

# THE RED TAG NEWSLETTER FEBRUARY 2020



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## 2020 CALENDAR OF EVENTS

03-03-20	Southern Area AIM Meeting	Tampa FL
03-24/25-20	MTAC Meeting	Washington DC
03-31-20	Northeast Area AIM Meeting	Boston MA
04-26/29-20	National Postal Forum	Orlando FL
07-28/29-20	MTAC Meeting	Washington DC
10-27/28-20	MTAC Meeting	Washington DC

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# THE USPS FIVE-YEAR PLAN – FY21 TRUMP BUDGET PLAN – PRC ADDITION – ANOTHER BAD USPS QUARTER – THE BI-PARTISAN HOUSE PLAN FOR REFORM

## The USPS 5-Year Plan – Wishful Thinking?

The Postal Service finally released its 5-year plan on in mid-January and the plan continues to promote the standard aspirations. The plan concedes that the current business model is broken and that a new approach is necessary. Unfortunately, the report does not delve deeply into the proposed strategies to replace this broken model over these next five years.

It begs the question as to whether or not USPS has plans to fix this or is this is just a plea for help from legislative efforts to reform it.

The five main goals are reasonable and what many want to hear:

1. Deliver world-class services and customer experiences.
2. Equip, connect, engage and empower employees to serve our customers.
3. Innovate faster to deliver value.
4. Invest in future platforms.
5. Pursue legislative and regulatory changes necessary to achieve financial sustainability.

The biggest common problem with these goals for the next 5-years is that they are less plans than they are desires to achieve these goals. This inherent problem is somewhat reduced by reading the ways in which USPS is going to attempt to transform the business model to fit these

goals.

First, the Postal Service wants to transform itself from solely deriving value form the provision of physical delivery services into an organization that introduces and pushes the launches of new products and services that can add value through a digital connection. Clearly this is intended as a means of blending into the more modern age of today's massive amounts of electronic communications.

Second, it wants to transform from being the best and most efficient last-mile mail delivery service provider into the best and most efficient local logistics and E-Commerce delivery platform. This is going to require the interlacing of the existing services into the ordering trends of the customer base and competing with the heaviest volume Internet providers.

Third and lastly, the Postal Service wants to transform into the management of a faster and more resilient logistics ecosystem and get away from the concept of a fixed network. This will require much planning and cooperation from the labor organizations to accomplish and will probably need to add more non-career employees to address the ebb and flow of business over time and location.

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Clearly, the Postal Service will need legislative help to get these goals to become a reality after the five years have passed.

The Postal Service has limited ability to expand digital and other interconnectivity-related services to gain new customers. An example of a success is the Informed Delivery Platform. However, looking for expansion into direct customer interfaces, or offering products through its web site that are not somehow mail related would require legislative and Board of Governor approval after review by the PRC.

While this is a logical step for private industry, the Postal Service stumbles a bit when face with its title of government protected monopoly for some of its services like First-Class Mail and mailbox access.

Conversely, the USPS would likely be reluctant to surrender that monopoly to gain these new services and open them up to open competition. An additional problem that falls into these concerns is the universal service mandate. That cost increases every year and is necessary to guarantee that a business in midtown Manhattan and a farm in rural Iowa miles from a post office, receive the same level of service at an identical or near-identical price. That costs USPS over \$5 billion.

As far as the “more resilient logistics ecosystem”, in addition to the human resource and union concerns, they would also potentially have infrastructure issues to respond to some of these concerns.

This might become argumentative considering the closing of many processing plants around the country and an ongoing legislative lack of interest in new non postal services and products.

At the same time the Postal Service Deserves whole-hearted support from a concerned mailing industry for these efforts. After all, today’s growth is based on emerging business both in demand and newly identified products and services.

There is cautious optimism for success.

## The Trump 2021 Fiscal Budget

The budget proposal for fiscal year 2021 contains a \$97 billion dollar package for the Postal Service but it comes with a number of conditions.

One of the reforms would be a lower pay scale for employees, in some cases matching other federal employees pay scale calculations. This proposal also would affect those paychecks by lowering retirement benefits and health care packages, also akin to other members of the federal work force.

The budget includes a more flexible rate-setting system that would allow the Postal Service to significantly increase rates on most packages and other materials considered non-essential services and products.

It recommends less frequent days of delivery than the current six-day schedule but does not specify how many.

It would increase the amount of mail sorting by private industry over and above what is in place at plant load and in-plant sites.

New revenue streams would be generated. Theoretically, by relinquishing the Postal Service’s monopoly on consumer’s and business mailboxes.

It would restructure the prefunding of health benefits for future retirees and allow a re-amortization of the defaulted funds over a

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forty-year period.

Not mentioned in this budget proposal is the potential for sale of the Postal Service to a private entity or entities. When asked if this goal is still being pursued, Office of Management and Budget Deputy Director for Management, Margaret Weichert said, "Our thinking has evolved over the last 18 months" leaving the question only partially answered.

## PRC Selection

The Postal Regulatory Commission (PRC) has selected Erica A. Barker, a senior attorney currently practicing administrative law in the PRC Office of General Counsel, to lead its Office of Secretary and Administration (OSA).

In this new role, Ms. Barker will oversee the day-to-day functions of budgeting and accounting, human resource management, records and data management, contracts and audits, facilities and information technology. She is inheriting a busy plate.

Ms. Barker has practiced at the PRC for five years, providing legal and technical analysis and counsel relating to the mission of the PRC. Additionally, she has been managing projects involving compliance with Title 39 of the federal code.

## Another Down Quarter For USPS

The Postal Service has closed its first quarter of fiscal 2020 with a whimper again. Revenues are down 1.8 percent with total revenue of \$19.3 billion and volume of 37.8 billion pieces. The total loss for the quarter was \$748 million.

This is an improvement compared to the loss of \$1.5 billion during the same fiscal period last year but remains nothing to write home about. Marketing Mail saw a 7.9 percent drop from last year but that number was skewed by there being no major political and election mailings.

By the numbers there were no gains in this past quarter in either revenue or in volume with the exception of a small gain for Shipping and Package Services in revenue.

First-Class Mail revenue dropped from \$6.6 billion to \$6.4 billion with volume dropping from 14.9 to 14.3 billion.

Marketing Mail dropped from \$4.7 billion to \$4.4 billion with volume dropping from 22.0 billion to 20.3 billion and as mentioned this was likely due to no major elections in the last quarter for mail generation.

Periodicals Mail dropped from \$311 million to \$287 million in revenue and by 88 million pieces.

Shipping and Package Services saw a decline as well in volume but with a slight gain in revenue of \$146 million dollars but did show a small decline in volume of 84 million pieces. This reflects some insourcing of volume by the largest shippers.

International mail gained an extra 4 million pieces in volume but still suffered a loss in revenue of \$51 million dollars.

In total, revenue slipped from \$19.7 billion to \$19.3 billion with volume slipping from 40.3 billion pieces to 37.8 billion pieces.

Chief Financial Office Joe Corbett said

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if the bill in Congress had passed and been signed, it would have saved a billion dollars in health care costs and \$200 million in amortization. That would have put postal finances slightly ahead for the quarter.

Compensation and benefits continues to be 75 percent of postal expenses and that with the universal service obligation it is very difficult to reduce this number. Work hours did decline by 6.4 million over the quarter, however with nob-cash, fair value adjustments to the Worker's Compensation liability, total expenses were flat for the quarter.

An upcoming expense for this year will be the replacement of delivery vehicles. A production request was released in December 2019 and proposals are expected by March 2020. PMG Brennan advised that this is not a contract award. The next step is to evaluate and decide on the proposals. Whether or not this impacts the 2020 budget will be determined by when the award will be made.

## The Reform Plan From Congress

The House of Representatives, with bipartisan support, passed a postal reform package although its fate is uncertain in the Senate.

This reform program would completely remove the annual \$5 billion plus payment for future employees' retirement health plans. The vote was 309 to 106 with 87 republicans signing on to this effort.

The elimination of the prefunding requirement will not only eliminate the annual payments but will forgive the defaulted payments currently due.

Representative Peter Defazio of Oregon pushed for this change on the grounds of it being absurd to pay for the retirement of those who may never even work for the Postal Service. This elimination provides a significant first step in reducing the outstanding liability and opens the door to more much needed comprehensive reform.

USPS Spokesperson David Partenheimer said that this change would improve the balance sheet and reduce future reported losses. The Postal Service looks forward to working with Congress to create legislation ensuring long-term viability. Postmaster General Megan Brennan stressed, at a Board of Governors meeting, that this legislation was "only a first step toward the financial turnaround the Postal Service is seeking." Vice President David Williams said the Postal Service would have been close to "break-even" if this legislation had already been enacted.

Representative Mark Meadows from North Carolina said that he could not support the bill "because it does not do what we need to do which is address the problem today. This just kicks the can down the road." The detractors object to taxpayer funds being used to bail out another federal agency. What is not mentioned is that this allotment of \$5 billion-plus every year has no reason for existing, since USPS is the only corporation or agency in the country that is required to do this. It never should have been part of the 2006 agreement.

## Domestic Mail – What To Know – DMM 207.5.1 vs. 207.5.1 Why to Consider Becoming A Requester Periodical

### WHY IS THIS A POSITIVE FOR PERIODICALS?

It is a positive for some publishers seeking approval for Periodicals rates of postage. In some ways the means of obtaining requests is more flexible than paid publication while there are a few more restrictions for Requester qualification.

### WHAT ARE THE DEFINITIONS?

General (or paid publications) require a minimum subscription amount to be charged to a customer. That amount must be obtained by payment by at least 50 percent or more of the individuals desiring to receive the publication. Subscription pricing must reflect the amount of payment required. Discounts and/or premiums may be offered to incentivize subscribers but are limited to an amount that represents at least 30 percent of the declared subscription cost of the publication while that cost may not be so low that it would not fairly represent the cost of manufacturing and mailing the issues. Subscriptions are generally annual with anticipated renewals each year.

A Requester publication depends heavily on advertising revenue, but has provides value to the reader by being offered at a low rate or free of charge. There is no nominal (30%) restriction. Publishers of requester titles may combine paid and low-cost or free circulation to achieve a minimum of 50 percent of recipients requesting the title. Requests are good for three years as opposed to an annual renewal. Requesters must provide a signature or other acceptable acknowledgement to receive and continue to receive publications. Premiums may not be offered to potential requesters to entice them to ask for the publication in this instance.

### PLEASE NOTE THE FOLLOWING:

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This clarification is not to recommend one means or another but to advise publishers that there are options in the two largest categories of approved Periodicals publications when seeking Periodicals authorization to mail.

Publishers must determine the means that works for them as part of their business models and must choose according to their plans for budgeting the publication. The postage costs are the same for both categories. It is the method of qualification that is different, which also is part of that choice.

The Domestic Mail Manual delves into these and a few other specialized categories in-depth in section 207 and should be reviewed when determining a decision.

## From The Desk of Eddie Mayhew – And The Beat Goes On

It seems like nothing is ever easy and that every choice might be a wrong one, but a choice nevertheless. Publishers must think they are in a world of rabbit snares and bear traps.

First we get a five-year plan with many of the usual platitudes for striving for service and for on-time delivery and the desire to find new and improved ways to do things. Then we receive some added hope for a major change from Congress with a bi-partisan road to dropping a huge amount of debt. It seems that there may be opportunities to move ahead in the coming years. Certainly the mailing industry wants a Postal Service that can provide the service and delivery it needs while protecting universal service and finding ways to keep prices at a reasonable level.

Then you take another knock-out punch when the administration announces its own plan to boost the finances of the Postal Service in next years' budget; but it comes with harsh changes to retirement and health benefits and looks to cut costs by cutting personnel and lowering salaries, potentially creating a large number of disgruntled employees who may not care too much about service and quality. And then there is the mention of ending Saturday delivery again.....

Hitch that up to the fact that the chances of that cancellation of the ridiculous prefunding debt will die a certain death at the Senate majority leader's desk and everyone is back to square one.

It is hard to hold onto confidence and plan for the years ahead when we continue to face a relentless uphill battle to stay in the mail business, let alone exist in the publishing arena, especially when all of this gets coupled to the ever-growing world of the digital press.

Printers, publishers and mailers don't just face the prospects of rising postal costs, unreliable delivery and a loss of service while paying high postage rates; they face higher paper and ink costs and overall higher costs from competition like FedEx or UPS. I won't even get into an emerging market of large package based organizations delivering materials in their own vehicles.

It wears on the soul to keep fighting to get the organizations that create the mail and the organization that delivers the mail above water, particularly when the crest of the hill seems to move higher and further away. However, I'll be damned if I'll give up. Times change, ideas change, administrations change and no steep climb exists without a summit. It's a matter of time to get these things done and I do believe it will happen if we all persevere.