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Reforming the U.S. Postal Service: Background and Issues for Congress

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Summary

This report provides background information on the financial condition of the U.S. Postal Service (USPS). It provides information on mail revenue, volume, and service performance. Additionally, it covers select postal reform legislation introduced in Congress intended to address the USPS's financial and structural challenges.

In FY2021, the USPS marked its 15th consecutive year of financial losses with a net loss of $4.9 billion. This was an improvement over its FY2020 net loss of $9.2 billion. From FY2020 to FY2021, USPS total revenue from the sale of postal products and services increased 5.3%, from $73.2 billion to $77.1 billion. In addition, USPS received $10 billion in funding from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act, P.L. 116-136). This was originally provided as borrowing authority, but pursuant to the Consolidated Appropriations Act, 2021 (P.L. 116-260), the funds do not need to be repaid.

In FY2021, USPS experienced growth in the package and shipping part of its business (known as Competitive Products), while volume and revenue of many of its Market Dominant Products (e.g., First Class single-piece mail) declined. As of September 30, 2021, the USPS holds $11 billion in debt, which is $4 billion under its statutory debt limit of $15 billion.

Between FY2007 and FY2016, the USPS struggled to fulfill its 10-year statutory obligation to prefund health benefit liabilities for future postal retirees according to the schedule established by the Postal Accountability and Enhancement Act. Since FY2007, the USPS has made $20.9 billion in contributions into the fund, including $17.9 billion in prefunding payments and a transfer of $2.958 billion into the fund from an existing escrow account. However, USPS defaulted on $33.9 billion of the prefunding payments. Since the prefunding payment schedule ended in FY2016, the USPS has made no further payments to liquidate its remaining unfunded liability. The USPS has requested reforms, such as those included in H.R. 3076, the Postal Service Reform Act of 2022 (passed by the House, February 8, 2022), which would integrate postal retiree healthcare options with Medicare, thereby reducing costs.

Additional postal initiatives and reform options discussed in this report include (1) changes to postal delivery standards, (2) consolidation of mail processing facilities, (3) reduction of hours at retail post offices, (4) changes to postal delivery schedules, (5) procurement of a new postal fleet, and (6) expansion of nonpostal products and services.

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Overview

Prior to enactment of the Postal Reorganization Act of 1970 (PRA),[1] mail delivery in the United States was the responsibility of the U.S. Post Office Department, a Cabinet-level department in the executive branch funded through annual appropriations.[2] The PRA established the USPS as an independent agency of the executive branch, self-funded by revenue from the sale of postal products and services. PRA reform efforts were driven largely by the view that the Post Office Department was ill-equipped to meet the demands of the growing U.S. population and the changing economy.[3] Mail volume had risen sharply and the Post Office Department lacked the institutional flexibility to respond quickly to market changes.[4]

In recent years, the U.S. Postal Service (USPS or Postal Service) has experienced sharp declines in total mail volume, due almost entirely to reductions in First-Class and Marketing Mail volume. Between 2008 and 2020, total mail volume decreased from 202.7 billion to 129.2 billion pieces, or a drop of 73.5 billion pieces.[5] During the same period, however, shipping and package volume more than doubled, from 3.3 billion pieces in 2008 to 7.3 billion pieces in 2020.[6] While package mail represents a small portion of total mail volumes, it requires larger facilities, specialized equipment, and more manual work compared to the largely automated process of sorting letter mail. Market changes and global economic conditions have contributed to the Postal Service's financial challenges and affected its efforts to control expenses, expand revenue, and manage operational issues.[7]

Governance and Oversight of the U.S. Postal Service

Postal Board of Governors

USPS is under the direction of the Board of Governors of the U.S. Postal Service (hereinafter, the Board), which USPS describes as "comparable to a board of directors of a private corporation."[8] Created by the PRA in 1970, the Board consists of the Postmaster General, the Deputy Postmaster General, and nine Governors, appointed by the President with the advice and consent of the Senate.[9]

Under the Postal Accountability and Enhancement Act of 2006 (PAEA), Governors serve seven-year terms.[10] When their term expires, a Governor may continue to serve during a "holdover"

[1] P.L. 91-375.

[2] Post Office Act of 1872 (17 Stat. 283).

[3] U.S. Postal Service, *The United States Postal Service: An American History 1775-2006*, November 2012, pp. 38-39, at http://about.usps.com/publications/pub100.pdf.

[4] Ibid.

[5] U.S. Postal Service, "A Decade of Facts and Figures," at https://facts.usps.com/table-facts.

[6] Ibid.

[7] See "Impact of the Great Recession on the Postal Service," within U.S. Postal Regulatory Commission, *Rate Adjustment Due to Extraordinary or Exceptional Circumstances: Order Granting Exigent Price Increase*, Docket R2013-11, December 24, 2013, pp. 39-45, at http://www.prc.gov/docs/88/88645/Order_1926.pdf.

[8] USPS, *About the Board of Governors*, at https://about.usps.com/who/leadership/board-governors.

[9] P.L. 91-375, §202.

[10] P.L. 109-435; 39 U.S.C. §202(b).

year until a successor is appointed.[11] A Governor appointed to fill a vacancy before the term expires will serve for the remainder of their predecessor's term. No person may serve for more than two terms as Governor.[12] The Governors appoint, and may remove, the Postmaster General.[13] Under postal regulations, appointment or removal of the Postmaster General requires "a favorable vote of an absolute majority of the Governors in office."[14] The Deputy Postmaster General is appointed, or may be removed, by vote of the Governors and the Postmaster General.[15]

The Board is responsible for setting the long-term plan of the Postal Service, including approval of official statements on policy and official positions on legislative proposals. The Board approves the annual financial plan, operating plan, and capital plan. Authorization from the Board is generally required before USPS may pursue certain changes to service standards.[16] Select responsibilities and authorities are exercised by the Governors rather than by the Board as a whole. For example, the Governors establish rates and classes of competitive products and appoint the USPS Inspector General.[17]

Executive Leadership Team

An executive leadership team, headed by the Postmaster General who serves as the Chief Executive Officer, manages the day-to-day operations of the Postal Service.[18] The executive leadership team includes the Deputy Postmaster General, who serves as Chief Human Resources Officer, the USPS General Counsel, and the Senior Vice President of Finance and Strategy. The team also includes Chief Technology, Financial, and Information Officers and Executive Vice Presidents of Commerce and Business Solutions, Retail and Delivery, Logistics and Processing Operations, and Marketing. With the exception of the Deputy Postmaster General, executive officers are appointed by the Postmaster General.

U.S. Postal Service Office of Inspector General

The U.S. Postal Service Office of Inspector General (USPSOIG) conducts audits and investigations of postal programs and operations. The USPSOIG is responsible for "detecting and preventing" waste and fraud within the Postal Service.[19] Pursuant to the Inspector General Act of 1978 (5 USC App), the USPSOIG publishes its report recommendations on its website.[20] In addition, the USPSOIG investigates alleged misconduct and violations of postal law by postal employees.[21]

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[11] Ibid.

[12] Ibid.

[13] Ibid., §202(c).

[14] 39 C.F.R. §6.6(a)

[15] Ibid., §202(d).

[16] 39 C.F.R. §3.3.

[17] 39 C.F.R. §3.4.

[18] USPS, *Executive Leadership Team*, at https://about.usps.com/who/leadership/pmg-exec-leadership-team.htm; 39 C.F.R. §1.1.

[19] 39 C.F.R. §230.1.

[20] USPSOIG, *Audit Recommendations*, at https://www.uspsoig.gov/audit-recommendations.

[21] USPSOIG law enforcement officers investigate alleged violations of postal law by postal employees. The Postal Inspection Service investigates alleged violations of postal law by persons other than postal employees. Postal Inspectors and USPSOIG Special Agents are federal law enforcement officers, with the authority to serve warrants and

Postal Regulatory Commission

The Postal Regulatory Commission (PRC) is an independent regulatory commission responsible for oversight of the Postal Service and postal operations.[22] Amongst its other responsibilities, the PRC reviews postal operations to determine whether the USPS is meeting its service standards and other statutory requirements.[23] Before implementing operational changes that will have a substantial or nationwide impact on postal service, the USPS must request an Advisory Opinion from the PRC.[24]

The PRC also establishes, and periodically reviews, the regulations that govern how postal rates are set.[25] The PRC examines the Postal Service's annual financial statements, and conducts analysis of USPS operations and expenses to determine if revenue from each postal product and service is sufficient to covers its costs or if rates need to be adjusted.[26] The PRC is composed of five Commissioners, appointed by the President, by and with the advice and consent of the Senate.[27]

Financial Condition of the U.S. Postal Service

The Postal Service faces financial challenges due to a confluence of factors including (1) U.S. and global economic conditions over the past decade, (2) the impact that technological innovations have had on the demand for postal products and services, and (3) statutorily required financial obligations.

The USPS must sell enough postal products to maintain self-sufficiency and meet its statutory requirements. However, the USPS cannot expand its operations beyond the scope of postal products and services and other limited nonpostal products authorized by statute.[28] Statutes also limit the USPS's ability to raise rates on certain postal products. This situation underlies many of the challenges facing the USPS and is also at the core of many of the reform efforts undertaken by the USPS and considered by Congress.

Financial Structure of the U.S. Postal Service

The current financial structure of the USPS was largely established by two statutes: the Postal Reform Act and the Postal Accountability and Enhancement Act. As already noted, the PRA

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subpoenas, carry firearms, and make arrests. 39 C.F.R. §230.4; 39 C.F.R. §233.1.

[22] 39 U.S.C. §501.

[23] For example, see PRC, Annual Compliance Determination, at https://www.prc.gov/prc-reports.

[24] 39 U.S.C. §501.3661(b).

[25] 39 U.S.C. §§3621-3622; 39 U.S.C §3633; 39 U.S.C §3661. Also see PRC, *Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products* (Docket No. RM2017-3), at https://www.prc.gov/dockets/showdocket/RM2017-3; PRC, *Institutional Cost Contribution Requirement for Competitive Products* (Dockets No. RM2022-2 and RM2017-1), at https://www.prc.gov/dockets/showdocket/RM2022-2 and https://www.prc.gov/dockets/showdocket/RM2017-1, respectively.

[26] For example, see PRC, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement FY 2020*.

[27] 39 U.S.C. §502(a).

[28] Under §102 of the Postal Accountability and Enhancement Act of 2006 (PAEA,), the USPS is prohibited from offering most nonpostal products and services. The PAEA allowed the USPS to continue offering 11 groups of "grandfathered" nonpostal products that had been offered prior to enactment of the PAEA. See the section of this report titled "Nonpostal Products and Services" for additional information.

created the USPS, which replaced the U.S. Post Office Department as an independent agency of the executive branch, and made it responsible for generating enough revenue to finance its own operations. Prior to the PRA, the U.S. Post Office Department was a Cabinet-level agency and was not expected to be financially self-sustaining.

Since enactment of the PRA, the USPS has generated nearly all of its funding—about $77 billion in FY2021 according to the USPS's most recent annual financial statement—by charging users of the mail for the costs of the services it provides.[29] Congress provides an annual appropriation—about $55 million in FY2021—to compensate the USPS for providing free mailing privileges to the blind and certain overseas voters.[30] In addition, the annual appropriation compensates the USPS for debt it accumulated in the 1990s while providing postal services at below-cost rates to nonprofit organizations.[31]

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act, P.L. 116-136) in March 2020 provided the USPS with $10 billion to fund operational expenses. This was originally borrowing authority, but pursuant to the Consolidated Appropriations Act, 2021 (P.L. 116-260), the funds do not need to be repaid. According to communications from USPS, the $10 billion in CARES Act funding was spent on FY2021 operating expenses.[32] USPS also received $233 million in appropriated funds under the American Rescue Plan Act (P.L. 117-2) in March 2021 for reimbursement of certain leave costs related to the Coronavirus Disease 2019 (COVID-19) pandemic.[33]

Funds appropriated to the USPS are deposited in the Postal Service Fund, a revolving fund in the Treasury that consists primarily of revenue generated from the sale of postal products and services.[34] The revenue in the Postal Service Fund is used to fund the operations of (1) the Postal Service, which includes the U.S. Postal Inspection Service (USPIS); (2) the U.S. Postal Service Office of Inspector General (USPSOIG); and (3) the Postal Regulatory Commission (PRC).[35]

The USPS's end-of-year financial results for FY2021 marked the 15th consecutive year of losses for the agency. In the years immediately prior to FY2007, the USPS ran modest profits. Between FY2007 and FY2021, the USPS accumulated $92 billion in net financial losses, including a net loss of $4.9 billion in FY2021, a net loss of $9.2 billion in FY2020, and a net loss of $8.8 billion in FY2019.[36]

What Happens When USPS Ends the Year with a Net Loss?

The USPS does not receive additional appropriations (beyond the reimbursement for serving blind and overseas patrons) when it ends a fiscal year with a financial loss. The USPS has access

[29] U.S. Postal Service, *FY2021 Report on Form 10-K*, Washington, DC, 2021, p. 21, at https://about.usps.com/what/financials/10k-reports/fy2021.pdf (hereinafter USPS, *FY2021 10-K).*

[30] P.L. 116-260.

[31] Revenue Forgone Reform Act of 1993 (RFRA; P.L. 103-123, Title VII). For additional information, see CRS Report RS21025, *The Postal Revenue Forgone Appropriation: Overview and Current Issues*, by Michelle D. Christensen.

[32] Electronic communication from USPS, January 4, 2022.

[33] USPS, *FY2021 10-K* p. 30.

[34] 39 U.S.C. §2003.

[35] Ibid. Additional information on the USPIS, USPSOIG, and PRC is available in the section of this report titled "Governance and Oversight of the U.S. Postal Service" and at https://www.uspis.gov; https://www.uspsoig.gov; and https://www.prc.gov, respectively.

[36] USPS, *FY2021 10-K*, pp. 56, 65.

to debt instruments from the U.S. Treasury and has a statutory debt limit of $15 billion, which help it to maintain liquidity and cover operational expenses.[37]

The USPS has statutory authority to borrow a maximum of $3 billion per fiscal year and hold a maximum total debt of $15 billion.[38] At the end of FY2012, the USPS reached its statutory debt limit and USPS's total debt obligations remained at $15 billion from FY2012 to FY2017. As the USPS paid down its existing debt, it accumulated new debt at or close to its statutory maximum.[39] In FY2018, however, USPS began to reduce its outstanding debt balance. At the end of FY2018, USPS's outstanding debt balance was $13.2 billion, $1.8 billion below its debt limit. [40] At the end of FY2019, USPS's total debt balance was $11 billion. According to its FY2019 financial statement, USPS had no plans to pay its debt down further in FY2020.[41]

Since 1974, USPS's debt has been issued through a variety of loan instruments (e.g., fixed and floating rate loans, short term credit lines) issued through the Federal Financing Bank (FFB).[42] On April 3, 2020, the USPS borrowed $3.4 billion on a short-term credit line with FFB, which increased the total debt balance to $14.4 billion. The short-term credit line was repaid by the USPS on April 2, 2021, and as of September 30, 2021, their total debt balance was $11 billion, which is $4 billion under their statutory debt limit.[43] **Table 1** below shows the amount of cash on hand at the beginning and end of the fiscal year, and the total debt at the end of the fiscal year, for FY2010 through FY2020.

[37] 39 U.S.C. §2005(a).

[38] 39 U.S.C. §2005(a). Currently, all of USPS's debt is issued by the Federal Financing Bank, a government corporation under the general supervision of the Secretary of the Treasury that was created by Congress in 1973 (P.L. 93-224).

[39] Federal Financing Bank, U.S. Department of the Treasury, *Financial Statements, September 30, 2015 and 2014 (With Independent Auditors' Reports Thereon),* November 10, 2015, pp. 2-3, at https://ffb.treasury.gov/assets/files/FY2015.pdf. 39 U.S.C. § 2006.

[40] U.S. Postal Service, *FY2018 Report on Form 10-K*, Washington, DC, 2018, p. 43, at https://about.usps.com/what/financials/10k-reports/fy2018.pdf (hereinafter USPS, *FY2018 10-K).*

[41] U.S. Postal Service, *FY2019 Report on Form 10-K*, Washington, DC, 2019, p. 41, at https://about.usps.com/what/financials/10k-reports/fy2019.pdf (hereinafter, USPS *FY2019 10-K).*

[42] USPS, *FY2018 10-K*, pp. 49-50. Also see Federal Financing Bank, U.S. Department of the Treasury, *2015 Annual Report*, November 13, 2015, p. 4, at https://ffb.treasury.gov/assets/files/AnnualReport2015.pdf.

[43] USPS, *FY2021 Q2 10-Q*. pp. 8-9, at https://about.usps.com/what/financials/financial-conditions-results-reports/fy2021-q2.pdf; USPS, *FY2021 Q3 10-Q*, p. 9, at https://about.usps.com/what/financials/financial-conditions-results-reports/fy2021-q3.pdf; and Federal Financing Bank, U.S. Department of the Treasury, *Monthly Activity Report April 2021*, p. 1, at https://ffb.treasury.gov/assets/files/Monthly_Activity_Report_2021_May.pdf.

Table 1. USPS Cash on Hand and Total Debt, FY2010-FY2020

(dollars in billions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Cash Start FY	$4.1	$1.0	$1.3	$2.1	$2.3	$4.9	$6.6	$8.1	$10.5	$10.1	$8.8
Cash End FY	$1.0	$1.3	$2.1	$2.3	$4.9	$6.6	$8.1	$10.5	$10.1	$8.8	$14.4
Total Debt	$12.0	$13.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$13.2	$11.0	$14.0

Sources: U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2020 (revised),* November 4, 2021, p. 39 (Table II-18), at https://www.prc.gov/sites/default/files/reports/FY2020%20Financial%20Report%20%28REVISED%29.pdf; FY2015-FY2019 10-K; USPSOIG, *Measurement of Days of Operating Cash on Hand*, at https://www.uspsoig.gov/sites/default/files/document-library-files/2016/FT-AR-17-001.pdf.

As shown in **Table 2** and **Figure 1**, in FY2019, the USPS had about 41 days[44] of unrestricted operating cash on hand. This was about 10 times the number of days of unrestricted cash on hand at its lowest point in FY2007. The USPS also had about 60 days of liquidity, which is an average daily measure of cash on hand plus available borrowing authority.[45] By FY2021, the days of liquidity had increased to 103.

[44] PRC's estimates of USPS's average days of unrestricted cash on hand differ slightly from USPS's calculations, which are shown here. For example, according to the PRC's calculation, the USPS had 24 days of operating cash in FY2015. See U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2015*, March 29, 2016, p. 33, at http://www.prc.gov/sites/default/files/reports/FY%202015%20Financial%20Analysis%20Report.pdf. The USPS estimate, however, is 25 days, which is based on a slightly lower average operating cost per day ($270 million) than that used by the PRC ($275 million).

[45] USPS defines and calculates average daily liquidity as "unrestricted cash plus available borrowing capacity, divided by estimated average cash disbursements (including capital expenditures) per calendar day (365 days per year)." USPS, *FY2019 10-K*, p. 39.

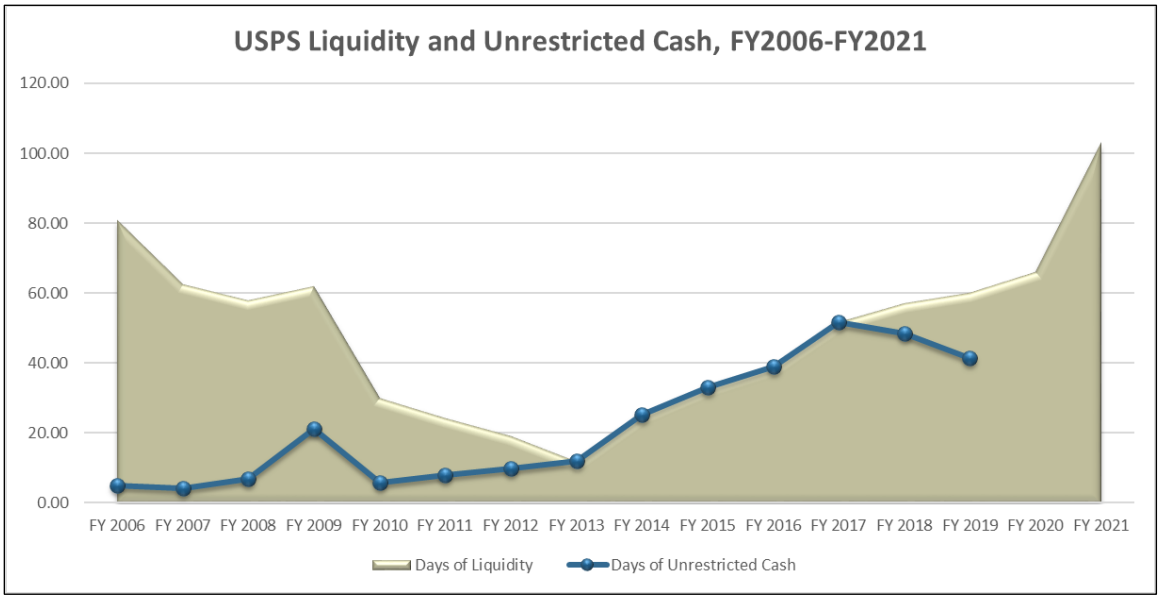
Table 2. USPS Liquidity and Unrestricted Cash, FY2006-FY2021

Fiscal Year	Days of Unrestricted Cash on Hand	Days of Liquidity
FY2006	5.04	80.91
FY2007	4.06	62.36
FY2008	6.79	57.96
FY2009	21.28	61.87
FY2010	5.89	30.22
FY2011	8.05	24.29
FY2012	9.83	19.26
FY2013	11.89	11.89
FY2014	25.18	25.18
FY2015	33.10	33.10
FY2016	39.00	39.00
FY2017	51.63	51.63
FY2018	48.43	57.10
FY2019	41.32	60.12
FY2020	NA	66.00
FY2021	NA	103.00

Sources: U.S. Postal Service10-Ks; electronic communication from USPS December 18, 2019.

Notes: USPS has modified the way it calculates days of liquidity over the years. **Table 2** reflects the USPS's current methodology. When calculating total liquidity, USPS adds unrestricted cash to available borrowing authority ($15B minus outstanding debt), rather than the annually available borrowing authority, which is limited by the annual $3B limitation. For example, on September 30, 2019, USPS assumed total liquidity was $12.8B ($8.8B cash + $4B borrowing authority), even though, under statute, it is restricted to borrowing $3B each year. In reality, on October 1, 2019, USPS would have had access to $11.8B (the same $8.8B of cash + $3B of borrowing authority). For FY2020 and FY2021, the USPS 10-Ks provided approximate days of liquidity.

Figure 1. USPS Liquidity and Unrestricted Cash, FY2006-FY2021



Sources: U.S. Postal Service10-Ks; electronic communication from USPS, December 18, 2019.

Notes: USPS has modified the way it calculates days of liquidity a couple times over the years. **Table 2** reflects the USPS's current methodology. When calculating total liquidity, USPS adds unrestricted cash to available borrowing authority ($15B minus outstanding debt), rather than the annually available borrowing authority, which is limited by the annual $3B limitation. For example, on September 30, 2019, USPS assumed total liquidity was $12.8B ($8.8B cash + $4B borrowing authority), even though, under statute, it is restricted to borrowing $3B each year. In reality, on October 1, 2019, USPS would have had access to $11.8B (the same $8.8B of cash + $3B of borrowing authority).

Postal Revenue, Mail Volume, and Operating Expenses

The PAEA, for the first time, provided a definition of the term *postal service*. Under the PAEA, *postal service* is defined as "the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto."[46] This definition is significant because it prevents the Postal Service from developing new nonpostal products (e.g., expanded banking and financial services) that could compete with private industry.[47]

The PAEA also changed how postal rates are established and divided postal products into two distinct groups: *market dominant products* and *competitive products*.[48]

[46] P.L. 109-435, Title I, §101, 120 Stat. 3199.

[47] See sections of this report titled "Nonpostal Products and Services" and "Postal Banking".

[48] P.L. 109-435. For the full list of current market-dominant and competitive products, see U.S. Postal Regulatory Commission, *Mail Classification Schedule* (with revisions through April 10, 2016), *January 15, 2016*, at http://www.prc.gov/mail-classification-schedule.

Market Dominant and Competitive Products	
Market dominant products are those in which the USPS is considered to have a monopoly over the service, such as first-class and marketing mail. Competitive products, such as shipping and packages services, are those in which the USPS competes with the other companies in the private market (e.g., FedEx, UPS).	
Market Dominant Products include:	**Competitive Products include:**
First-Class Mail	Priority Mail®
Marketing Mail (formerly, Standard Mail)	Priority Mail Express®
Periodicals	Parcel Select®
Post Office Box Services	International Priority Airmail®

Prior to the passage of the PAEA, there was concern that the USPS was using its revenue from market dominant products to subsidize the costs of competitive products. Cross-subsidization could provide an advantage for the USPS in the competitive market by creating artificially low prices that did not include all the costs attributable to those products. The PAEA addressed this issue by forbidding the subsidization of competitive products with market dominant revenue and establishing the Competitive Products Fund (CPF), which receives deposits from the Postal Service Fund for revenue derived from the sale of competitive products.[49]

Postal Revenue

In FY2021, overall revenue from postal products and services was $77.1 billion, which was an increase of nearly $3.8 billion (or 5.2%) from FY2020.[50] The increase was due in large part to revenue from competitive products, though market dominant products had a modest revenue increase of 0.4%. In FY2021, revenue generated from the sale of market dominant products accounted for approximately 55% of USPS's annual operating revenue.[51]

As shown in **Figure 2**, total revenue from market dominant products was $42.68 billion in FY2021, an increase of about $149 million from FY2020. Total revenue from competitive products was about $34.39 billion in FY2021, an increase of $3.7 billion (or 12%) from FY2020.

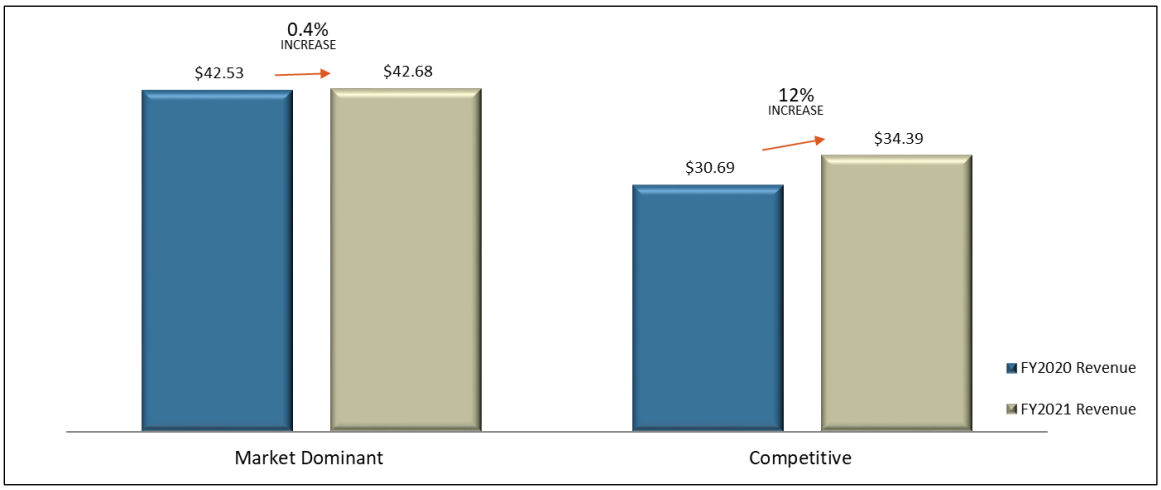
[49] Ibid. Title IV, §401, 120 Stat. 3221. Title IV of the PAEA also mandates that competitive products not only cover the costs that are directly attributable to those products, but also cover a portion of the USPS's institutional costs, which are not attributable to any specific product.

[50] USPS, *FY2021 10-K*.

[51] U.S. Postal Service, *FY2020 Report on Form 10-K*, Washington, DC, 2020, p. 2, at https://about.usps.com/what/financials/10k-reports/fy2020.pdf (hereinafter USPS, *FY2020 10-K)*; USPS, *FY2021 10-K*, p. 5.

Figure 2. USPS Revenue, by Mail Category, FY2020-FY2021

In billions of dollars



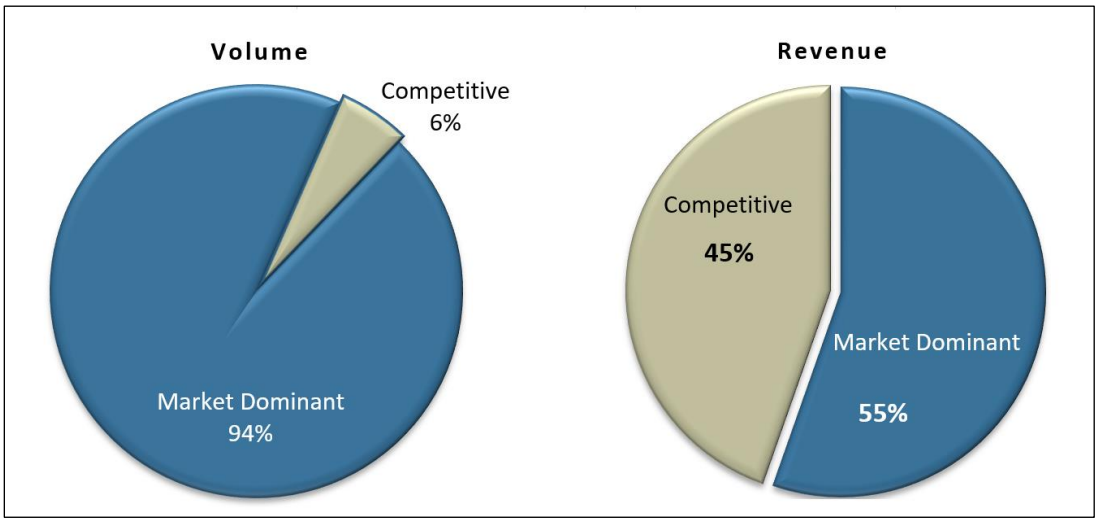
Source: U.S. Postal Service, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2021*, November 12, 2021, https://about.usps.com/what/financials/revenue-pieces-weight-reports/fy2021.csv (hereinafter USPS, *FY2021 RPW*)

Historically, competitive products have constituted a much smaller share of USPS revenue than market dominant products, though that sector's share of revenue has more than tripled in the past 10 years, from 14% of revenue in FY2011 to 45% in FY2021.[52] Competitive products account for a larger proportion of USPS revenue than they do of USPS volume. As shown in **Figure 3** below, in FY2021, competitive products represented approximately 6% of mail volume, but they accounted for approximately 45% of USPS revenue.

[52] In FY2011, market dominant revenue was $56.4 billion (86% of total revenue) and competitive revenue was $9.4 billion (14%). USPS, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2012*, December 03, 2012, at https://about.usps.com/what/financials/revenue-pieces-weight-reports/fy2012.pdf.

Figure 3. USPS Products' Contribution to FY2021 Volume and Revenue

Market Dominant and Competitive



Source: USPS, *FY2021 RPW*.

While market dominant products made up 94% of USPS's FY2021 volume, they generated less revenue per piece ($0.35) than competitive products ($4.73).[53]

As previously explained by the USPS, since competitive products represent a relatively small percentage of total mail volume, growth in shipping and packages might not offset the decline in market dominant products:

> Because Shipping and Packages represents only 20.3% of our 2014 operating revenue, compared to First-Class and Standard Mail [now, Marketing Mail], which represents 67.5% of operating revenue, revenue growth in Shipping and Packages, by itself, cannot fully offset the declines in First-Class Mail. Furthermore, the profit margins on both First-Class Mail and Standard Mail are greater than that of Shipping and Packages. As a result, revenue from Shipping and Packages would have to grow at a substantially higher rate than the decline in First-Class Mail revenue in order to replace the lost profit contribution of First-Class Mail.[54]

The processing and delivery costs for competitive products, such as First-Class Package Service or Priority Mail, are greater than those of most market dominant products. For this reason, USPS's competitive products might be sold at a lower margin than their market dominant counterparts, meaning that a lower percentage of competitive product revenue is retained as profits for the USPS.[55]

Mail Volume

Between FY2019 and FY2020, mail volume for market dominant products dropped by 14.85 billion pieces. There were declines across nearly all market dominant products, with the

[53] Average revenue per piece calculated using data from U.S. Postal Service, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2021*, November 12, 2021, at https://about.usps.com/what/financials/revenue-pieces-weight-reports/fy2021.csv.

[54] U.S. Postal Service, *FY2014 Report on Form 10-K*, Washington, DC, 2014, p. 15, at http://about.usps.com/who-we-are/financials/10k-reports/fy2014.pdf (hereinafter USPS, *FY2014 10-K*).

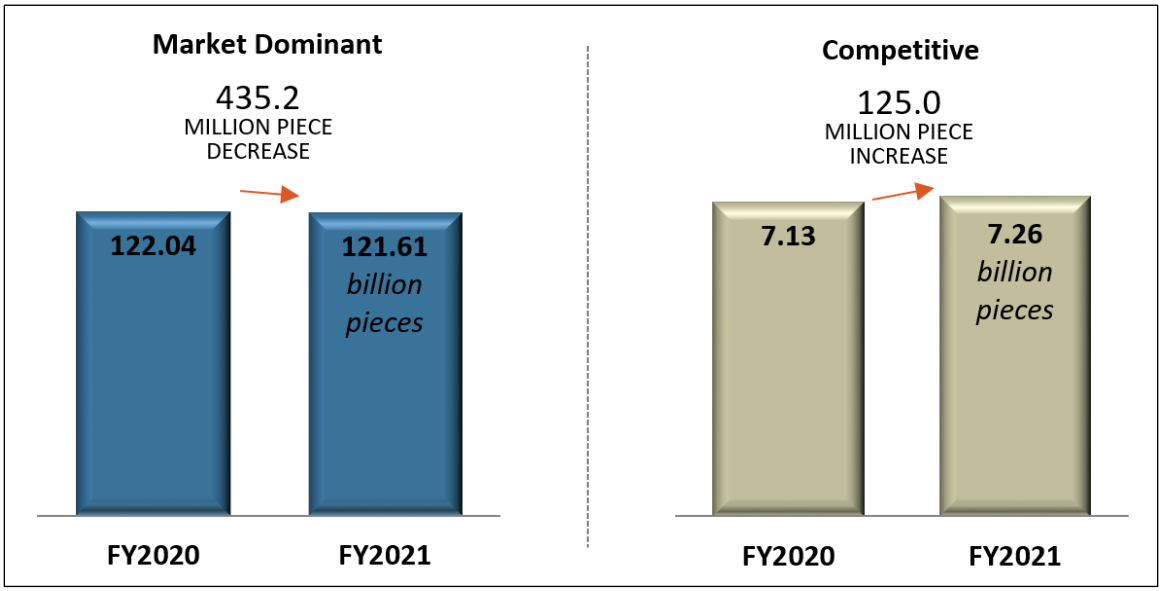
[55] USPS, *FY2014 10-K*, p. 15.

exception of presort cards and select parcel services, such as library and media mail. Market dominant mail volume continued its decline in FY2021, but at a smaller overall rate of 0.4% due to gains in marketing mail volume. Single-piece letters, cards, flats, and periodicals all experienced volume declines ranging from 2.2% to 10.4%.

Competitive products performed better than market dominant products in FY2021, with a total increase of 125 million pieces (or 1.8%). However, this is considerably less than the 26.9% increase in competitive volume between FY2019 to FY2020, which USPS attributed to the surge in e-commerce due to the COVID-19 pandemic.[56] Mail volume gains for competitive products were 10.8%, 13.5%, 13.3%, and 16.3% in FY2018, FY2017, FY2016, and FY2015, respectively. **Figure 4** shows the mail volume for market dominant and competitive products for FY2020 and FY2021.

Figure 4. Market Dominant and Competitive Mail Volume, FY2020-FY2021

In billions of pieces



Source: USPS, *FY2021 RPW*.

Long-Term Trends

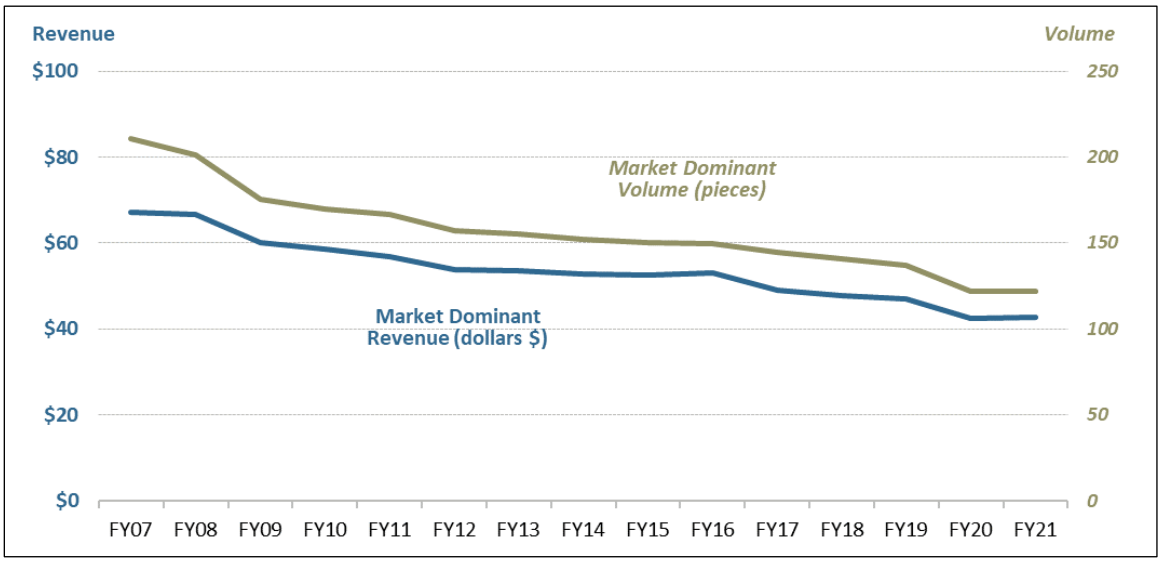
Total mail volume and revenue have either been consistent or in decline for the past 15 years. Periods of decline have been driven largely by reductions in market dominant mail volume and revenue, which has dropped sharply since FY2007 (see **Figure 5**).[57] The decline in market dominant volume has been driven by a variety of economic factors and long-term market trends, such as transition to electronic mail, that have altered the public's use of the postal service for more than a decade.

[56] USPS, *FY2020 10-K*, p. 6.

[57] Prior to implementation of the PAEA, the USPS did not report mail volume and revenue using the categories "competitive" and "market dominant." The FY2008 USPS financial reports were the first to utilize PAEA categories. In many instances, the FY2008 financial reports provided volume and revenue data for FY2007.

Figure 5. Market Dominant Revenue and Volume, FY2007-FY2021

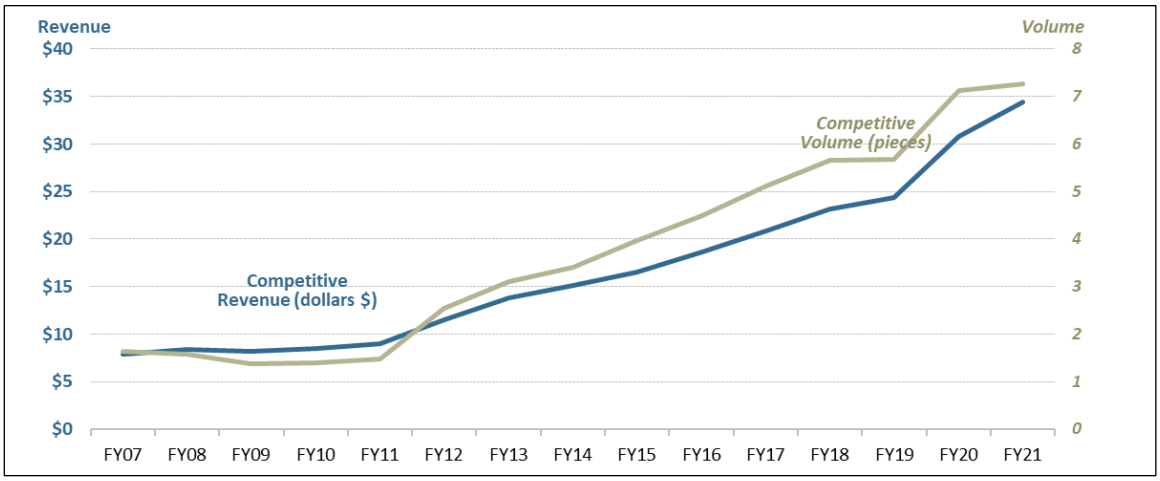
In billions of dollars (revenue) and pieces (volume)



Sources: Figure created by Congressional Research Service (CRS) using data from USPS, *FY2021 RPW* and U.S. Postal Service "Decade of Facts and Figures," at https://facts.usps.com/table-facts (hereinafter USPS, *Decade of Facts*).

Figure 6. Competitive Revenue and Volume, FY2007-FY2021

In billions of dollars (revenue) and pieces (volume)

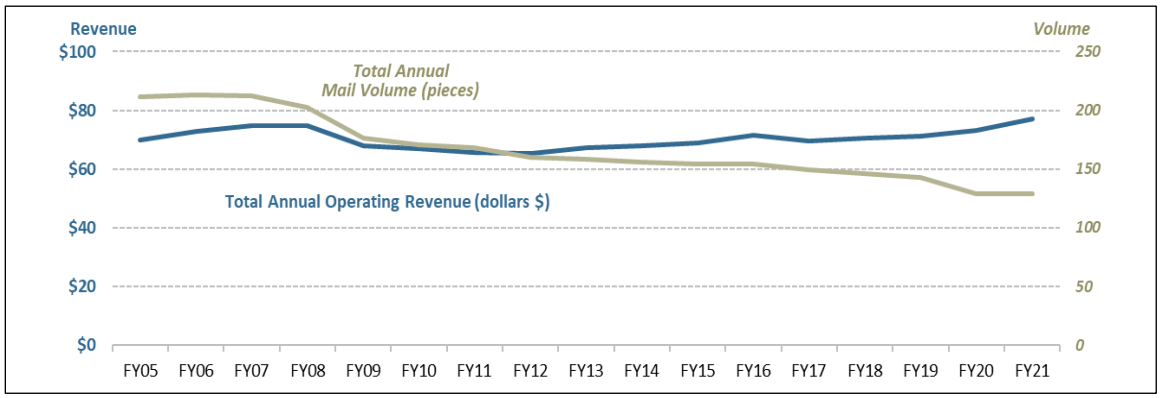


Sources: Figure created by CRS using data from USPS, *FY2021 RPW* and USPS, *Decade of Facts.*

As shown in **Figure 6**, growth in both competitive product volume and revenue has likely offset some of the revenue lost from the decline in market dominant products. **Figure 7** below shows USPS's total annual mail volume and operating revenue for FY2005 through FY2021.

Figure 7. Total USPS Mail Volume and Revenue, FY2005-FY2021

In billions of dollars (revenue) and pieces (volume)



Sources: Figure created by CRS using data from USPS, *FY2021 RPW* and USPS, *Decade of Facts.*

From FY2005 to FY2021, total annual mail volume dropped 82.8 billion pieces. The drop was largely due to volume lost in market dominant products. Total annual operating revenue experienced a significant decline from FY2008 to FY2009, likely due to the economic recession, but has grown modestly over the past decade and was at about the same point in FY2021 ($77.1 billion) as it was in FY2007 ($74.7 billion). While total annual volume remained in decline after FY2012, total annual revenue began to recover. By FY2015, total annual revenue was $68.9 billion, or $1 billion below what it had been in FY2005, due in part to a temporary increase in market dominant prices.[58] Between FY2016 and FY2017, revenue decreased slightly at the same rate as volume. Since FY2017, revenue has increased an average of about 0.5 billion per year, possibly due to rate increases that went into effect in January of each year.[59] By the end of 2019, total annual revenue was $71.1 billion, or $1.2 billion above what it was in FY2005.

Operating Expenses

To address its financial challenges, the USPS has made several operational adjustments intended to align its revenue, mail volume, and operating expenses, including

- changes to its workforce (e.g., increased use of non-career employees);
- consolidation of delivery routes and reductions in number of delivery facilities;
- reductions to retail office hours; and
- realignment of its mail processing and distribution network.[60]

[58] During "extraordinary or exceptional" circumstances, the PAEA allows the USPS to petition the PRC for an expedited postal rate adjustment. Between January 26, 2014 and April 10, 2016, the USPS had in place an exigent surcharge (i.e., a temporary price increase) of 4.3% on many of its market dominant products and services. Under the PAEA, an exigent surcharge is a temporary price increase above what USPS would otherwise receive based on the CPI-U.

[59] On January 22, 2017, the price of a First-Class Forever stamp increased $0.02 to $0.49. On January 21, 2018, the price increased to $0.50, and on January 27, 2019 the rate increased $0.05 to $0.55. The current rate, which went into effect on August 29, 2021, is $0.58. USPS "Rates for Domestic Letters Since 1863," at https://about.usps.com/who-we-are/postal-history/domestic-letter-rates-since-1863.pdf.

[60] USPS, *FY2020 10-K*, pp. 31, 44, 58, 70.

For FY2021, USPS's total operating expenses, including retiree health, workers' compensation, and pension costs, were about $82 billion. **Table 3** provides a further breakdown of expenses for FY2020 and FY2021.

Table 3. USPS Operating Expenses, FY2020-FY2021

(dollars in billions)

	FY2020	FY2021	Change	Change (%)
Compensation and Benefits Expenses				
Salaries/Compensation	$39.754	$40.837	$1.083	2.724%
Health benefits—current employees	$5.188	$5.248	$0.060	1.157%
Social Security	$2.256	$2.372	$0.116	5.142%
Thrift Savings Plan (TSP)	$1.194	$1.250	$0.056	4.690%
Other personnel-related expenses	$0.338	$0.378	$0.040	11.834%
Total Compensation and Benefits	$48.730	$50.085	$1.355	2.781%
Retiree Health and Pension Expenses				
PSRHBF unfunded liability amortization	$0.810	$0.907	$0.097	11.975%
PSRHBF normal cost payments	$3.850	$4.203	$0.353	9.169%
FERS normal cost payments	$3.804	$4.117	$0.313	8.228%
CSRS unfunded retirement benefit amortization	$1.817	$1.858	$0.041	2.256%
FERS unfunded retirement benefit amortization	$1.343	$1.401	$0.058	4.319%
Total Retiree Health and Pension	$11.624	$12.486	$0.862	7.416%
Other Operating Expenses				
Workers' compensation	$2.903	($0.580)	($3.483)	-119.979%
Transportation (e.g., air and highway contracts)	$8.814	$9.652	$0.838	9.508%
Depreciation and amortization costs	$1.706	$1.668	($0.038)	-2.227%
Supplies and services	$3.088	$2.945	($0.143)	-4.631%
Rent and utilities	$1.757	$1.790	$0.033	1.878%
Other non-personnel expenses	$3.565	$3.798	$0.233	6.536%
Total Operating Expenses	$82.187	$81.844	($0.343)	-0.417%

Source: USPS, *FY2021 10-K*, pp. 31, 33, 42, 44, 58.

Note: FY2021 workers' compensation expense decrease is due primarily to changes in discount rates. PSRHBF is the Postal Service Retiree Health Benefit Fund; FERS is the Federal Employees Retirement System; CSRS is the Civil Service Retirement System. In FY2020 and FY2021, USPS did not make its required amortization payments for retiree health and pension benefits or its PSRHBF normal cost payments. The payments for retiree health benefits are discussed below in the section titled "Postal Retiree Health and Pension Benefits."

Each fiscal year, roughly 60% of the USPS's operating expenses are attributable to personnel costs, through salaries, compensation benefits, workers' compensation, and retiree benefits—excluding the retiree health prefunding payments.[61] For FY2021, personnel-related expenses were

[61] USPS, *FY2020 10-K*, pp. 31, 33.

$50 billion, an increase of about $1.4 billion (or 2.8%) from FY2020.[62] The largest line-item for personnel costs is salaries, which account for nearly all of the $1.4 billion increase to personnel-related expenses.[63] From FY2010 to FY2014, the costs for salaries and other compensation decreased steadily. USPS spent $35.1 billion on these costs in FY2014 and $37.5 billion in FY2010, with expenditures dropping an average of $600 million each year.[64] These reductions have been driven by a number of USPS management decisions, including the use of voluntary separation incentives and the increased reliance on non-career employees. This trend, however, reversed in FY2015 when USPS's salaries and compensation costs increased by 2.3% to $35.9 billion. The USPS attributes the increased costs to "contractually obligated salary escalations and additional work hours associated in part with the growth in the more labor-intensive Shipping and Packages business."[65]

The USPS has not seen significant reductions in non-personnel costs in recent years. For the period from FY2015 to FY2021, total non-personnel related expenses have been about $15 billion to $19 billion annually.[66] The largest non-personnel expenses are transportation costs. The USPS spent $9.7 billion for transportation in FY2021, largely on contracts for air, ground, and water transportation of the U.S. mail.[67] Additionally, USPS notes in its FY2020 financial statement that COVID-19 travel restrictions led to limitations on commercial air carrier availability and increased air transportation costs for the Postal Service.[68] Fuel expenses are also included under transportation, but they comprise a relatively small portion of costs.[69] The other non-personnel expenses for FY2021 include supplies and services ($2.9 billion), rent and utilities ($1.8 billion), and depreciation of USPS assets ($1.7 billion).[70]

Postal Retiree Health and Pension Benefits

Eligible postal employees and retirees receive health care coverage through the Federal Employees Health Benefits (FEHB) Program.[71] Additionally, the Postal Service participates in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) retirement plans, which provide a defined benefit to eligible postal retirees.[72] The Postal Service

[62] Ibid.

[63] Salaries includes full-time and part-time employees and other costs, such as performance awards.

[64] USPS, *FY2012-FY2015 10-K*, Washington, DC, 2015, available at http://about.usps.com/who-we-are/financials/welcome.htm.

[65] USPS, *FY2018 10-K*, p. 19.

[66] USPS, *FY2015-FY2021 10-K*.

[67] USPS, *FY2021 10-K*, p. 43.

[68] Ibid.

[69] U.S. Postal Service, Office of the Inspector General, *Peeling the Onion: The Real Cost of Mail*, April 18, 2016, RARC-WP-16-009, pp. 13-14, at https://www.uspsoig.gov/sites/default/files/document-library-files/2016/RARC-WP-16-009.pdf. For information on transportation contracts, see U.S. Postal Service, *Procurement Manual*, Chapter 12 "Mail Transportation," July 12, 1995, at http://about.usps.com/publications/pub41/pub41c12.pdf.

[70] USPS, *FY2021 10-K*, p. 44.

[71] USPS, *FY2021 10-K*, p. 15; USPS, *Compensation and Benefits*, at https://about.usps.com/careers/working-usps/benefits.htm. See also CRS Report R43922, *Federal Employees Health Benefits (FEHB) Program: An Overview*, by Ryan J. Rosso and Ada S. Cornell.

[72] Ibid; see also CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*, by Katelin P. Isaacs.

provides pension benefits to about 699,000 postal retirees and survivors and health benefits to approximately 499,000 postal retirees and eligible family members.[73]

The Postal Service is required to make annual payments to cover the employer costs for future retiree health and pension benefits attributable to active employees' current year of service, referred to as "normal costs." Additionally, USPS must make annual amortization payments to pay down the unfunded liabilities for retiree health and pension benefits. **Table 4** below lists the normal cost and amortization payments for FY2017-FY2021.

Table 4. USPS Payments for Retiree Health and Pension Benefits, FY2017-FY2021

(dollars in billions)

	FY2017	FY2018	FY2019	FY2020	FY2021
Pension Benefits Payments					
FERS Normal Cost	$3.5	$3.5	$3.5	$3.8	$4.1
FERS Amortization	**$0.9**	**$1.0**	**$1.1**	**$1.3**	**$1.4**
CSRS Amortization	**$1.7**	**$1.4**	**$1.6**	**$1.8**	**$1.9**
Retiree Health Payments					
PSRHBF Normal Cost	**$3.3**	**$3.7**	**$3.8**	**$3.9**	**$4.2**
PSRHBF Amortization	**$1.0**	**$0.8**	**$0.8**	**$0.8**	**$0.9**

Source: USPS, *FY2017-FY2021 10-K*.

Since FY2017, USPS has made its required payments for FERS normal cost, but has defaulted on its FERS and CSRS amortization payments and its PSRHBF normal cost and amortization payments (shown in bold in **Table 4**). According to the Postal Service, this was necessary to maintain their liquidity and ability to pay other expenses.

Retiree Health Prefunding Payments

The PAEA requires the USPS to prefund its retiree health benefits.[74] To accomplish this task, the PAEA established a ten-year prefunding schedule (from FY2007-FY2016).[75] Under the PAEA, the USPS was to make statutorily prescribed prefunding payments into the Postal Service Retiree Health Benefits Fund (PSRHBF), which is an on-budget account in the U.S. Treasury. Pursuant to the PAEA, the USPS payments to the PSRHBF are to be derived from operating revenue held in the Postal Service Fund. The statutorily prescribed prefunding payments, shown in **Table 5**, ranged from $5.4 billion to $5.8 billion annually.

Since the prefunding payment schedule began in FY2007, the USPS has made a total of $17.9 billion in payments into the PSRHBF. USPS has made three of its annual payments in full—FY2007, FY2008, and FY2010. Congress reduced the FY2009 payment owed from $5.4 billion

[73] USPS, *FY2021 10-K*, p. 15.

[74] For additional details on the prefunding requirement and issues related to USPS pension funding, see CRS Report R43349, *U.S. Postal Service Retiree Health Benefits and Pension Funding Issues*, by Katelin P. Isaacs and Annie L. Mach.

[75] 5 U.S.C. §8909a(d).

to $1.4 billion, which the USPS paid.[76] USPS also transferred $2.958 billion into the PSRHBF in FY2007 from a USPS escrow account that was set up in 2006, per the terms of the Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 108-18, Sec. 3, "Disposition of Savings Accruing to the United States Postal Service"),[77] which brings their total contributions into the PSRHBF to $20.9 billion. As of September 30, 2021, the balance in the PSRHBF was $39.1 billion.[78]

Since FY2011, the USPS has defaulted on its annual payments, which total $33.9 billion.[79] USPS's prefunding payments to the PSRHFB are listed in **Table 5** below.

Table 5. Payments to Postal Service Retiree Health Benefit Fund, FY2007-FY2016

(dollars in billions)

Fiscal Year	Payments Made	Payments Missed
FY2007	$5.40	$0.00
FY2008	$5.60	$0.00
FY2009	$1.40	$0.00
FY2010	$5.50	$0.00
FY2011	$0.00	$0.00
FY2012	$0.00	$11.10
FY2013	$0.00	$5.60
FY2014	$0.00	$5.70
FY2015	$0.00	$5.70
FY2016	$0.00	$5.80
Total	**$17.90**	**$33.90**

Source: USPS Annual 10-K Financial Reports, FY2007-FY2016, at https://about.usps.com/what/financials.

Notes: FY2009 payment was reduced from $5.4 billion to $1.4 billion by statute (Sec. 164 of P.L. 111-68) and FY2011 payment was deferred by Congress until FY2012 (USPS, *FY2015 10-K*).

The statutorily prescribed payments concluded in FY2016. Starting in FY2017, the USPS is no longer required to make pre-funding payments and is permitted to access funds from the PSRHBF to pay for its current retirees' health benefits. Instead of the prefunding payments, since FY2017 the USPS is required to make payments to fund the estimated normal costs of retiree health benefits and amortization payments of USPS's remaining unfunded liability.[80]

Legislative Proposals

The prefunding policy has been a contentious issue. Proponents argue that prefunding protects future customers of the USPS and taxpayers by ensuring that they will not need to finance

[76] Congress deferred the FY2011 payment until FY2012 (P.L. 112-74).

[77] Electronic correspondence with USPS staff on Friday, May 17, 2019.

[78] USPS, *Fiscal Year 2022 Integrated Financial Plan*, November 18, 2021, p. 8, at https://about.usps.com/what/financials/integrated-financial-plans/fy2022.pdf.

[79] USPS, *FY2019 10-K*, p. 39.

[80] USPS, *FY2019 10-K*, p. 8.

retirement benefits currently incurred by the USPS. However, according to the USPS, the prefunding requirement has contributed "significantly" to its financial losses.[81] In its FY2018 financial statement, the USPS reiterated its pursuit of legislation that would allow the USPS to change how it offers health insurance to its employees and retirees. The USPS argues that such changes would "eliminate any necessity for the [PSRHBF] prefunding requirement.... "[82] The changes would require statutory authorization from Congress.

Two bills introduced in the 117th Congress would, if enacted, repeal the requirement that the USPS prepay future retiree health benefits. H.R. 695 and S. 145, the USPS Fairness Act, would each repeal subsection (d) of 5 U.S.C. §8909a, which includes the prefunding schedule shown in **Table 5**. This would eliminate the $33.9 billion in defaulted prefunding payments from the USPS's financial accounts. If enacted, the USPS could continue to pay its contributions for eligible retiree health premiums from the fund until it is depleted of resources, which is estimated to occur by FY2030.[83] The bill, however, would not alter or alleviate the USPS's future retiree health liabilities.[84]

H.R. 3076, the Postal Reform Act of 2022,[85] includes an expanded version of the USPS Fairness Act as well as other provisions that may reduce the USPS's future retiree health liabilities by requiring eligible postal retirees to enroll in Medicare as part of their health coverage. Additionally, the bill would establish a new mechanism for calculating USPS's future payments into the PSRHBF, based on the amount (if any) that USPS's contributions for retiree health premiums paid from the PSRHBF exceeded the estimated net claims costs of enrollees. The bill was reported out by the House Committee on Oversight and Reform in July 2021 (H.Rept. 117-89, Parts I and II), and was passed by the House on February 8, 2022.

Postal Delivery Standards

The USPS's delivery standards are performance goals that reflect "the number of days after acceptance of a mail piece by which the sender and recipient can expect it to be delivered."[86] Delivery standards differ for each mail class and product. Since 2012, the Postal Service has phased-in revisions to its delivery standards for market dominant products.[87]

Under new regulations that went into effect on October 1, 2021, the USPS adjusted its service standards on select market-dominant products, specifically First-Class Mail and Periodicals. Service standards reflect USPS's estimate of the amount of time it will take to deliver a piece of mail. The new standards increase the target in-transit time for delivery by 1-2 days. While some market dominant mail will be unaffected, USPS expects that approximately 40% of First-Class

[81] USPS, *FY2018 10-K*, p. 5.

[82] USPS, *FY2018 10-K*, p. 32.

[83] Ibid; Government Accountability Office, *Postal Retiree Health Benefits: Unsustainable Finances Need to Be Addressed*, p. 6, at https://www.gao.gov/assets/gao-18-602.pdf.

[84] CRS analysis of USPS, *FY2019 10-K*; electronic correspondence with USPS staff on May 17, October 7, and October 31, 2019.

[85] H.R. 3076.

[86] See U.S. Postal Service, "Our Future Network: USPS Delivery Standards and Statistics Fact Sheet," at http://about.usps.com/news/electronic-press-kits/our-future-network/ofn-usps-delivery-standards-and-statistics-fact-sheet.htm.

[87] The new revised standards went into effect on January 5, 2015, and are available at 39 C.F.R. §121. Also see U.S. Postal Service, *Five-Year Business Plan*, April 16, 2013, pp. 15-19, at http://about.usps.com/strategic-planning/fiveyearplan-04162013-final.pdf.

Mail (particularly that which travels longer distances) will be subject to an adjusted standard that is 1-2 days greater than the previous standard. Most local First-Class Mail (i.e., mail traveling three hours or less by ground) will keep its 2-day standard. Prior to revisions implemented in 2015, First-Class mail sent within a certain geographical boundary was generally guaranteed to be delivered overnight.[88]

As shown in **Table 6,** the end-to-end range for First-Class Mail within the contiguous United States is 1-5 days, while the end-to-end range for Periodicals is 3-9 days and, for Marketing Mail, 3-10 days. [89] Within the end-to-end ranges, USPS adjusted its distance-based business rules for First-Class Mail and Periodicals, increasing the number of days for mail with delivery drive times exceeding 20 hours.

Table 6. USPS Delivery Standards

Mail Traveling within Contiguous States and DC

	End-to-End Range (days)	
Mail Class	**Service Standards (through September 30, 2021)**	**Revised Standards (effective October 1, 2021)**
First-Class Mail	1-3	1-5
Periodicals	3-9	3-9
Marketing Mail	3-10	3-10
Package Services	2-8	2-8

Source: 39 C.F.R. §121, Appendix A; USPS, "Revised Service Standards for Market Dominant Mail Products," 86 *Federal Register* 43941.

Notes: USPS's service standards map is available at https://postalpro.usps.com/ppro-tools/service-standards-maps.

USPS also increased the end-to-end ranges 1-2 days for First-Class Mail and Periodicals traveling within and to/from noncontiguous states and territories, such as Puerto Rico and Guam. Standards for Marketing Mail and Package Services were unchanged.

The delivery standards are not, however, a guarantee of specific delivery times. Based on the delivery standards, the Postal Service sets "Service Performance Targets," which are the percentage of time it expects to meet its delivery standards. USPS's adherence to its service standards is measured against those performance targets.

Table 7 shows FY2021 service performance targets and the USPS's actual percent on-time score for select categories of market dominant mail. Actual percent on-time scores that fail to meet the percent on-time service performance targets are shown in bold. Those that are more than 10 percentage points below the percent on-time performance targets are in bold and underlined.

[88] Specifically, prior to January 5, 2015, with certain exceptions, an overnight service standard applied to First-Class mail that was received and was being delivered within an area served by a single U.S. Postal Service Sectional Center Facility (i.e., postal processing and distribution facility), provided the mail arrived at the facility by a certain time (referred to as the "critical entry time" or CET). After January 5, for First-Class mail to be subject to overnight business rules, it must be "Presort" mail (i.e., sorted and containerized by Zip code by the mailer). For additional details, see summary and comments accompanying the Final Rule, "Revised Service Standards for Market-Dominant Mail Products," at http://about.usps.com/news/facility-studies/_pdf/market-dominant-final-rule.pdf.

[89] 39 C.F.R. §121, Appendix A.

Table 7. USPS FY2021 Service Performance Targets and Percent On-Time

		Percent On-Time (National)				
	Target % On-Time	**FY2021 Q1**	**FY2021 Q2**	**FY2021 Q3**	**FY2021 Q4**	**FY2021 Annual**
First-Class Mail						
Single-piece letters (2-day)	82.81	**81.5**	85.9	90.8	90.9	86.4
Single-piece letters (3-to-5-day)	68.64	**54.6**	**57.9**	73.8	75.1	**63.2**
Presort letters/postcards (overnight)	93.99	**91.3**	**92.7**	95.2	94.6	**93.4**
Presort letters/postcards (2-day)	89.20	**84.7**	**84.8**	92.2	92.3	**88.3**
Presort letters/postcards (3-to-5-day)	84.11	**78.0**	**73.8**	85.9	87.0	**80.9**
Marketing Mail						
Marketing Mail	86.62	**70.4**	**60.7**	**73.7**	**78.4**	**70.0**
Marketing Mail Destination Entry	86.62	**86.3**	88.2	93.3	94.4	90.0
Other Market Dominant Mail						
Package services	90.00	**80.7**	**79.5**	**86.3**	**89.9**	**83.7**
Periodicals	86.62	**69.8**	**71.5**	**79.0**	**82.7**	**75.6**
Single-Piece First Class International (Inbound/Outbound)	82.43	**58.9**	**60.2**	**74.4**	**73.8**	**66.1**

Source: U.S. Postal Regulatory Commission, *FY2021 Q4 Performance Reports*, at https://www.prc.gov/dockets/quarterly-performance.

Notes: *Marketing Mail Destination Entry* are mailpieces entered at a distribution center or other processing facility.

In FY2021, USPS met or exceeded its percent on-time performance targets for Single-Piece letters (2-day) and Marketing Mail Destination Entry. USPS did not meet its performance targets for most other types of market dominant mail. While performance generally improved in the 3rd and 4th quarters of the fiscal year, in many instances USPS's annual on-time performance was below the targets. Performance for Periodicals, Marketing Mail, and Single-Piece International Mail was more than 10% below the USPS's targets.

In the FY2020 *Annual Compliance Report*, the USPS attributes its performance issues to (1) winter weather storms, (2) insufficient air transportation capacity, and (3) staff realignments and other issues related to the network rationalization initiative.[90] USPS has argued that the revised standards will enable them to shift long-range delivery of select market dominant mail products to ground transportation (from air transportation), which they state is more reliable, less costly, and less subject to service delays than air transportation.[91]

[90] Ibid.

[91] USPS, "Revised Service Standards for Market Dominant Mail Products," August 11, 2021, 86 *Federal Register* 43941.

Postal Processing and Delivery Network

The revised delivery standards discussed above are part of the USPS's broader initiatives to modernize its processing and delivery network to handle ongoing changes to mail volume.[92] These initiatives involve consolidation and realignment of operations at select mail processing facilities, which USPS terms *Area Mail Processing* (AMP). In its AMP guidance, the USPS states "mail and packages require different machinery, processes and space allocations in terms of scope and physical location."[93] USPS argues that changes to its processing network are necessary to (1) address recent changes to mail volume (i.e., decreases in first-class mail volume and increases in package volume) and (2) improve the efficiency of the overall postal delivery network.[94]

Six- to Five-Day Delivery Schedule[95]

One reform that the USPS proposed in its previous *Five-Year Business Plan* was to move from delivering mail six days a week (except Sunday) to five days a week (except Saturday and Sunday) for all or most classes of mail, including first-class mail and marketing mail.[96] To maximize revenue from the competitive portion of its product line, however, USPS proposed maintaining six-day delivery of packages, or further expanding its Sunday package delivery services.[97]

Opponents of reducing USPS's delivery days argue that it will have a negative effect on postal delivery standards, which—according to the PRC's FY2015 *Annual Compliance Report*—have already suffered following the closure and consolidation of postal processing facilities from 2021-2015.

According to economic estimates prepared for the PRC, shifting to five-day delivery of mail while maintaining Saturday delivery of packages would increase revenue by an estimated $912 million to $1.677 billion.[98] The estimated net profit may vary due to customer behavior. For example, if post offices close on Saturdays, some customers may mail fewer items or choose

[92] See U.S. Postal Service, "Our Future Network: Phase 2 Network Rationalization Frequently Asked Questions," at http://about.usps.com/news/electronic-press-kits/our-future-network/ofn-phase-2-faqs-new.htm; U.S. Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf.

[93] USPS, "Area Mail Processing," at https://about.usps.com/what/strategic-plans/area-mail-processing. Also see U.S. Postal Service, *Five-Year Business Plan*, April 16, 2013, pp. 15-19, at http://about.usps.com/strategic-planning/fiveyearplan-04162013-final.pdf.

[94] Ibid.

[95] For additional background on the history of six-day delivery, see CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: History, Issues, and Current Legislation*, by Michelle D. Christensen.

[96] For example, in the USPS's *Business Plan*, section titled "Executing on Identified Initiatives is Core to Addressing USPS's Financial Challenges," the USPS recommended adjusting service levels to six-day delivery of packages and five-day delivery of first-class mail. U.S. Postal Service, *Five-Year Business Plan*, April 16, 2013, p. 17, at http://about.usps.com/strategic-planning/fiveyearplan-04162013-final.pdf#page=17.

[97] The Postal Service has offered seven-day package delivery in select regions during the holiday shipping season. It has also entered into negotiated service agreements with large shippers (e.g., Amazon) to offer Sunday delivery from select hubs across the United States. U.S. Postal Service, "Postal Service to Delivery Packages Seven Days a Week During Holidays," November 6, 2014, http://about.usps.com/news/national-releases/2014/pr14_057.htm; U.S. Postal Service Office of Inspector General, *Sunday Parcel Delivery Service: Audit Report*, December 5, 2014, https://www.uspsoig.gov/sites/default/files/document-library-files/2015/dr-ar-15-002.pdf.

[98] Urs Trinkner and Andreas Haller, *Impact of Discontinuance of Saturday Delivery for Letters and Flats*, Swiss Economics for the U.S. Postal Regulatory Commission, ISSN 2235-1868, February 2014, pp. 7-8, at http://www.prc.gov/sites/default/files/reports/FinalReport.pdf.

another service for shipping packages, leading to lost revenue in competitive products. If, however, post offices remain open on Saturdays, there may be additional operational costs, even if they do not sort or deliver mail. Further, the Postal Service may incur additional labor costs due to increased mail volume on Mondays.[99] The PRC report based its estimation on a model where post offices remained open on Saturdays but did not sort or dispatch letter mail.[100] Under this scenario, the PRC report estimated that the annual net savings to the Postal Service would be between $625 million and $1.393 billion.[101]

Post Office Closures and Reduction of Operating Hours

Another reform from its previous *Five-Year Business Plan* was a proposal to reduce retail post office hours to better align them with estimates of operational demand.[102] In 2012, the USPS announced a plan to reduce hours at 13,000 "low foot traffic" U.S. Post Offices in rural communities. The Post Office Structure Plan, commonly referred to as the "POStPlan," is, according to the USPS, an initiative intended to prevent closures of postal retail facilities by reducing operational hours at selected locations. According to communications from the PRC, most POStPlan facilities are small and often in rural areas, though neither term (i.e., "small" or "rural") has been defined by either the USPS or the PRC for the purpose of identifying specific retail postal facilities.[103]

Table 8 below provides data on the number of USPS retail facilities in existence at the end of each fiscal year from FY2010 through FY2021.[104]

[99] Ibid., pp. 8-9.

[100] Ibid.

[101] Ibid., p. 9.

[102] U.S. Postal Service, *Five-Year Business Plan*, April 16, 2013, pp. 15-19, at http://about.usps.com/strategic-planning/fiveyearplan-04162013-final.pdf.

[103] The list of POStPlan facilities is available at http://about.usps.com/news/electronic-press-kits/our-future-network/assets/pdf/postplan-affected-post-offices-120509.pdf.

[104] For descriptions of the categories and types of postal facilities, please see CRS Report R41950, *The U.S. Postal Service: Common Questions About Post Office Closures*, by Michelle D. Christensen.

Table 8. Total USPS Retail Postal Facilities, FY2010-FY2021

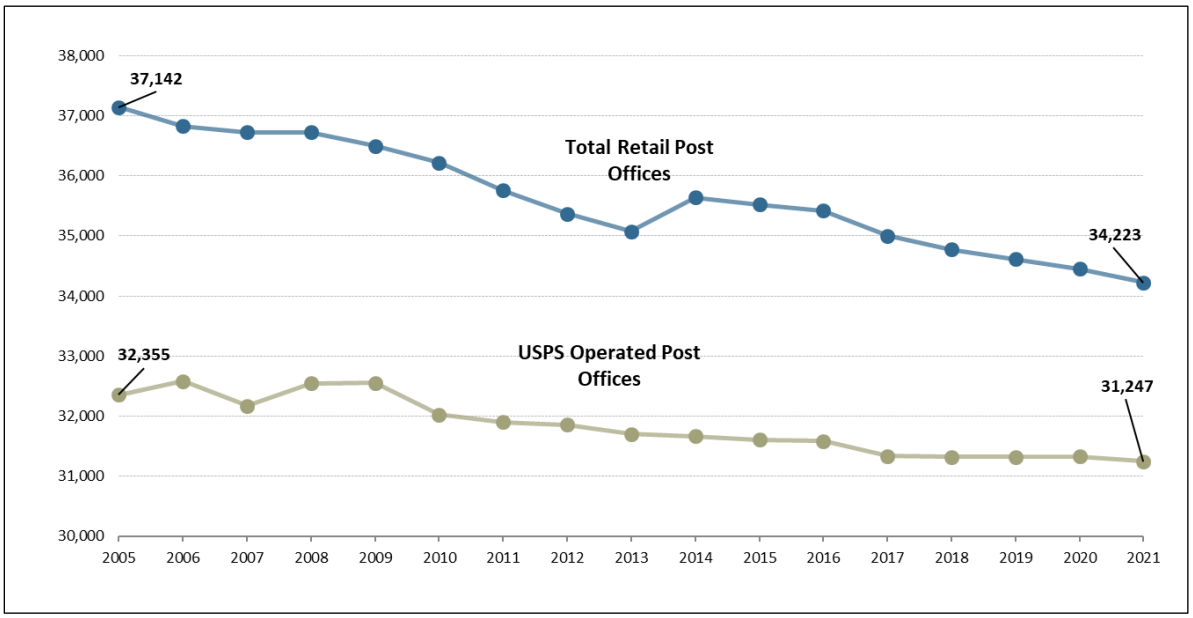
Fiscal Year	Post Offices	Stations, Branches, Annexes	Contract Postal Units	Village Post Offices	Community Post Offices	Total
2010	27,077	5,451	2,931	0	763	36,222
2011	26,927	5,219	2,904	0	706	35,756
2012	26,755	5,102	2,792	47	673	35,369
2013	26,670	5,032	2,718	385	629	35,434
2014	26,669	4,993	2,660	759	560	35,641
2015	26,615	4,991	2,504	848	536	35,494
2016	26,611	4,974	2,458	856	503	35,402
2017	26,410	4,967	2,331	821	476	35,005
2018	26,365	4,959	2,240	743	465	34,772
2019	26,362	4,960	2,175	667	449	34,613
2020	26,362	4,968	2,094	590	437	34,451
2021	26,362	4,885	2,009	542	425	34,223
Change 2010 to 2021	-715	-566	-922	+542	-338	-1,999

Source: U.S. Postal Service, *Annual Report to Congress* (FY2013-FY2021), at https://about.usps.com/what/financials.

Notes: Stations and branches are post office facilities that are under the administration of another, typically larger, post office. Carrier annexes are postal facilities that house carrier operations, but that may not provide retail services. Post offices, stations, branches, and carrier annexes are managed and operated by the USPS. Contract Postal Units, Village Post Offices, and Community Post Offices offer USPS products and services, but are managed and operated by private entities.

Figure 8. USPS Retail Postal Facilities

FY2005-FY2021



Source: Figure created by CRS using data from USPS, *Decade of Facts.*

Notes: "Total retail post offices" includes contractor-owned-and-operated postal facilities.

Legislative Reforms

USPS revised its service standards for market-dominant mail products in 2012 as part of its broader Network Rationalization initiative,[105] and multiple bills have been introduced since instructing USPS to roll back standards to those that were in place before the revision. For example, in the 117th Congress, expresses the sense of the House that USPS should "take all appropriate measures to restore service standards [to those] in effect as of July 1, 2012."[106] Additionally, S. 1678 and H.R. 2230, the Delivering Envelopes Judiciously On-time Year-round Act (or "DEJOY Act") would require USPS to adopt service standards for First-Class Mail that were in effect on January 1, 2021.[107]

Postal Workforce

USPS's challenging financial circumstances have prompted the agency to implement several cost-cutting strategies, one of which has been to reduce the size and cost of the USPS workforce. The sections below discuss three USPS initiatives to reduce its workforce size and cost: (1) attrition and separation incentives, (2) increased use of non-career employees, and (3) non-personnel initiatives that could impact workforce size and cost. The sections focus on

[105] USPS, "Revised Service Standards for Market Dominant Mail Products, final rule with phased implementation dates," May 25, 2012, 77 *Federal Register* 31190.

[106] H.Res. 119.

[107] S. 1678 and H.R. 2230.

implementation of these three initiatives since FY2007, at which time the USPS began to experience substantial revenue losses.

Size and Cost of the Postal Workforce

The USPS has reduced its workforce size through voluntary attrition and separation incentives.[108] The total number of USPS employees declined about 20% between FY2007 and FY2020, from about 786,000 to 644,000 employees.[109] To increase the voluntary attrition rate, the USPS has offered certain employees separation incentives to resign or retire early, which have ranged from $10,000 to $20,000 per person.[110] Between FY2007 and FY2018, 57,617 employees accepted a separation incentive (**Table 9**).

The USPS has also utilized separation incentives to avoid or minimize reductions in force (RIFs), which involve involuntary employee layoffs upon the abolishment of agency positions.[111]Many of the separation incentives offered between FY2012 and FY2018 were associated with various postal facility closure and consolidation initiatives.[112]

[108] USPS, *FY2014 10-K*, p. 20.

[109] CRS analysis of U.S. Postal Service, *FY2007 Report on Form 10-K*, Washington, DC, 2007, p. 5, at https://about.usps.com/what/financials/10k-reports/fy2007.pdf (hereinafter USPS, *FY2007 10-K) and* USPS, *FY2020 10-K*, p. 32.

[110] USPS has utilized the Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Program (VSIP). For more information on the VERA, see 5 U.S.C. §8336(d)(2)(D), 5 U.S.C. §8414(b)(1)(B), 5 C.F.R. §831.114, 5 C.F.R. §842.213, and Office of Personnel Management (OPM), *Guide To Voluntary Early Retirement Regulations,* August 2006, at https://www.opm.gov/policy-data-oversight/workforce-restructuring/voluntary-early-retirement-authority/vera_guide.pdf. For more information on the VSIP, see 5 U.S.C. §3521, 5 C.F.R. Part 576, and OPM, *Guide to Voluntary Separation Incentive Payments,* August 2006, at https://www.opm.gov/policy-data-oversight/workforce-restructuring/voluntary-separation-incentive-payments/guide.pdf.

[111] For more information on reductions-in-force, see 5 U.S.C. §3501-3503, and 5 C.F.R. Part 351. In 2015, however, USPS implemented a RIF for 249 postmasters who had not accepted a separation incentive offered in FY2014. According CRS correspondence with the USPS, all postmasters affected by the RIF were offered part-time career positions at the USPS. Electronic correspondence with USPS staff on June 8, 2015. For more information on Discontinued Service Retirement, see 5 U.S.C. §8336(d) and 5 C.F.R. §831.503.

[112] See sections of this report titled "Postal Processing and Delivery Network" and "Post Office Closures and Reduction of Operating Hours." U.S. Postal Service Office of the Inspector General (hereinafter USPS OIG), *Management Advisory Report, Lessons Learned from Mail Processing Network Rationalization Initiatives*, March 27, 2013, p. 4, at https://www.uspsoig.gov/sites/default/files/document-library-files/2015/no-ma-13-004.pdf.

Table 9. Total Number of Separated USPS Career Employees, FY2007-FY2018

Fiscal year	Total number of separations	Total number of employees separated *without* an incentive	Total number of employees separated *with* an incentive	Incentive amount (per person)	Target employee category	Total cost of incentive (millions)
2007	7,437	7,437	0	0	N/A	0
2008	33,685	33,685	0	0	N/A	0
2009	42,235	42,235	0	0	N/A	0
2010	40,873	20,073	20,800	$15,000	American Postal Workers Union (APWU) employees; mail handlers	$312.0
2011	30,302	28,058	2,244	$20,000	Administrative employees	$44.9
2012	33,137	25,920	4,192	$20,000	Postmasters	$129.2
			3,025	$15,000	Mail handlers	
2013	41,823	17,991	22,609	$15,000	APWU employees	$339.1
			1,223	0	Managers, supervisors, postmasters	
2014	28,900	27,520	1,380	$10,000	Postmasters	$13.8
2015	30,109	30,093	16	0	APWU Western Area	0
2016	31,835	31,835	0	0	NA	0
2017	33,905	33,905	0	0	NA	0
2018	40,695	38,567	2,128	0	APWU, Mail Handlers	0
Total	**394,936**	**337,319**	**57,617**	N/A	N/A	**$839.0**

Source: Adapted from **Table 1** found at GAO, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13, 2014, p. 12, at http://www.gao.gov/assets/670/666884.pdf; CRS analysis of data from "Form 10-Ks"; data provided by USPS staff on April 1, 2019.

Notes: FY2007 data may be incomplete, as USPS only had partial access to data due to the agency's migration from its legacy human resources system to its current system during that year. The total number of separated employees is not equal to the total reduction in the number of employees between FY2007 and FY2014. The difference might be due to additional hiring for existing or newly created positions that occurred over that time period.

Use of Non-Career Postal Employees

The USPS categorizes its workforce into two employee types: career and non-career. Career employees serve in permanent positions and are typically provided full federal benefits.[113] Non-

[113] For a list of benefits provided to USPS career employees, see U.S. Postal Service, "Compensation & Benefits," at https://about.usps.com/careers/working-usps/benefits.htm.

career employees, in contrast, serve in time-limited or otherwise temporary positions. In many cases, non-career employees earn lower wages and are not provided benefits that are provided to career employees. For example, non-career employees are not eligible for federal life insurance and are not covered under the Federal Employees Retirement System (FERS).[114]

The USPS has, at times, increased its use of non-career employees in an effort to contain costs. For example, the number of non-career employees grew by 28% between FY2007 and FY2014, from 101,167 to 129,577. The number of career employees, in contrast, decreased by 28% over the same time period, from 684,762 to 488,300. Between FY2011 and FY2014, the use of non-career employees increased by 46.1% (40,878 employees).[115] The influx of non-career employees during that period was primarily attributable to the establishment of three new non-career positions: Postal Support Employees (PSEs), City Carrier Assistants (CCAs), and Mail Handler Assistants (MHAs).[116] Employees in these three positions constituted 51% of the USPS non-career workforce in FY2014.[117]

From FY2015 to FY2019, the USPS continued its use of non-career employees. In recent years, however, the USPS has also converted thousands of non-career employees to career status. For example, in FY2019 and FY2018, the USPS converted approximately 36,000 and 35,000 employees from non-career to career status, respectively, due to operational needs and contract agreements.[118] At the end of FY2019, the total number of non-career employees was 136,174 and the total number of career employees was 496,934.[119] The trend also continued with PSEs, CCAs, and MHAs, and employees in these three categories now constitute approximately 55% of USPS's non-career workforce.[120]

According to the USPS, non-career employees can reduce the overall costs of certain agency functions.[121] Non-career employees can often perform the full range of duties undertaken by their career counterparts at lower wage rates. For instance, non-career CCAs can perform the duties of career city letter carriers while receiving a lower starting hourly rate.[122] The wage difference between CCAs and city letter carriers is greater after accounting for benefits and overtime, according to a 2014 Government Accountability Office (GAO) report.[123] In addition, the USPS

[114] U.S. Postal Service, *Employee and Labor Relations Manual*, ELM 36, September 2013, p. 572, at http://about.usps.com/manuals/elm/elmc5.pdf.

[115] CRS analysis of U.S. Postal Service, *Reports on the Form 10-K*, and U.S. Postal Service, *Annual Reports to Congress*, available at https://about.usps.com/what/financials.

[116] CRS analysis of U.S. Postal Service, *Annual Reports to Congress*. For more detailed information on trends in USPS career and non-career employees, see CRS Report RS22864, *U.S. Postal Service Workforce Size and Employment Categories, FY1995-FY2014*, by Kathryn A. Francis.

[117] CRS analysis of U.S. Postal Service, *Reports on the Form 10-K*.

[118] USPS, *FY2019 10-K*, p. 25.

[119] USPS, *FY2019 Annual Report to Congress*, pp. 1, 16.

[120] Ibid.

[121] For an example of the intended goals of Mail Handler Assistants, see National Postal Mail Handlers Union, and U.S. Postal Service, *Board of Interest Arbitration Award*, February 15, 2013, p. 12, at http://www.npmhu.org/resources/document/20130215-Final-NPMHU_USPS-Interest-Arbitration-Award.pdf.

[122] National Association of Letter Carriers (hereinafter NALC) and USPS, *2011-2016 National Agreement*, p. 28, at http://www.nalc.org/member-benefits/body/na2011.pdf. See GAO, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13 2014, p. 18, at http://www.gao.gov/assets/670/666884.pdf.

[123] GAO, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13 2014, p. 18.

OIG reported that non-career employees could be used in place of career employees earning overtime and thus could reduce compensation costs.[124]

The USPS's use of certain non-career employees is governed by postal labor union contracts, which limit the total number of non-career employees that can comprise the USPS workforce, and the USPS's ability to maintain or increase its use of certain non-career employees will depend on contract negotiations. Union contracts limit the number of non-career employees that can be used for certain functions, often within certain pay periods or within certain locations. Exceptions to the non-career limitations are generally made for high-volume pay periods, such as those that fall within the holiday shipping season, or under emergency circumstances. For example, the collective bargaining agreement between the American Postal Workers Union (APWU) and the USPS limits the number of non-career PSE mail processing employees to 20% of career staff.[125] Similarly, the 2019-2022 National Postal Mail Handlers Union (NPHMU) agreement limits the number of non-career mail handler assistants who may work at an installation to 24.5% of total number of career mail handlers, but exceptions are permitted during two select accounting periods (such as the month of December), and for emergencies.[126]

Lower caps on the percentage of non-career employees might have implications for the size and cost of the USPS's workforce. According to a 2014 GAO report, the USPS asserted that it was close to reaching current caps on non-career employees.[127] Lower caps, therefore, might require the USPS to reduce the number of non-career employees, which might prompt changes to the agency's workforce composition in ways that might increase personnel costs. For instance, compensation costs might increase if the USPS increases the number of career employees to comply with lower caps, either through additional hires or transitioning non-career employees to career positions. Alternatively, overtime pay costs might increase if the USPS reduces the number of non-career employees that were being used in place of career employees earning overtime.

Impact of Workforce Initiatives on Costs

The USPS's initiatives to reduce the size and cost of its workforce have reportedly contributed to lowered compensation expenses in past years. For example, the USPS's total compensation costs decreased $526 million from FY2013 to FY2014, and the PRC found that 36.1% of the decreased amount ($190 million) resulted from increased use of non-career employees and a decrease in employee work hours.[128] These trends have reversed in recent years as the USPS has converted greater numbers of non-career employees to career status. For example, the USPS's total compensation costs increased $3.5 billion from FY2015 to FY2019 (from $44.0 to $47.5 billion). The USPS notes in its FY2019 financial statement that workforce numbers remained relatively

[124] USPS OIG, *Use of Non-Traditional Full-Time and Postal Support Employee Positions in Processing Operations*, Report Number NO-AR-13-003, May 17, 2013, p. 5, at https://www.uspsoig.gov/sites/default/files/document-library-files/2015/no-ar-13-003.pdf.

[125] American Postal Workers Union, *2018-2021 National Interest Arbitration Award - Collective Bargaining Agreement (Contract)*, at https://www.apwu.org/contract-database?issue=3957.

[126] National Postal Mail Handlers Union, *AGREEMENT between National Postal Mail Handlers Union, A Division of the Laborers' International Union of North America, AFL-CIO and United States Postal Service, September 21, 2019 – September 20, 2022*, at https://www.npmhu.org/resources/body/FINAL-2019-Agreement.pdf.

[127] Government Accountability Office, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13, 2014, p. 18.

[128] USPS, *FY2014 10-K*, p. 20; U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2014*, April 1, 2015, p. 12. Total compensation does not include retirement, health benefits, workers' compensation, or PSRHBF payments.

flat in FY2019, and that the increased compensation costs are attributable to contractual wage adjustments, including general cost of living adjustments, increased work hours, and increased overtime costs.[129]

Further Postal Reform Issues for Congress

Postal Fleet

The Postal Service maintains a fleet of 232,368 vehicles, including over 200,000 mail delivery vehicles.[130] However, many of the USPS's delivery vehicles are older than the expected service life and the USPSOIG notes that nearly 70 percent of USPS's mail delivery vehicles are between 25 and 32 years old.[131]

To replace its aging fleet, in October 2015, the USPS issued a Request for Proposal (RFP) seeking a qualified supplier to design and manufacture six "fully functional" prototypes for Next Generation Delivery Vehicles (NGDVs).[132] Following a five-year process, which involved the development and testing of prototypes, on February 23, 2021 the USPS awarded a ten-year contract to Oshkosh Defense, LLC to produce 50,000 to 165,000 NGDVs.[133] The first NGDVs are expected to be available for mail carriers beginning in 2023.[134]

USPS's Ten-Year Plan, *Delivering for America*, includes a commitment to transition to an electric mail delivery fleet by 2035, with "the right level of Congressional support."[135] The Postal Service estimates that approximately $8 billion is needed to transition their mail delivery fleet to electric vehicles.[136] Several bills have been introduced in the 117th Congress that would provide the USPS with funding for electric vehicles. For example, H.R. 3521, the Postal Service Electric Fleet Authorization Act of 2021, would, if enacted, authorize $8 billion in appropriations to the USPS for the acquisition of electric vehicles and charging stations.[137] Similarly, H.R. 1636, the Postal Vehicle Modernization Act, would authorize $6 billion in appropriations for electric vehicles and charging stations.[138]

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[129] USPS, *FY2019 10-K*, p. 25.

[130] U.S. Postal Service, *2021 Annual Report to Congress*, p. 28, at https://about.usps.com/what/financials/annual-reports/fy2021.pdf.

[131] USPSOIG, "Delivery of a New Delivery Vehicle," September 17, 2020, at https://www.uspsoig.gov/blog/delivery-new-delivery-vehicle.

[132] U.S. Postal Service, *Next Generation Delivery Vehicle (NGDV) Prototype Request for Proposal (RFP): Statement of Objectives* (Attachment 1), October 20, 2015, p. 2.

[133] U.S. Postal Service, *Next Generation Delivery Vehicle (NGDV*): *Contract Award Notice*, at https://sam.gov/opp/1e56c386808444d886124fc1927f4eb0/view. Also see USPSOIG, *Next Generation Delivery Vehicles –Contract Clauses*, January 12, 2022, at https://www.uspsoig.gov/sites/default/files/document-library-files/2022/21-215-R22.pdf.

[134] USPS, "U.S. Postal Service Awards Contract to Launch Multi-Billion-Dollar Modernization of Postal Delivery Vehicle Fleet," February 23, 2021, at https://about.usps.com/newsroom/national-releases/2021/0223-multi-billion-dollar-modernization-of-postal-delivery-vehicle-fleet.htm.

[135] U.S. Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, p. 32.

[136] Ibid.

[137] H.R. 3521.

[138] H.R. 1636.

Nonpostal Products and Services

The PAEA defines *postal services* as "the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto" and prohibits the USPS from offering all but a limited number of excepted nonpostal products and services.[139] This restriction prevents the Postal Service from offering or developing new nonpostal products (e.g., expanded banking and financial services) or expanding into new markets that might increase its market share and revenue.[140]

Under the PAEA, the Postal Service is currently authorized to offer 11 nonpostal products and services, including two market dominant and nine competitive products.[141] The two market dominant products are

- USPS/public sector alliances, e.g., MoverSource, which allows the USPS to provide free change-of-address services by including moving tips and related advertisements;[142] and
- philatelic sales intended for stamp collectors, e.g., uncut press sheets, framed stamps, binders for storing stamps, and philatelic guides.[143]

The nine competitive products are

- private sector advertising on USPS.com, within U.S. post offices, or in other postal venues;
- licensing of USPS's copyrights and trademarks;
- mail service promotions, which "allow merchants who offer web-based customers the ability to create mail pieces through an online service." Prices for these products are negotiated between the merchant and the Postal Service;
- sale of officially licensed USPS retail products;
- U.S. Passport photo services;
- photocopying services;
- rental, leasing, and non-sale of USPS property;
- use of USPS training facility and courses; and
- the USPS Electronic Postmark (EPM) program, which "authorizes vendors to provide their customers with Postal Service-authorized timestamps."[144]

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[139] P.L. 109-435, Title I, §§101-102, 120 Stat. 3199. Regulations subsequently issued by the PRC state that a *postal service* "refers to the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto" and that a *postal product* "means a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied." 39 C.F.R. §§3001.5(s)-(t).

[140] Ibid.

[141] U.S. Postal Regulatory Commission, *Order Approving Mail Classification Schedule Descriptions and Prices for Nonpostal Service Products*, Docket No. MC2010-24, December 11, 2012.

[142] U.S. Postal Regulatory Commission, *Mail Classification Schedule*, at https://www.prc.gov/mail-classification-schedule.

[143] Ibid.

[144] U.S. Postal Regulatory Commission, *Mail Classification Schedule*, July 1, 2020, pp. 648-657. Also see U.S. Government Accountability Office, *U.S. Postal Service: Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products*, January 2013, pp. 18-20.

In FY2020, net revenue from competitive nonpostal products were $96 million, which is a decrease of approximately 14% from FY2019.[145] Select postal reform legislation introduced in recent Congresses would provide the USPS with authority to offer additional nonpostal products and services. For example, H.R. 3076, if enacted, would allow the USPS to provide certain nonpostal products and services to state, local, or tribal governments if the reimbursement for the product or service sufficiently covers the USPS's costs.[146]

In previous Congresses, postal reform legislation was introduced that would have expanded USPS's authority to offer nonpostal products and services, such as

- public Internet access;[147]
- drivers' license services;[148]
- hunting and fishing license services;[149]
- voter registration;[150] and
- postal banking and financial services.[151]

Postal Banking

Until 1965, the USPS offered a government-backed savings system to its customers.[152] Established by Congress in 1910, the Postal Savings System provided postal customers with a safe and convenient place to deposit money.[153] In recent Congresses, bills have been introduced that would provide the USPS with authorization to reinstitute postal banking, often as a means to expand financial services to underbanked communities.[154]

In 2015, the USPSOIG published a white paper that explored a range of possible postal banking approaches, ranging from the limited expansion of USPS's existing money order, cash checking, and debit card products and services to the establishment of a licensed USPS bank, with authority to take deposits, issue loans.[155] The Postal Service began a financial services pilot program in 2021, which is similar in scope to the limited expansion of services proposed by the USPSOIG.

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[145] U.S. Postal Regulatory Commission, *Annual Compliance Determination Report FY2020, March 29, 2021*, p. 90, at https://www.prc.gov/sites/default/files/reports/2020_ACD.pdf.

[146] H.R. 3076.

[147] S. 316 (113th); H.R. 630 (113th); H.R. 2960 (113th); S. 1742 (114th); S. 1854 (114th). Also see USPSOIG, *Next Generation Connectivity: Postal Service Roles in 5G and Broadband Deployment*, September 14, 2020, at https://www.uspsoig.gov/sites/default/files/document-library-files/2020/RISC-WP-20-007.pdf.

[148] S. 316 (113th); H.R. 630 (113th).

[149] Ibid.

[150] Ibid.

[151] S. 316 (113th); H.R. 630 (113th); H.R. 2960 (113th); H.R. 5179 (113th); S. 1854 (114th); H.R. 4422 (114th).

[152] USPSOIG, *Banking on the Postal Service*, May 4, 2009, at https://www.uspsoig.gov/blog/banking-postal-service.

[153] USPS, "Postal Savings System," at https://about.usps.com/who-we-are/postal-history/postal-savings-system.pdf.

[154] For example, H.R. 3617 (115th), POSTAL Act of 2017, would have authorized the USPS to provide basic financial services, such as (1) small-dollar loans; (2) checking accounts, and (3) interest-bearing savings accounts. Also see USPSOIG, *Providing Non-Bank Financial Services for the Underserved*, January 27, 2014, at https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf.

[155] USPSOIG, *The Road Ahead for Postal Financial Services*, May 21, 2015, at https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-011_0.pdf.

On September 13, 2021, the USPS pilot program was launched at the following post office retail locations:

- Baychester Post Office, Bronx, New York;
- Bailey Crossroads Post Office, Falls Church, Virginia;
- National Capital (Dorothy Height) Post Office, Washington DC; and
- Baltimore Post Office, Baltimore, Maryland.

According to a statement from the USPS, there are no costs associated with the pilot aside from the "very minimal expense" for signage at the four post offices.[156] USPS notes that no appropriated funds were used for the pilot and that the cost of the signage was paid for out of the Postal Service Fund.[157]

The pilot program allows customers to purchase a gift card using a payroll or business check. To qualify, the check must be made out to the customer and have the company name preprinted on the check.[158] In response to a request for program details, the USPS filed a report on the pilot with the PRC. According to the filing, six gift cards have been issued under the pilot with an average value of $91.41.[159] The total fee revenue for the six cards is $35.70. USPS stated that "although we are considering potential next steps for this initiative, no decisions or definitive plans regarding terminating, changing, or expanding the pilot have been made."[160]

Selected provisions in FY2022 appropriations acts would provide the USPS with funding to expand and continue its financial services pilot program. H.R. 4345, the Financial Services and General Government Appropriations Act, 2022, would provide $58.57 million for the Postal Service Fund, which is $6 million above USPS's budget request. According to the accompanying report, the additional $6 million is to be used by USPS to carry out non-bank financial services pilot programs in at least five rural and five non-rural ZIP codes "to the fullest extent permitted under current statutory authority."[161] A proposed FY2022 appropriations measure would also provide $58.57 million for the Postal Service Fund, though it does not state whether the additional $6 million is for postal financial services pilot programs.[162] Similar language was considered, but not enacted, in FY2021, as part of the Consolidated Appropriations Act, 2021.[163] The report accompanying the Financial Services and General Government Appropriations Act, 2021, encouraged the USPS to carry out postal banking pilot programs in "at least one urban zip code and at least one rural zip code."[164]

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[156] Electronic correspondence from the USPS, December 15, 2021.

[157] Ibid.

[158] Postal Regulatory Commission, *Annual Compliance Review 2021, Responses of the United States Postal Service to Questions 1-2 of Commission Information Request No. 1* (Docket No. ACR2021), January 14, 2022, at https://www.prc.gov/docs/120/120699/CIR%20No.%201.Responses.pdf.

[159] Ibid.

[160] Ibid., p. 6.

[161] H.Rept. 117-79, p. 113.

[162] H.R. 4502.

[163] P.L. 116-260. H.Rept. 116-456, p. 105. While the joint explanatory statement for P.L. 116-260 incorporates most of the language from H.Rept. 116-456, it did not adopt the House report directive on postal banking pilot programs. See explanatory statement in Book IV of the December 21, 2020 *Congressional Record*, at H8444, subheading titled "Postal Banking Pilot Programs."

[164] H.R. 4345; H.Rept. 116-456, p. 105. While the joint explanatory statement for P.L. 116-260 incorporates most of the language from H.Rept. 116-456, it did not adopt the House report directive on postal banking pilot programs. See explanatory statement in Book IV of the December 21, 2020, *Congressional Record*, at H8444, subheading titled "Postal Banking Pilot Programs."

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