

THE RED TAG NEWSLETTER SEPTEMBER 2019



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2019-2020 CALENDAR OF EVENTS

10-29/31-19	MTAC Stakeholders & Focus Meeting	Washington DC
11-14-19	Pacific Area AIM Meeting	San Diego CA
11-19-19	Cap Metro Area AIM Meeting	Baltimore MD
02-06-20	Eastern Area AIM Meeting	Nashville TN
04-2/296-20	National Postal Forum	Orlando FL

Red Tag appreciates the support of its associate members: Crain Communications, Fry Communications, Imex Global Solutions, and LSC Communications.

LOSSES CONTINUE TO GROW FOR THE LAST QUARTER – CONSOLIDATION ISSUES – CVS COMES THROUGH – FEDEX HEAVIES – THE HEAT IS ON – BUDGET SHUTDOWN FEARS – RURAL CARRIER AGREEMENT - MAIL AND CHINA TARIFF ISSUES

Quarter 3 - Losses Continue To Mount

The Postal Service posted its finances for Quarter 3 of FY2019 on August 9. Posted losses are mounting with a reported loss of \$2.3 billion compared to FY2018 when the losses reported were \$1.5 billion.

Mounting expenses are the culprits in this quarter. Expenses are up by 5.5 percent with an adjustment to Worker's Compensation liability that added \$800 million to the loss column. Overall expenses are up 5.5 percent for the quarter.

With Worker's Compensation and other benefits rising by 6.6 percent for the quarter and transportation increasing 6.2 percent, the total losses overwhelmed a largely flat increase in incoming revenue compared to the previous year during the same period. Personnel and Compensation & benefits rose to \$46.5 billion causing the 6.6 percent increase over SPLY while transportation rose to \$6.3 billion over SPLY for that 6.2 percent increase. Supplies and Services at \$2.1 billion decreased by 3.6 percent over SPLY.

A warning flare went up when for the first time when Market Dominant package services dropped by nearly 16.5 million pieces and the increase in postage was primarily from postage rate increases. The same can be said for Package Service under Competitive Products with a volume increase of 66.3 million pieces and a

revenue increase of just \$1.2 billion.. These two categories were showing double-digit increase prior to the last rate case. The effect of the increased Saturday and Sunday delivery by both UPS and FedEx have not been measured in an accounting period or in a quarter yet. That has the potential to reduce volume even ore that this quarter's report.

International mail, even though not a major piece of the revenue stream, also showed a volume loss of 11.6 percent and a revenue loss of near 6.5 percent. The loss of the USPS membership in the International Postal Union beginning in Quarter 1 for 2020 will make this an even bigger issue.

The Postal Service said that they continue to see imbalances in the current business model that need to be fixed through regulatory and legislative changes.

Postmaster General Megan Brennan said the, "We continue to face imbalances in our business model that must be fixed by regulatory and legislative change. As we work to effectuate that change, we continue to our ongoing aggressive management actions, and remain focused on delivering for the American public, and meeting their evolving business and residential needs." She went on to say, "We are actively adapting to

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changes throughout the mailing and shipping landscape, providing customers with new solutions that add to their investment, improve the service we provide, and drive internal efficiencies.” PMG Brennan added that the largely fixed and mandated costs of the Postal Service continue to rise at a faster rate than the revenues generated within a constrained business model, which is ill suited to ensure the long-term sustainability of the Postal Service.

The monthly and quarterly fiscal results continue to demonstrate the need for comprehensive postal reform. However, the current political climate and the backlog of legislation almost guarantee that no action will be taken in 2019. If we remain optimistic, 2020 may yield some much needed good news, but it remains to be seen.

Restrictions On Consolidation Urged

Arizona is being heard from on the closing and consolidation front of postal facilities to cut costs. Both Senator Sinema (D-AZ) and Senator McSally (R-AZ) along with seven of Arizona’s members of the House are arguing against more closures and/or consolidation.

According to their joint letter, the Tucson area has suffered delays in deliveries and other services since the partial consolidation of the Tucson Mail Processing Center. This is affecting services in the whole southern half of Arizona.

The bipartisan group is asking that the legislators look at the impact on service and how it can be remedied before adding

more closures or reductions to sites in Arizona. Additionally, they are asking that this kind of examination for service changes be made a part of any postal legislation being considered now and in the future.

CVS Prescription For USPS

With everything that is happening, the Postal Service enjoys hearing some good news ... any good news!

CVS Pharmacy, the retail division of CVS Health announced late in August that they are introducing a new program called CarePass at CVS stores and on line that offers services to customers. When customers join its loyalty program and pay a small additional fee, they will among other things get free delivery of eligible prescriptions through the mail.

The program costs \$5 per month on a month-to-month basis or \$48 for an annual membership fee. This gives customers the opportunity to have their prescriptions delivered when time is tight or when there is inclement weather or you are simply housebound as a recipient recovering from or maintaining an ongoing medicine regime.

At a time when Amazon seems to be thinning out packages sent through USPS in response to initiating their own delivery services, this additional First-Class and Priority Mail revenue can’t hurt.

Heavy Deliveries

FedEx is expanding a program to deliver heavy items from the FedEx Freight Direct arm of their company directly to consumers at home and to businesses.

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A spokesperson stated they would be moving heavier and bulkier items directly to homes and businesses. This program is being extended into 11 states.

The program was being piloted in five states earlier this year and it appears that the reaction by customers is enough for them to more than double the locations for delivery.

Weather Woes Extend To UPS

Earlier this year we posted an article on how the summer heat was impacting USPS carriers using older vehicles without air conditioning. It appears that UPS shares those same woes.

July 2019 was the hottest summer month on record in the United States and around the world. UPS has apparently been the recipient of some serious heat-related issues.

Sixteen employees have reported suffering heat related illnesses this summer which range from heat exhaustion and fainting to convulsions and kidney failure. To make things even more difficult, the workload has increased as well as the temperatures.

NBC News, which ran an investigative story, said that more than 100 UPS employees were hospitalized between 2015 and 2018 with serious heat related illnesses. This is more than any other company with the exception of the Postal Service.

UPS has nearly 400,000 employees, of which 74,000 are drivers. They do not air-condition their brown delivery trucks, nor most of their warehouses and processing facilities.

Something needs to be done to protect employees' health. There isn't much you can do about the weather but there is a

remedy in air-conditioned vehicles and better cooled facilities.

Stories about the 150 degree temperatures inside the trucks measured inside UPS trucks, and of carriers frying steaks on the dashboards of their delivery vehicles may be novel but they cry out for better safety standards.

October Budget Shutdown Looms Again

We didn't think this could happen again but it now depends on some tricky maneuvering by Congress. While the Postal Service is only minimally impacted by its semi-independent status, all other agencies are caught in this, not to mention the general public.

The President signed a budget deal into law during the summer but the new budget does not become effective until the beginning of the new fiscal year in October. Apparently lawmakers still have to work out line-by-line appropriations to get monies allocated to the agencies. It appears that while the House of Representatives has approved most of the spending bills but they haven't been reconciled with the Senate. The Senate has not approved any appropriation bills yet.

The Upper Chamber has delayed all approvals until top-line appropriations have been worked out. This delay apparently did not delay the five-week summer recess taken by Congress. The Congress now has until the end of September to work this out after returning this week after Labor Day.

To be safe that there will not be a shutdown of government services at the end of September, lawmakers are in the

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of preparing and approving a short-term continuing spending resolution to be safe.

The Postal Service will continue to function during any delay from a shutdown in the worst case scenario but interactions with other agencies will be in limbo pending either the short-term resolution or final House and Senate action.

Rural Carriers Ratify Agreement

The National Rural Letter Carriers Association membership has ratified a new three-year contract preventing any concerns with deliveries to rural areas. The contract covers 131,000 Rural Carriers.

Highlights of the agreement include:

- Annual General Wage Increases
- A reduction in the share of health benefits paid by employer (USPS)
- Additional operational flexibility to use rural carrier associates (part-timers)
- Enhanced health benefits for those part-time associates

Additionally, this agreement includes a comprehensive memo of understanding relative to the implementation of a rural carrier standards study.

Rural Carriers are a separate part of the letter carrier group representing areas that can include longer routes and private vehicles and/or drive-out agreements for employees. Uniform

Requirements are also different. Needless to say, rural areas can and do include many sparsely populated parts of the country where carriers may also pick up mail and sell postage related products.

Presidential Decree? ... Or Recommendation

The President responded to China's announced tariffs on \$75 billion of American goods and automobiles by demanding that FedEx, UPS, Amazon, and the Postal Service "immediately start looking for an alternative to China," Additionally there was a demand for these same delivery firms and Amazon to search their shipments to prevent fentanyl from entering the United States.

This is effective immediately. Some of the Chinese tariffs will go into effect September 1 and the rest on December 15.

Historically, and traditionally, no one is certain on how this will happen. The message was delivered on Twitter. The situation with the tariffs remains fluid as to whether or not they will be imposed and in any case, and the Postal Service is already in the process of searching out, locating and confiscating illegal fentanyl shipments.

Additionally, the Postal Service will cease its membership with the Universal Postal Union beginning October 1 and will need to address the manner of all foreign mail handling and what rates and regulations will be affected. The tariff issues have had a history of being declared and then held back so that remains to be seen as well.

Domestic Mail – What To Know – DMM 207.5 – CSR-211 Pending Periodicals Privileges

WHY IS THIS A CONCERN FOR PERIODICALS?

On a number of occasions, new applicants for the Periodicals Class of mail hesitate because they don't understand how the Pending Periodicals mailing standards is intended for their use and possibly causing delay of an application waiting to become an approved and authorized Periodicals publication.

IS A PERIODICALS PENDING PUBLICATION ENTITLED TO PERIODICALS RATES FOR MAILINGS BEFORE FINAL APPROVAL?

Applications for Periodicals publications may be filed before the publication meets all of the qualifications for approval. A pending publication is one that has yet to be approved. When postage is paid, money is deposited into a Periodicals Pending Account in an amount equal to the cost of mailing at the higher Marketing Mail rates or, in some instances, at the Bound Printed Matter rates if the publication weighs 16 ounces or more. Applications are made on PS Form 3500 and there is a new launch option that will be discussed in the next issue to help.

Postage is calculated at both the Periodicals and the other rates as appropriate. If and when the publication is approved for Periodicals rates, the difference between the higher postage and Periodicals is refunded to the customer. This refund may be directly applied to future Periodicals mailings.

THEN WHY GET THE PENDING STATUS IF I STILL PAY HIGHER POSTAGE?

Because the publication will get a refund, retroactive to the date of filing for pending status, and because, even while paying higher postage, it is entitled to be prepared and mailed as if it were an approved publication, accelerating delivery times and accustoming the customer to the presort piece and pound methods used for Periodicals Mail.

THE FOLLOWING IS WHAT APPLIES TO A PERIODICALS PUBLICATION IN PENDING STATUS:

- Pending publications must receive preferential treatment for Periodicals in processing and delivery.
- Pending publications fall under the same forwarding, return and address correction methods (in DMM 507.1.5.2) as Periodicals publications
- They may contain properly prepared loose enclosures including those eligible for the Ride Along price.
- They may be prepared in editions, or with parts and sections, or with supplements under DMM standards
- Combined mailings may be made up of authorized and/or pending publications

They are ready in advance for transition into the Periodicals mail preferential system.

From The Desk of Eddie Mayhew – Change is in the Air

It's the end of summer and soon leaves will fall, a chill will be in the air and the holiday season will be just around the corner, not to mention that school is open again. This is also a time of change for the Postal Service and the mailing business.

Mailers will be rapidly gearing up for the fall mailing season followed closely by Thanksgiving and Christmas. Orders will be made, gifts will be sent, cards will be exchanged and hopefully business will be good for USPS and for the mailers.

New this year are a few unknowns thrown into the fall holiday mix.

As of October 1, barring last minute changes, the Postal Service will end its relationship with the Universal Postal Union. This will throw certain classes of mail and their respective costs of mailing into disarray without the guidelines in the International Mail Manual remaining in place. Postage costs could skyrocket and how mail will be classified has not been determined.

The primary impact will be on any mail that can't be considered competitive by definition. That means that mail like ISAL (International Surface Air Lift) is in jeopardy and publishers should not use that product. There are many questions about how First-class letter mail will be handled, in addition to absentee ballots from soldiers, sailors and diplomatic and embassy members.

Another monkey wrench, is a ruling by a Federal Circuit Court judge invalidating the five-cent increase for First-Class Mail that went into effect on January 27 2019. While this determination will likely be appealed, it leaves the rate structure unsteady to say the least and in serious jeopardy at the worst.

The cries for privatization won't go away even though it is clearly impractical for the Postal Service because of the potential impact for timely and universal mail delivery.

Postal Reform remains low on priority with all of the disarray in Congress as the days tick down for 2019.

And the monetary losses for the Postal Service continue to mount.

This is going to be a rough patch to ride out for most of us all we they look for answers going forward into 2020.

Another fiscal year ends with uncertainty and a need to find some stability.