NEWS MEDIA ALLIANCE

Via Email to: stakeholderinput@prc.gov

July 29, 2022

Postal Regulatory Commission
901 New York Avenue, N.W.
Suite 200
Washington, D.C. 20268

Re: Commission Study on Market-Dominant Rate Increases

The News/Media Alliance ("N/MA") appreciates the opportunity to provide input on the issues identified by the House of Representatives' Joint Explanatory Statement accompanying the Consolidated Appropriations Act of 2022 regarding the Commission's market-dominant price increases.[1]

The Postal Regulatory Commission failed to account for the impact of the COVID-19 pandemic on the Postal Service's financial condition during the ten-year rate system review. That failure, and the PRC's subsequent order authorizing substantially above-CPI rate authority for USPS, has had an enormous effect on newspaper and magazine publishers who rely on USPS to reach Americans. So much so, that we joined with the National Newspaper Association in submitting separate comments explaining how harmful these price increases have been to the news and magazine industry.[2] Our current comments address the Committee's concern that the PRC ignored financial tailwinds such as higher package revenues and Congressional funding to the USPS during the PAEA rate review.

About N/MA & Summary of Input

N/MA is comprised of two legacy organizations that have long been active participants in Postal Regulatory Commission proceedings and whose members are loyal postal customers: NMA – the News Media Alliance and MPA - the Association of Magazine Media. These entities merged on July 1, 2022, forming the leading voice for the news and magazine media industries that collectively generate more than $40 billion in annual revenue.

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[1] "PRC Invites Stakeholder Consultation Regarding Study on USPS Rate Increases" (May 26, 2022), *available at* https://www.prc.gov/sites/default/files/Stakeholder%20input%20for%20appropriations%20act%20study.pdf (citing House H. Rep. No. 117-79 at 100 (Jul. 1, 2021).

[2] *See* Comments of the National Newspaper Association and the News/Media Alliance (July 27, 2022).

N/MA members represent many of the biggest and most renowned brands in the news publishing and magazine industries. Our members rely on the Postal Service to deliver valuable, compelling original journalism and educational, cultural, scientific, and informational periodicals to consumers. Our members also often rely on USPS Marketing Mail to help with promotions and/or deliver advertising on behalf of local businesses.

Like the House Appropriations Committee, N/MA has concerns about "the size and timing of the rate increase and that the PAEA process did not account for the impact of the pandemic, including factors such as higher package revenues and emergency funding provided to the USPS." We commend the Committee for directing the Commission to study these factors and to report the Commission's findings to the Committee. Congressional oversight such as this is important, as there has to date been insufficient scrutiny of the large rate increases the Postal Service has imposed on its captive customers under the Commission's revised rate regulations. While the Postal Service's Office of Inspector General recently found that the *Postal Service* complied with its contractual obligations under the CARES Act agreement with the U.S. Treasury Department,[3] the OIG audit did not address whether the *Commission* properly accounted for the CARES Act funding (nor for the significant financial tailwinds generated by package sales) when authorizing significant above-inflation rate increases during the PAEA docket. We believe that the Commission failed to do so, and that the Committee should be apprised of that failure.

The PRC's Density Authority Is Improper, Has Led to Exorbitant Rate Increases, and is Unnecessary Given USPS's Financial Performance

The new ratemaking regulations that the Commission adopted under the 10-year review did not properly account for the impact of the pandemic, particularly the beneficial effect of higher package revenues and $10 billion in emergency funding provided to the USPS. Rather, the Postal Service was compensated with tens of billions of dollars (present value) from ratepayers through the Commission's ill-designed density rate authority formula and $10 billion by taxpayers for an event that had no material effect on its finances.

While the House Report identifies the approximately 7-percent rate increase on market-dominant mail from August 2021 as a specific cause for concern (and we agree that it is), that rate increase paid by the Periodicals mailers was actually higher - approximately *9 percent* – due to the Postal Service's imposition of an optional two percent surcharge on Periodicals mail. This

[3] "Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding" (July 7, 2022), USPS OIG Report No. 21-234-R22, *available at* https://www.uspsoig.gov/sites/default/files/document-library-files/2022/21-234-R22.pdf.

exorbitant rate increase on Periodicals was composed of the following rate authorities (the latter three which were based upon the Commission's FY 2020 ACD):

- CPI-U: 1.244%
- Density: 4.500%
- Retirement: 1.062%
- Non-Compensatory: 2.000%[4]

The general purpose of the density authority is to compensate the Postal Service for the negative effect of volume changes on USPS finances. This 4.5 percent increase, which represents the majority of the August 2021 rate increase, granted the Postal Service an additional $1.8 billion in revenue authority.[5] Furthermore, because subsequent rate increases will be applied to the resulting rates, this unjustified rate authority will remain in the rate base for market-dominant products in perpetuity, resulting in an annuity for the Postal Service at the expense of mailers with a present value of approximately $57 billion.[6]

However, as the pandemic showed and we have explained in numerous previous filings,[7] the density authority calculation methodology is fatally flawed. Treating all volume changes uniformly on a per-piece basis, when the unit contribution of competitive products is much higher (and contribution variance exists among market-dominant products as well), is poor regulatory policy and unsupportable. Clearly the impact of each piece of Priority Mail, carrying with it an average of $9.14 in revenue and $2.57 in contribution in FY 2020, on USPS finances is

[4] Docket No. R2021-2, United States Postal Service Notice of Market-Dominant Price Change (May 28, 2021) at p. 4, Table 3.
[5] Calculated by multiplying the "Before Postage" at the mail class level by 4.5% in each of the PRC-filed library references in Docket No. RM2021-2: PRC-LR-R2021-2/1, PRC-LR-R2021-2/2, PRC-LR-R2021-2/3, PRC-LR-R2021-2/4, and PRC-LR-R2021-2/5.
[6] Calculated by dividing the $1.8 billion in revenue authority by 3.2%, the discount rate used by USPS for the Retiree Health Benefits liability (*see* 2021 Report on Form 10-K, United States Postal Service, p. 40). This calculation is the method for calculating a present value of a perpetuity from Perpetuity Definition (investopedia.com).
[7] *See* Docket No. RM2017-3, Supplemental Comments of the National Postal Policy Council, the American Bankers Association, the American Catalog Mailers Association, the American Forest & Paper Association, the Association for Mail Electronic Enhancement, the Association for Postal Commerce, the Association for Print Technologies, the Envelope Manufacturers Association, the Greeting Card Association, the Major Mailers Association, the National Retail Federation, MPA – the Association of Magazine Media, the National Association of Presort Mailers, the News Media Alliance, the National Newspaper Association, the Parcel Shippers Association, Printing United Alliance, and the Saturation Mailers Coalition (July 6, 2020) pp. 6-14.

much higher than each piece of USPS Marketing Mail, carrying with it only 21.7 cents of revenue and 4.9 cents of contribution.[8]

Looking only at volume (as the density authority calculation does), one would have predicted the Postal Service's financial performance to have cratered in FY 2020, but it didn't because the revenue and associated contribution increases from package volumes more than offset that from declines in mail volume.

Table 1—FY 2019 v. FY 2020

	Volume Change (billions)		Revenue Change (billions)	
	Pieces	**Percent**	**Dollars**	**Percent**
Market Dominant Products	-14.8	-10.8%	-$4.0	-8.7%
Competitive Products	1.5	25.7%	$6.4	26.5%
Total	**-13.4**	**-9.4%**	**$1.9**	**2.7%**

Source: Public CRA Reports

In actuality, the revenue increases generated from higher package volume more than offset the negative effect on the Postal Service of volume declines in much lower-contribution USPS Marketing Mail, as shown in Table 2. From FY 2019 to FY 2020, USPS revenue increased by 2.7 percent, more than inflation (1.4 percent[9]) during the same time period.

Table 2—Change in Volume & Revenue

	FY 2019 to FY 2020 Change (billions)		FY 2020 Unit	
	Volume	**Revenue**	**Revenue**	**Contribution**
First-Class Mail	-2.7	-$1.1	$0.456	$0.226
USPS Marketing Mail	-11.5	-$2.4	$0.217	$0.049
Competitive	1.5	$6.4	$4.293	$1.569

Source: Public CRA Reports

This resulted in FY 2020 actual net income being quite comparable to the USPS plan and not much different than FY 2019 actual results, as shown in Table 3. This was not brought about by improved postal efficiency as total factor productivity (TFP) declined by one percent in FY 2020.[10]

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[8] Docket No. ACR2020, USPS-FY20-1, Public_FY20CRAReport.Rev.2.22.21.xlsx, "Cost3" and "Cost1", respectively.

[9] Data.bls.gov, Series Id: CUUR0000SA0.

[10] FY 2020 Annual Report to Congress, United States Postal Service, p. 53.

Table 3—FY 2019 Actual, FY 2020 Plan, & FY 2020 Actual USPS Financial Results

(in billions)	FY 2019 Actual	FY 2020	
		Plan	Actual
Revenue	$71.2	$71.7	$73.1
Cost*	$77.7	$79.2	$80.6
Net Income*	-$6.7	-$7.6	-$7.6

Source: USPS Preliminary Financial Information, Unaudited
* Figures adjusted to exclude non-cash workers' compensation

The favorable trend continued in FY2021. The Commission recently noted that the Postal Service's total revenue in FY2021 "was $77.1 billion, which was $6.2 billion more than planned." The Postal Service attributes this improving financial performance to "better-than-expected mail volumes and a continued surge in package volumes."[11]

The PRC Failed To Account For the COVID Pandemic in its Regulatory Analysis

According to the Postal Service, "[t]he COVID-19 pandemic continued to impact the Postal Service's financial health in FY 2021[,]" leading to "significant increases in customer demand for package delivery services…."[12] In contrast, within the confines of the PAEA ten-year review, the Commission ignored COVID's impact on the Postal Service's financial condition, finding that "nothing specific to the pandemic undermines the findings the Commission made [regarding the USPS's financial condition] in Order No. 4257."[13] The Committee's concern that the Commission neglected to account for COVID's positive effect on the Postal Service's finances when promulgating new rate rules is well-founded.

The Committee is also correct in its concern that the Commission made no adjustment to the density or any other rate authority to account for the $10 billion in emergency funding provided by the CARES Act. Indeed, the Commission explicitly disclaimed any relevance between Congress' largesse and the Commission's ten-year review analysis.[14] This was clearly inappropriate: any analysis of the Postal Service's financial stability must have accounted for Congressionally administered funds designed to shore up USPS's financial condition.

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[11] "Analysis of the Postal Service's FY 2021 Annual Performance Report and FY 2022 Performance Plan," (June 30, 2022) at 108 (citing USPS FY 2021 Annual Report at 47-48).
[12] *Id.* (citing USPS FY 2021 Annual Report at 46).
[13] *See* Order No. 5763, Docket No. RM2017-3 (Nov. 30, 2020) at 26.
[14] *See id.* at 29 ("the increase in borrowing authority made available to the Postal Service in the CARES Act does not impact the Commission's analysis."). Shortly after the Commission issued its final regulations in November 2020, Congress passed additional legislation negating the Commission's obligation to repay the $10 billion, transforming the money from a loan to a capital contribution.

To more meaningfully participate in the 10-year review proceeding, and to learn more about whether the Commission's authorization of above-CPI price increases properly accounted for the impact of the COVID-19 pandemic (including Congress' provision of $10 billion in funding to the Postal Service), the-then MPA requested that the Commission issue an information request to USPS on this topic. However, the Commission denied the motion and explained in perfunctory fashion that it "does not intend to issue any information requests or other discovery during the consultation period."

Impact of Postal Rate Increases

The Commission's failure to properly account for higher package revenues and Congress' $10 billion grant not only blemishes the ten-year review process; it also has resulted in real-world negative consequences for business mailers and American consumers. This is because the authorization of above-inflation price increases driven by density declines, as well as an additional two-percent surcharge levied on Periodicals, has resulted in our members facing enormous postage rate increases both in August 2021 and July 2022. Because they are now embedded in the rates, these increases will be compounded by future increases. And the Postal Service has clearly indicated that it expects to continue to use all of its available authority in the future, making the damage even worse.

Just since the beginning of 2021, the Postal Service has raised Periodicals and USPS Marketing Mail prices by 19.8 percent and 15.5 percent, respectively, and will likely raise them by another ten percent or more next year. These rate increases have magnified pressure on news and magazine publishers in both their editorial and advertising products. In some cases, our members have been forced to mitigate the impact of these postage rate increases by shuttering titles, reducing circulation frequency, reducing staff, and lowering paper quality. In addition, they have had to pass on rate increases to consumers and to business partners such as advertisers. Those attempts have met with resistance, as both advertisers and consumers face pricing constraints as well.

Overall, Periodicals volumes have declined by 27 percent from 2019 pre-pandemic levels due to exorbitant price increases under the new ratemaking regulations, which has in turn hurt our members, other businesses, and the general public significantly. The increases have also dramatically raised the cost of advertising mail, hurting members who use it to serve local business customers and those businesses themselves. Since N/MA publications are sought by their recipients and thus contribute to the "mailbox moment" – supporting the appeal of the mail

– the long-term consequence will be to diminish the importance of the Postal Service to the public.

CONCLUSION

N/MA's input on the issues raised by the House Report is that: (1) the size and frequency of market-dominant (particularly for N/MA Periodicals and Marketing mail) rate increases under the new ratemaking regulations are exorbitant and are hurting mailers, readers, and advertisers, as well as the national interest in the dissemination of information; and (2) we believe that the Commission did not properly account for the COVID-19 pandemic's impact on the Postal Service's financial condition as part of its ten-year review analysis.

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