

NPPC

National Postal Policy Council



NPPC Annual Report 2017 – 2018

NPPC's 2018 fiscal year saw one action after another crucial to the future of the postal system and mailers who rely on it. From the Postal Regulatory Commission's ten-year review of the rate and classification setting system through the Presidential Task Force on the Postal System to legislation still pending in Congress, actions and processes that could stabilize or convulse the system, depending upon outcomes, progressed. None, however, has come to conclusion, leading to increasing uncertainty about the direction of the Postal Service, as well as vital matters of rates and services. In all three of these critical areas, NPPC has played an active, if not lead role within the mailing industry. We have also been active in some smaller in scope, yet nonetheless important, matters. As we look ahead to our 2019 FY, the association and the Board of Directors are united in maintaining NPPC's full engagement on these matters as we press for outcomes mutually beneficial to the system, mail users and the American public.

Following is a summary of the issues and our actions from the 2018 Fiscal Year.

CAPITOL HILL

Once again, NPPC worked extensively with Congress to sustain and improve the postal system. Our prime focus continued to be on attempting to move a streamlined bill designed primarily to financially stabilize the Postal Service, whose financial decline, already dangerously pronounced, has resumed accelerating. NPPC also once again worked primarily through the industry coalition, the Coalition for a 21st Century Postal Service (C21), on this issue. Despite huge effort – visits, letters, Facebook campaigns, media efforts and more, the legislation remains stalled. In March, the Senate introduced its postal reform bill, S. 2629. Built on the House bill, HR 756, it added a service provision and a provision to offset the cost of integrating postal retirees into Medicare, answering two key objections to the House bill. That Senate bill nearly was added to an omnibus spending bill in March, but fell just short. In the House, HR 756 was reintroduced as HR 6076 for process reasons. Neither bill has progressed since, encountering opposition from Chairman Ron Johnson of the Senate postal oversight committee (HSGAC), and Chairman Kevin Brady of the House Ways & Means Committee.

We also opposed efforts to privatize the Postal Service wholesale, stimulated by the Administration's government reorganization proposal, and rumors about what the President's Task Force on the Postal System might recommend. Release of the latter report has been postponed at least until after the November, 2018, mid-term elections. We have supported two resolutions, H. Res. 993 and S. Res. 633, that oppose privatization. We differentiate between privatizing as a whole, and partial privatization efforts, such as outsourcing.

NPPC's strong support for financial stabilization legislation is rooted in the realization that without such help from Congress, the PRC will experience extreme stresses for pricing rates to bring in the very substantial additional revenues needed to repair the USPS balance sheet. That fear proved all too real as the Commission proposed new rates of CPI + 2 + .1 Cash on hand, which is the best measure of USPS' financial status at any time, has improved this year, in part because higher inflation beneficially impacts what USPS owes on its obligations. It will likely be about \$11 billion at the end of its fiscal year – about 60 days or more at the USPS rate of spend. Thus, the major section of the industry represented by C21 has again accepted a one-time 2.15% rate increase in the legislation in exchange for integrating postal retirees fully into Medicare, which will save USPS approximately \$3 billion/yr. However, the legislation also requires the Commission to take its impact into account in its 10-year review, whether enacted before or after the Commission issues its 10-year review ruling.

- Continued to coordinate and lead C21
 - i. Unites mailers and suppliers in pursuing goals of short- and long-term financial and structural relief on the Hill
 - ii. Major milestones in 2018:
 1. Maintained industry support for the compromise at the heart of HR 6076 (756) and S. 2629 ;
 2. Led the industry effort, in concert with USPS and the postal unions, to secure a vote on the House Floor; and
 3. Conducted a traditional and social media effort to stimulate support for the bill.
- Numerous meetings on Capitol Hill to educate Members about USPS issues and the substantive and political value of a stakeholder-supported potential solution
- Continued to work closely with staff of Members of Congress sponsoring reform legislation
 - i. Same with staffers for Leaders in both Houses
 1. Leaders in both Houses are ready to move ahead, should there be broad support for the bill and Mr. Brady no longer defers the bill and
- Maintained close communications and coordination where appropriate with the postal unions and the Postal Service.
- Offered support for anti-privatization resolutions in each House of Congress: H. Res. 993 and S. Res. 633.

POSTAL REGULATORY COMMISSION

Of necessity, NPPC maintains a very active program before the Postal Regulatory Commission. We participate in virtually any proceeding where there would be significant impact on NPPC members, and this year required an overwhelming, but not exclusive focus on the 10-year review. A summary of our actions follows:

NPPC's submissions to the PRC continued to observe our two principal aims: (1) specific results in certain cases; and (2) raising issues to lay the groundwork for desirable outcomes

in the future. That is a strategy with which we have had some noticeable success over the past few years, and was vitally important in the 10-year review proceeding.

- R2018-1 Market-Dominant Price Adjustments: NPPC filed Comments (10/27/17) on the Postal Service's notice of price-cap rate increases. NPPC supported the below-average increase for Automation Letter rates, but noted that many members would experience larger increases due to the expiration of the promotional discounts. NPPC also supported the Postal Service's proposed Automation Mixed AADC passthrough.

The Commission approved the rates consistent with NPPC recommendations.

- National Postal Policy Council v. Postal Regulatory Commission (D.C. Circuit): NPPC petitioned for review of the Commission's December 1, 2017, finding that the current system for regulating the rates of market-dominant postal products is not achieving the objectives established by Congress. NPPC filed the petition in order to protect its ability to challenge any aspect of the December 1, 2017, ruling in a subsequent judicial review proceeding. NPPC subsequently moved successfully to hold the proceeding in abeyance pending resolution of the Commission's Docket No. RM2017-3 rulemaking proceeding.

- RM2017-3 Review of Market-Dominant Ratemaking System (10-Year Review): NPPC joined the Greeting Card Association in opposing (1/12/18) a motion for reconsideration by the Public Representation of the Commission's finding in Order No. 4257 that the existing regulatory system has maintained the short-term financial stability of the Postal Service.

The Commission has not addressed the motion, but has done nothing to reconsider its finding.

- RM2017-3 Review of Market-Dominant Ratemaking System: NPPC and the National Association of Presort Mailers moved (1/19/18) for the Commission to issue an information request to the Postal Service for disclosure of certain Decision Analysis Reports relevant to the Postal Service's effectiveness in capital investments.

The Commission declined to issue the information request.

- 2017 Annual Compliance Review: NPPC, the Major Mailers Association, and the National Association of Presort Mailers filed comments (2/1/18) on the Postal Service's Annual Compliance Report for FY 2017. The comments reiterated previous concerns about the persistently excessive rates that the Postal Service charges First-Class Presort Letters and Cards, and the absence of any explanation for the 4.1 percent volume decline in First-Class Mail.

The Commission acknowledged these concerns but took no action on them in the ACR.

- RM2017-3 Review of Market-Dominant Ratemaking System (10-Year Review): NPPC took the lead in filing extensive Comments (3/1/18), jointly with the MMA and NAPM, in the statutorily-mandated proceeding to evaluate the current system of regulating the rates of

market-dominant postal products. In 82-page comments, plus an additional 10-page technical appendix prepared by its economic consultants, NPPC: (1) made the argument that the Commission lacks legal authority to adopt changes that would exceed the statutory price cap; (2) supported, with suggested improvements, the Commission's proposal to improve the economic efficiency of workshare discounts; (3) criticized the Commission's proposed 2-percent per year additional cap authority for using the incorrect legal standard for financial stability, for assuming that the Postal Service is entitled to retained earnings; for ignoring revenues from competitive products and the Postal Service's real estate and retirement funds; and for allowing an overrecovery after five years; (4) pointed out that the proposed incentive for improving operational efficiency would require little actual improvement from the Postal Service; (5) suggested two preferable alternatives that would better align the objectives of maximizing the incentives for economic efficiency and financial stability by linking cap changes to controllable costs or Total Factor Productivity; (6) criticized the proposed 0.25 percent cap authorization for maintaining service standards for focusing on published standards instead of actual service; and (7) addressed certain proposal modifications to procedural rules. Finally, NPPC recommended that the Commission interpret the exigency provision in a manner more consistent with its purpose and revise its rules for negotiated service agreements to make volume retention and expansion agreements less difficult to approve.

The proceeding remains pending at the Commission.

· *RM2017-3 Review of Market-Dominant Ratemaking System (10-Year Review)*: NPPC took the lead in filing Reply Comments (3/30/18), jointly with the MMA and NAPM, in the statutorily-mandated proceeding to evaluate the current system of regulating the rates of market-dominant postal products. In a 52-page filing, NPPC: (1) noted the widespread view among commenters that only Congress can properly address the financial issues of concern to the Commission; (2) opposed the Postal Service's plea for deregulation of market dominant products on legal and policy grounds; (3) pointed out that breaching the statutory price cap without first determining how much money the Postal Service may need (based on a statutory standard) from market dominant products would be arbitrary and capricious; (4) reiterated its support for the Commission's workshare discount proposals, with certain modifications; (5) noted the widespread criticism of the proposed use of TFP as a performance incentive metric; (6) again urged that any supplemental cap authority for service should be based on actual performance, not published standards; (7) noted that certain proposals offered in other comments should be outside of the scope of this proceeding; and (8) recommended that the Commission consider a further NPRM.

The proceeding remains pending at the Commission.

· *RM2017-3 Review of Market-Dominant Ratemaking System (10-Year Review)*: NPPC took the lead in filing further Comments (4/30/18), jointly with the MMA and NAPM, in the statutorily-mandated proceeding to evaluate the current system of regulating the rates of market-dominant postal products. In the further comments in response to Order No. 4574, NPPC commented that certain graphical charts prepared by the Postal Service regarding its financial condition made public during the proceeding added nothing beyond previous public statements by the Postal Service.

The proceeding remains pending at the Commission.

PRESIDENT'S TASK FORCE ON THE POSTAL SYSTEM

NPPC actively engaged with the Task Force as part a broad industry response through the Coalition for a 21st Century Postal Service. We both met with the Task Force and submitted a follow up memorandum. Our comments focused on nine principles:

- 1) Universal service that binds the nation together should be retained;
- 2) Market Dominant and Competitive Products are both crucial to USPS' sustainability;
- 3) Unaffordable retirement funding obligations must be curtailed;
- 4) USPS should remain self-sustaining through user fees, with rare exceptions;
- 5) "Privatization" or "corporatization" needs to be better defined to determine if there is a role for either;
- 6) Labor-management relations should be evolved as appropriate to a model more compatible with a sustainable financial structure for USPS;
- 7) USPS should principally focus on its primary mission of mail and package delivery;
- 8) Improving efficiency should be a top USPS priority; and
- 9) USPS should take every step possible to innovate within core competencies.

We also focused on maintaining affordable rates and correcting a deficient elasticities model.

U.S. POSTAL SERVICE

As in previous years, in 2018, NPPC once again worked closely with the USPS leadership team, and other executives. This year's efforts included some key operational issues, as well as cooperation in pursuing mutual goals on Capitol Hill.

The following bullet points summarize the efforts made to both achieve NPPC's goals and enhance its relationship with the senior team at USPS. We have focused on these issues in the NPPC way: as a matter of collaboration and mutual respect. This remained true, as always, whether the discussion concerned rates, operational issues or legislation.

- Maintained constant outreach and contacts throughout headquarters staff on macro issues, and legislative concerns, in particular, in 2018
- Raised and pursued concerns about rate increases, both CPI and the rate system review, and their execution directly with the USPS executive leadership team
 - i. Encouraged moving forward as soon as possible with Promotions for 2018 which had been suspended because of the absence of Postal Governors.

- Expressed continued concerns – and support for the concepts -- re Informed Visibility, Informed Delivery and other programs;
- With MMA, both met with key USPS executives about and submitted comments on the Green and Secure Move Update Method proposal offering support for the Secure Destruction UAA approach, while offering certain suggestions, such as emphasizing how critical it is to maintain the integrity of the secure destruction platform, and to have the same standards of measuring Move Update compliance applied by the Postal Service and the Postal Inspection Service. It also reduced the risk to members of random audits for this purpose from USPIS.
- Maintained consistent contact with USPS Inspector General over a number of key issues
 - i. Participated in several forums and studies conducted by the IG;
- Full MTAC participation, with our enhanced team building on the able efforts of their predecessors across a broad range of working groups, user groups and MTAC leadership.
- Participated in bimonthly association executive meetings with PMG and senior staff that ranged through USPS initiatives on cost cutting, current financial projections, legislative status and coordination, and more, and provided serious opportunity for discussion and feedback
- Conducted internal webinars on important topics, such as the 10-year review; and
- NPPC Meetings with key USPS executives at the National Postal Forum.

QUARTERLY MEETINGS

As always, NPPC quarterly meetings drew informative guest speakers, and were well-attended by NPPC members. Among other matters, legislation, the many proceedings at the Commission – the ten-year review, indexed rates, the annual compliance review, Move Update, the IMb rates and exigency court cases, as well as USPS initiatives on Informed Visibility, Informed Delivery, innovative products, network rationalization, special promotions and many more, and more than any, Phase II of the Commission's Ten-Year Review of the rate and classification setting system, all were thoroughly presented, and subject to NPPC member questions and comments to the principals involved from the postal agencies or key congressional staff.

- Featured the Postmaster General, several USPS senior executives, such as COO Dave Williams, VPs Robert Cintron, Isaac Cronkhite, Gary Reblin, Greg Crabb and Sharon Owens
- The Inspector General of USPS/Acting
- Prominent postal staff from Capitol Hill; and

- Speakers from GAO, including the Director of the Physical Infrastructure Division (which includes the Postal Service)

A Brief Look Forward to 2019

NPPC will move ahead with its efforts on priority issues, including responding as appropriate to the outcome of the rate and classification setting review and other proceedings at the Commission, legislation, specific issues at USPS and a lively and informative program at our quarterly meetings. Members can expect to be consulted, as well as updated, all along the way, because our positions represent the best consensus interests of NPPC's membership. We look forward, as always, to your participation and your input.