POSTAL TRENDWATCH

A Quick Reference on the U.S. Postal Service

Overview

Created in 1789 as the Department of the Post Office, the U.S. Postal Service (USPS) commenced operations as an "independent establishment of the executive branch of the Government of the United States" in 1971. USPS has a legal mandate to provide "fundamental service" to the American people at "fair and reasonable rates." USPS fulfills its universal service requirement by offering a variety of classes of mail service within which the price does not vary unreasonably by customer for the level of service provided.

Universal service is generally understood to entail six-day-per-week delivery to every address in the United States for one flat rate. To compensate for this obligation, USPS holds a monopoly on the delivery of non-urgent letter communications and on the use of mailboxes.

Finances

Postal Service Operating Revenue & Expenses
(in millions of dollars)

Year	Revenue	Expenses	Net Income
2008	$74,932	$77,738	($2,806)
2007	$74,778	$80,105	($5,327)
2006	$72,650	$71,681	$969

Postal Service Revenue and Cost Coverage
by Category in 2008 (in millions of dollars)

Category	Revenue	% Total Revenue	Cost Coverage
First Class	$38,229	51%	200.71%
Standard	$20,586	27%	156.41%
Periodicals	$2,295	3%	83.99%
Package Services	$1,842	2%	100.75%

Operations

- In 2008, First-Class Mail accounted for 51% of USPS revenues and 46% of total mail volume.
- In 2008, Standard Mail accounted for 49% of mail volume and about 27% of overall revenue.
- 2008 revenue of $74.9 billion and expenses of $77.7 billion.
- 201 billion pieces of mail delivered in 2008.
- 663,238 career employees and 101,850 non-career employees.
- 85% of postal employees are covered by collective bargaining agreements.
- There are almost 37,000 post offices, stations and branches.
- The USPS fleet consists of 221,000 vehicles.

Understanding the Postal Monopoly

The Postal Service maintains two monopolies:

- Mail monopoly: Delivery of letters by anyone but USPS is prohibited.
- Mailbox monopoly: USPS has exclusive access to customers' mailboxes.

USPS is exempt from vehicle licensing requirements and does not have to pay parking tickets or municipality fees. It also has power of eminent domain and its own police force.

The Postal Service does not collect sales tax and does not pay local or state property tax. It calculates the amount of income tax it would pay on revenue from its competitive products if it were a private interest but then pays that putative amount of tax to itself.

USPS holds property, including land, buildings, and equipment, that is worth more than $25 billion.

The Postal Service may borrow funds, up to $3 billion annually or $15 billion total, from the U.S. Treasury at discounted rates.

- The Postal Reorganization Act of 1970 required the Postal Service to break even financially.
  - Nevertheless, USPS is on track to post three consecutive years of annual losses.
  - The agency has lost money in 10 of the last 11 quarters.
- USPS posted a net loss of $1.9 billion in the second quarter of 2009 despite an 8.3% decrease in work hours and lower energy costs.
- As part of the Postal Accountability and Enhancement Act of 2006 (PAEA), USPS is required to put aside an average of $5.6 billion annually through 2017 to cover future retiree healthcare costs.
  - Legislation pending in the House (H.R. 22) may deliver USPS some relief from this obligation by extending the amount of time over which USPS may make these contributions.
  - The measure would also allow USPS to pay for current retiree benefits out of the fund established for future retirees.
- Including contributions to cover future retiree benefits, labor costs account for close to 85% of USPS expenditures.
- USPS is able to attribute a little over two-thirds of its costs; the other third is assigned as unattributed "overhead."

Technology and Productivity

Technology
USPS is a leader in optical character recognition technology -- its machines can read 93% of hand-written letter addresses.

Currently, USPS uses 7,000 machines to sequence 120 billion letters annually. Such automation saves $5 billion each year.

Productivity
From 2000-2008, USPS average annual total factor productivity growth was about 1.3%. However, in 2008, total factor productivity decreased 0.5%.

Total factor productivity has declined in the last five consecutive quarters.

Evolution of Postal Technology
1963 -- ZIP code plan developed
1965 -- Optical scanner employed for ZIP codes
1982 -- Installation of optical character readers
1987 -- Small parcel and bundle sorters introduced
1987 -- Multiline optical character readers appear
1990 -- Wide area barcode readers adopted
1993 -- High-speed automated Delivery Point Sequencing machines introduced to sort letters and flats
2002 -- "Intelligent" flat-sorting equipment used to decode hard-to-read addresses

Products and Services

Market-Dominant Services Protected by Statutory Monopoly (about 88% of total revenues)

First Class: Ideal for sending personal correspondence, letters, and bills or statements of account. It may also be used for advertisements and lightweight merchandise weighing less than 13 ounces.

Standard Mail: Bulk mail weighing less than 16 ounces, such as advertisements, flyers, catalogs, or small packages.

Periodicals: Publications like magazines, newspapers, newsletters, and bulletins.

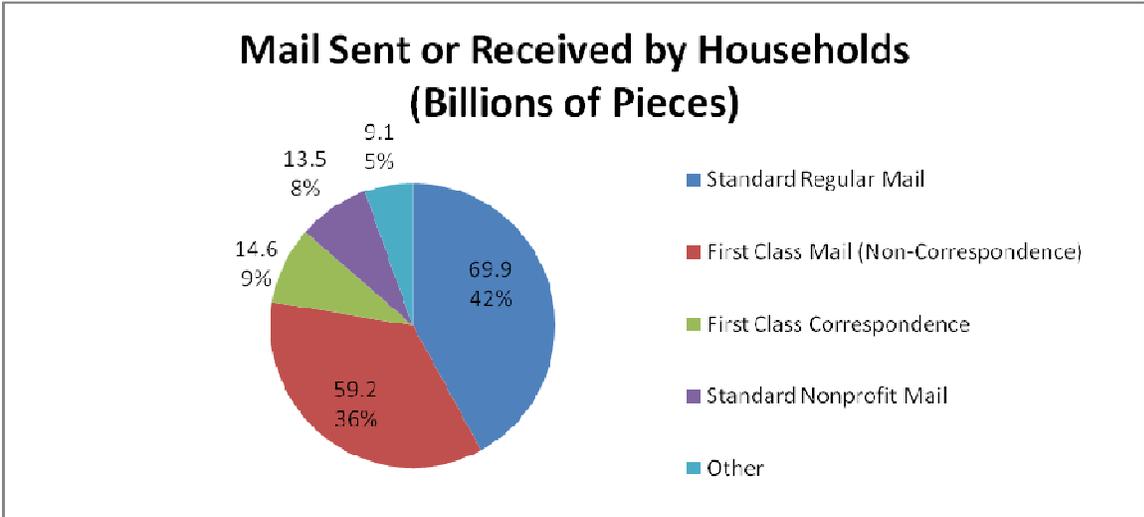## Competitive Products (about 11% of total revenues)

Express Mail: Overnight delivery service for documents and packages weighing less than 70 pounds.

Priority Mail: Expedited delivery service for documents and packages weighing less than 70 pounds that reaches most U.S. locations in 2-3 days.

Package Services: Includes parcel post and media mail (recordings, films, books, etc.) weighing up to 70 pounds.

Special Services: Optional services used in conjunction with the various classes of mail, including certified mail, insurance, and delivery confirmation.

Postal Money Orders: Safer alternative to sending cash through the mail.

Mail Sent or Received by Households (Billions of Pieces)

- Standard Regular Mail — 69.9 / 42%
- First Class Mail (Non-Correspondence) — 59.2 / 36%
- First Class Correspondence — 14.6 / 9%
- Standard Nonprofit Mail — 13.5 / 8%
- Other — 9.1 / 5%

In 2007, households sent or received 166.2 billion pieces of mail, or 79% of pieces sent or received. At the same time, correspondence amounted to just 9% of total mail volume sent or received by households. (Source: 2007 USPS Household Diary Study)

Postal Timeline

1789 -- Creation of the Department of the Post Office and the Office of the Postmaster General. Benjamin Franklin named first Postmaster General.

1968 -- Presidentially-appointed Kappel Commission makes recommendations that lay the foundation for the modern-day Postal Service.

1970 -- The Postal Reorganization Act abolishes the cabinet-level Post Office Department and replaces it with the U.S. Postal Service, moves rate-setting mechanism out of the political process, and allows for collective bargaining between postal management and employees.

May 2003 -- USPS assents to its first Negotiated Service Agreement, with Capital One, as part of an effort to increase mail volume. Under these agreements, big mailers can receive discounts if they meet certain volume thresholds and engage in certain labor-saving practices, like presorting and opting out of return service.

July 2003 -- The President's Commission on the U.S. Postal Service releases its final report and makes recommendations to the President and Members of Congress.
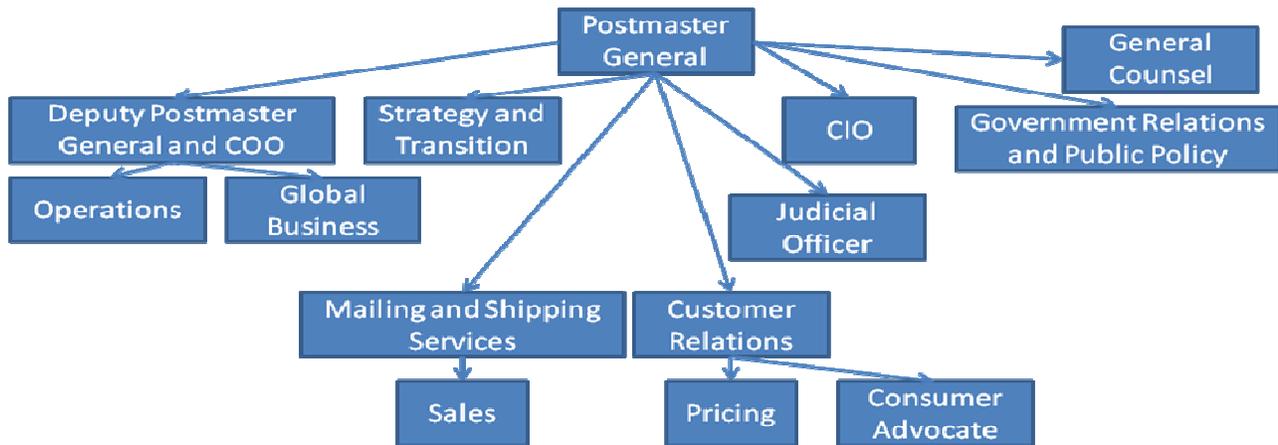
December 2006 -- The Postal Accountability and Enhancement Act (PAEA) is signed into law. The PAEA grants USPS increased pricing flexibility for competitive products, reforms contributions for retiree pensions and health care, and requires USPS to establish and maintain standards for the quality of service for all market-dominant products. The PAEA also creates the Postal Regulatory Commission (PRC) to ensure the transparency and accountability of Postal Service finances and operating performance and to oversee reports, systems, and procedures to measure and foster service improvements.

May 2007 -- "Forever" stamp is issued.

May 2008 -- USPS begins offering price incentives to customers who meet certain volume thresholds for Priority and Express Mail or who purchase these expedited services online.

December 2008 -- PRC announces new accounting standards for USPS competitive products.

USPS Management Organizational Chart

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Postmaster General → Deputy Postmaster General and COO, Strategy and Transition, CIO, Government Relations and Public Policy, General Counsel, Judicial Officer, Mailing and Shipping Services, Customer Relations

Deputy Postmaster General and COO → Operations, Global Business

Mailing and Shipping Services → Sales

Customer Relations → Pricing, Consumer Advocate

Oversight

Board of Governors: Consists of nine members appointed by the President and confirmed by the Senate, the Postmaster General and the Deputy Postmaster General. The Board governs Postal Service operations, practices, policies, and expenditures.

Office of the Inspector General (OIG): Independent of postal management, the OIG reports directly to the Board of Governors. OIG investigates and evaluates programs and operations of the USPS to maintain the integrity and accountability of the Postal Service.

Congress: The Senate Committee on Homeland Security and Government Affairs and the House Committee on Oversight and Government Reform are responsible for congressional oversight of USPS.

Government Accountability Office: The audit and investigative arm of Congress which ensures the accountability of the federal government, including independent agencies like the Postal Service.

Postal Regulatory Commission (PRC): Formerly the Postal Rate Commission, the PRC is an independent regulatory agency made up of five commissioners appointed by the President and confirmed by the Senate for six-year terms. The PRC reviews and approves postal rates and classifications, adjudicates complaints, and determines whether USPS is in compliance with existing law. The PRC has subpoena power, the authority to adjust rates, and the ability to levy fines against USPS. The PRC maintains the Mail Classification Schedule and produces the Annual Compliance Determination.

Stakeholders

Postal Labor Unions

American Postal Workers Union: Represents 330,000 clerks, maintenance employees, motor vehicle operators, and non-mail processing workers.

National Association of Letter Carriers: Represents 300,058 active and retired letter carriers, of which nearly 214,084 are active city delivery letter carriers employed by the USPS.

National Rural Letter Carriers Association: Represents 123,000 rural letter carriers.

National Postal Mail Handlers Union: Represents 48,000 mail handlers in postal facilities across the United States.

Postal Management Organizations

National Association of Postmasters of the United States: Represents more than 42,000 postmasters, officers-in-charge, and retired postmasters.

National Association of Postal Supervisors: Represents over 35,000 active and retired supervisors, managers and postmasters.

National League of Postmasters: A professional organization of postmasters and their families.

We are indebted to the excellent work of our late friend and colleague Rick Merritt for providing the inspiration for this project.