Postal Regulatory Commission

Postal Regulatory Commission
901 New York Avenue, NW
Suite 200
Washington, DC 20268-0001
www.prc.gov

Phone: 202-789-6800
Fax: 202-789-6886

Contact: Ann Fisher
Ann.Fisher@prc.gov

Press Release

March 30, 2009

Commission Issues Annual Compliance Determination for FY 2008

Washington, DC – The Postal Regulatory Commission today issued its *Annual Compliance Determination (ACD) of the U.S. Postal Service Performance*, which details the financial and service performance of the Postal Service for fiscal year 2008. The Postal Accountability and Enhancement Act of 2006 (PAEA) requires this determination annually (39 U.S.C. §3653).

The Commission's report was prepared after a 90-day review of the Postal Service's 2008 Annual Compliance Report (ACR) and supplemental material, evaluation of public comments, and an assessment of data and information provided in several technical conferences. The review focuses on pricing results, service performance, and financial transparency.

Chairman Dan G. Blair said, "The Commission finds the Postal Service in general compliance with the PAEA. Our determination was conducted during a critical juncture, as the Postal Service struggles to remain financially viable and self-sustaining in the face of a declining economy and reduced demand for postal products. Overall, the Postal Service suffered a net loss of $2.8 billion in FY 2008."

"The agency's near-term liquidity and long-term viability are at risk as declining revenues are outpacing cost-control efforts and mail volume continues to fall at a record pace," Blair said.

Attached to this release are the Commission's Principle Findings. The full report is available at the Commission's website, www.prc.gov, along with the related documents under Docket No. ACR2008.

PRINCIPAL FINDINGS

Overall Result

The Postal Regulatory Commission finds that the Postal Service was severely impacted by the recession and continued diversion of mail to the internet which resulted in declining volumes and revenues during Fiscal Year 2008. The Postal Service experienced a $2.8 billion loss during the year.

The Postal Service plans to adjust prices on May 11, 2009. These adjustments ameliorate the need for the Commission to take immediate remedial action on prices and services.

Financial and Pricing Results

The Postal Service experienced a $2.8 billion net loss in Fiscal Year 2008. Contributing factors leading to this loss include:

- A Congressionally-mandated $5.6 billion payment into the Postal Service Retiree Health Benefit Fund;
- The decrease in mail volume of 9.5 billion pieces, or 4.6 percent, from FY 2007;
- A decline in Total Factor Productivity (-0.5) for the first time in 9 years despite the elimination of fifty million workhours;
- An increase in operating revenue of only 0.2 percent despite average price increases in May 2008 near the 2.9 percent cap; and
- A $1.1 billion loss from ten market dominant products that did not cover attributable costs, such as:
  - $437 million from Periodicals Mail which used nearly all of the limited price increase authority in May 2008;
  - $218 million from Standard Regular Flats Mail which had a below average increase in May 2008.

Worksharing discounts generally did not exceed avoided costs.

- Where discounts exceeded avoided costs, they were either justified by an exception in the PAEA or have been resolved in the planned May 2009 price changes.
- The Postal Service unilaterally modified established methodologies for analyzing workshare discounts for First-Class Automation Letters presorted to Mixed Area Automated Distribution Center (MAADC) and raised workshare issues to be resolved through a Commission proceeding initiated on March 16, 2009 by order No. 192.

Volume-based Negotiated Service Agreements (NSAs) for market dominant products essentially broke even in FY 2008 and made a positive contribution over the last two years.

Competitive products, as a whole, generated revenue that covered attributable costs, made the required 5.5 percent contribution to institutional costs and generated $14 million in net profit subject to an imputed Federal tax.

Seventeen competitive NSA contracts approved in FY 2008 are expected to improve net Postal revenues.

Five competitive international products did not cover their attributable costs with a combined loss of $48 million in FY 2008 but each is expected to make a contribution with the January 2009 price changes as required by the PAEA.

The decline in the volumes of flat-shaped mail and equipment problems in the Flats Sequencing System (FSS) prompt concerns over delays in the achievement of projected cost savings. The Commission will monitor the implementation and assess outcomes in future compliance reports.

Service Performance

Speed of delivery performance improved for the 20 percent of mail measured.

First-Class single-piece service exceeded the Postal Service's planned and prior year performance for Overnight, 2-day and 3-day delivery standards.

Single-piece First-Class Mail International performance improved by two percentage points as measured by the Postal Service. However, the Universal Postal Union measurement is significantly lower.

Package Services' performance improved from 57.7 percent on-time in FY 2007 to 63.9 percent nationally.

A measurement system based on the Intelligent Mail barcode (IMb) was pilot tested in FY 2008 and is planned for implementation in May 11, 2009.

It will eventually expand performance measurement to nearly all domestic mail.

Availability of meaningful measurement information depends on the extent of mailer participation in the IMb Program.

The Commission will monitor and assess progress in future determinations.

The Postal Service provided improved Customer Service Satisfaction data in FY 2008.

Surveys were expanded and included results from residential, small businesses, and large commercial accounts.

Ratings from residential and small business respondents were generally less favorable than from National and Premier commercial accounts.