on the best solutions that reflect the Postal Service's primary duties on efficient and affordable mail delivery. Taxpayers should not be left to address the burdens created by the underperforming service areas.

To begin prioritizing improvements the Commission must implement a better system for USPS to properly allocate its costs on each service and also be held, in a true way, to its performance standards that it has consistently failed to meet. Until this occurs, the nation's taxpayers have legitimate reason to grow further concerned about how the federal government may seek a remedy. NTU staff is at your service should you wish to discuss these recommendations further. Thank you for your consideration.

Respectfully submitted,

Pete Sepp
President