



**POSTAL REGULATORY COMMISSION
CONGRESSIONAL BUDGET
JUSTIFICATION
FISCAL YEAR 2021**

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Executive Summary

The Postal Regulatory Commission (Commission) is an independent agency that has exercised regulatory oversight of the U.S. Postal Service (Postal Service) since its creation by the Postal Reorganization Act of 1970, with expanded responsibilities under the Postal Accountability and Enhancement Act of 2006 (PAEA). The Commission promotes high quality universal mail service for the American people by ensuring transparency, accountability, and compliance with the law, including in rates, product offerings, service quality, the governmental monopoly, and fair competition. The Commission's mission is to serve as the regulator of the Postal Service and provide analyses and transparency of postal financial operations to Congress, stakeholders, and the general public. Effective regulation of the Postal Service, the nation's second largest civilian employer which continues to face significant financial challenges, is as critically important as ever.

The Commission is in a precarious position after years of strict austerity measures, including suspension of salary increases, performance pay, training funds, and employee retention measures, that have resulted in the loss of mission-critical personnel. From Fiscal Year (FY) 2018 through the end of FY 2019, the Commission lost 22 staff. Without the ability to restore personnel levels and properly compensate remaining staff, the Commission expects to see further personnel losses that will threaten its fundamental ability to achieve its mission. As 95 percent of the Commission's expenditures are dedicated to personnel and lease obligations, the Commission cannot absorb any further budget reductions and it has already stretched its existing workforce to the limit with extensive austerity measures. It is necessary that the Commission receive the recommended appropriation to ensure that it is able to decisively operate at a steady state, no longer deferring mission-critical needs.

The Commission requests \$19,200,000 for FY 2021, an increase of \$2,585,000, in order to address the past budgetary shortfalls. The funds will be used to restore key positions, increase pay for performance, and implement long-deferred records, cybersecurity, and IT requirements in order to fulfill the Commission's increased workload and responsibilities.

Since FY 2009, Congress appropriates the Commission budget from the off-budget Postal Service Fund, which is the permanently appropriated revolving fund comprised solely of the monies that the Postal Service controls and raises from selling its products and services. The PAEA provided for the Commission's independence by authorizing submission of its budget request directly to Congress. The FY 2021 request represents a slight fraction of the Postal Service's FY 2019 operating revenue of \$71.3 billion.

The Postal Service's financial viability depends upon the prompt and efficient adjudication of pricing and product proposals, and the American public relies upon timely Commission oversight of Postal Service actions and responses to complaints and service inquiries. With a rapidly evolving postal sector resulting in an ever-increasing and complex caseload at the Commission, it is imperative that the Commission have the necessary funds to provide transparency and accountability of the Postal Service. Failure to provide the Commission with the President's budget recommendation in FY 2021 will materially jeopardize the Commission's ability to achieve its mission.

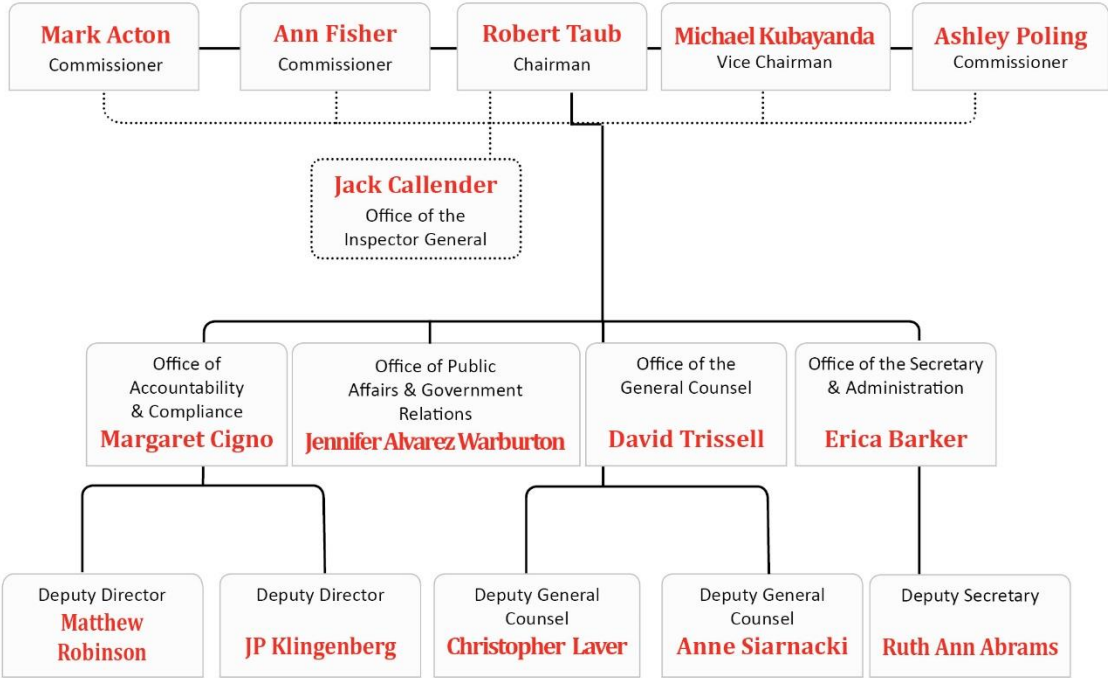
Overview of the Commission

The Commission is an independent establishment of the executive branch, exercising regulatory oversight over the Postal Service since its creation by the Postal Reorganization Act of 1970, with expanded responsibilities under the PAEA. The Commission is composed of five commissioners, each appointed by the President, by and with the advice and consent of the Senate, for a term of six years. No more than three of the commissioners may be from the same political party. The President designates one of the commissioners to serve as chairman. The chairman is the principal executive officer of the Commission.

Commission staff have expertise in law, economics, finance, statistics, and cost accounting. The Commission also maintains an independent Office of the Inspector General (OIG). The four offices are:

- Accountability and Compliance (OAC)
- General Counsel (OGC)
- Public Affairs and Government Relations (PAGR)
- Secretary and Administration (OSA)

Organizational Chart



Mission

Ensure transparency and accountability of the United States Postal Service and foster a vital and efficient universal mail system

Guiding Principles

The Commission is committed to, and operates by, the principles of:

- Openness
 - Public participation

- Integrity
 - Fairness and impartiality
 - Timely and rigorous analysis

- Merit
 - Commitment to excellence
 - Collegiality and multi-disciplinary approaches

- Adaptability
 - Proactive response to the rapidly changing postal environment

Vision

To be an independent regulator respected for effectively engaging postal stakeholders to promote a robust universal mail system through objective, accurate, and timely regulatory analyses and decisions

2019 Accomplishments

The Commission achieved significant accomplishments in FY 2019. These accomplishments and Commission activities are summarized below and detailed in the Commission's *Annual Report to the President and Congress for Fiscal Year 2019* (Annual Report) which is available at [https://www.prc.gov/sites/default/files/reports/FY2019 Annual%20Report.pdf](https://www.prc.gov/sites/default/files/reports/FY2019%20Annual%20Report.pdf).

In FY 2019, the Commission continued pursuing a revised rule in response to its statutorily-mandated review of the system for regulating rates and classes for Market Dominant products. Commission staff reviewed and considered more than 200 comments and nearly 20 reply comments throughout the course of the § 3622 10-year review proceeding. Based on the filed comments and additional considerations, the Commission issued a Revised Notice of Proposed Rulemaking on December 5, 2019, which modifies and clarifies the previous proposed rules. This ongoing proceeding requires extensive legal and technical analysis and the involvement of every member from the Commission's OAC and OGC staff.

The Commission also conducted a complex statutorily-mandated rulemaking to determine the appropriate minimum share of institutional costs that Competitive products must contribute to the Postal Service's total institutional costs pursuant to 39 U.S.C. § 3633(b). The law requires the Commission to review the appropriate share regulation at least every 5 years to determine if this requirement should be retained, modified, or eliminated. This statutorily-mandated review also requires significant Commission resources and functions as an essential check on the Postal Service to ensure that Competitive products are not being subsidized by Market Dominant products.

In addition to the two highlighted major rulemakings conducted by the Commission in FY 2019, the Commission also handled numerous rate and classification proceedings to ensure that rate and classification changes for Market Dominant and Competitive products comply with applicable statutory and regulatory requirements. The Commission reviewed and approved a Postal Service proposal to adjust Market Dominant prices and conducted a review of a Postal Service proposal regarding inbound international mail. The Commission's review of price adjustments demands significant analysis from both technical and legal staff and requires turnaround on an accelerated statutory timeframe. The Commission also reviewed and approved 215 Negotiated Service Agreements (NSAs) for Competitive products (191 domestic, 24 international) and issued orders concerning 131 amendments and modifications to existing NSAs for Competitive products. The Commission's review of rate and classification proceedings is a fundamental part of its oversight of the Postal Service.

As part of its mission to ensure transparency and accountability of Postal Service operations and foster a vital and efficient universal mail system, the Commission is also tasked with issuing reports on Postal Service financial results, its compliance with pricing and service standards, and its compliance with its performance plan. The Commission published these four major reports in FY 2019:

- The Annual Report described the Commission's accomplishments and activities as the regulator of the Postal Service.

- The *Annual Compliance Determination Report (ACD)* for FY 2018 reviewed the Postal Service's compliance with statutory pricing and service requirements.
- The *Financial Analysis of the United States Postal Service Financial Results and 10-K Statement for Fiscal Year 2018* provided an in-depth analysis of the Postal Service's financial condition.
- The *Analysis of the Postal Service FY 2018 Annual Performance Report and FY 2019 Performance Plan* evaluated whether the Postal Service met its performance goals as required under 39 U.S.C. § 3653(d).

Among many other accomplishments in FY 2019, the Commission:

- Revised and reorganized its regulations and rules of practice and procedures to simplify processes for participating in Commission dockets and rulemakings that had not been revised since the enactment of the PAEA or before
- Revised its rules and regulations to increase accountability and efficiency in the handling of Freedom of Information Act requests
- Adopted rules requiring the Postal Service to detail how an update to size or weight limitations adversely affects users of the mail or competitors
- Adopted rules improving transparency of cost and service performance issues related to flats
- Established procedures for conducting market tests
- Amended rules for the calculation of assumed Federal income tax on Competitive products
- Considered public inquiry dockets
- Consulted with the President's Task Force on the United States Postal System
- Provided testimony to Congress

The Commission also provides consumer assistance for a wide variety of rate and service inquiries. In FY 2019, the Commission processed more than seven thousand suggestions, comments, and inquiries from the general public primarily relating to undelivered, delayed, misdelivered, and missing mail.

In addition to the many accomplishments in FY 2019, the Commission also continued its initiatives to recruit, develop, and retain a skilled, high-achieving, and diverse workforce. At the end of FY 2019, women and minorities accounted for 60 percent and 34 percent of the workforce, respectively. The Commission will continue efforts to maintain diversity in the workforce through outreach and recruiting at local universities, veterans' groups, and through organizations that target under-represented populations.

Budget Justification

Overview and Highlights for FY 2021

The Commission transmits the President's appropriation recommendation of \$19,200,000 for FY 2021. The President's recommendation represents an increase of \$2,585,000 over the FY 2020 budget request of \$16,615,000.

The Commission's funding request is based on a projected staffing level of 80 full-time equivalents (FTEs). The proposed FY 2021 personnel budget is needed to fill numerous key vacancies resulting from employee separations related to the extended austerity measures enacted over the past fiscal years. The request also includes the resources necessary to fully implement the Commission's pay for performance system.

The Commission's non-personnel budget supports training, recruitment, and retention incentives for staff, as well as implementation of several critical deferred IT system requirements and improvements, including measures to strengthen the cybersecurity posture of the Commission. The Commission has deferred much-needed IT expenditures due to budget constraints and the Commission is operating "At-Risk," as defined by the Department of Homeland Security. This request supports the replacement of the Commission's electronic docketing system, which is nearing the end of its life and subject to failure due to deferred investments.

This fiscally conservative budget request is essential for the Commission to accomplish its mission; address in a timely fashion all statutorily-required and regulatory obligations in a drastically changing postal environment, including the mandated § 3622 10-year review and periodic reporting proposals; take on the administrative recommendations of the President's Task Force report that would expand the scope of the critical work of the Commission; strategically develop the workforce; modernize information security/cybersecurity protections; address emerging requirements in data governance and records management; and meet all other legal obligations.

Budget Program Information

The Commission's FY 2021 Performance Budget Plan has four programs consisting of: (1) Postal Service Accountability and Compliance; (2) Public Access and Participation; (3) Integration and Support; and (4) the Office of the Inspector General. These programs are aligned with the goals contained in the Commission's Strategic Plan.

Program	FY 2019 Appropriation		FY 2019 Requirement		FY 2020 Appropriation		FY 2020 Requirement		FY 2021 President's Recommendation	
	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE
Postal Service Accountability and Compliance	\$8,289	41	\$10,662	41	\$9,138	41	\$10,398	45	\$ 10,800	45
Public Access and Participation	\$ 3,021	13	\$4,113	18	\$3,157	17	\$4,159	18	\$4,320	18
Integration and Support	\$3,445	18	\$3,002	13	\$3,822	11	\$3,430	14	\$ 3,551	14
Office of the Inspector General*	\$445	3	\$478	3	\$498	3	\$498	3	\$529	3
Total	15,200	75	18,256	80	16,615	71	18,486	80	19,200	80
<p>Unobligated funds are used to offset shortfalls. FY 2021 recommendation shows the authorized complement of 80 FTEs.</p> <p>* This is the full amount requested by the Inspector General to fund personnel (including detailees), travel, and training.</p>										

Commission Strategic Plan and the FY 2021 Budget Request

The *FY 2017-2022 Strategic Plan* was developed to serve as a guide to steer the future work of the Commission and is a fundamental beacon for the Commission's efforts toward continuous improvement, efficiency, and effectiveness. The four strategic goals listed below guide the Commission's work and serve to directly link the budget to the *Strategic Plan's* Work Plans and Performance Objectives.

1. Deliver accurate and objective analyses and decisions to ensure transparency and accountability of the Postal Service.
2. Actively engage with Congress and stakeholders in support of a dynamic postal system.
3. Provide an optimal internal infrastructure to support management of priorities, workload, and emerging requirements.
4. Recruit, develop, and retain a diverse, high-performing workforce.

In addition to its strategic plan, the Commission focuses its efforts on the Cross-Agency Priority (CAP) goals from the President's Management Agenda to assess its ability to meet its mission. The four CAP goals concentrated on by the Commission include CAP Goal #1: Modernize IT to increase productivity and security; CAP Goal #2: Leveraging data as a strategic asset; CAP Goal #3: Developing a workforce for the 21st century; and CAP Goal #5: Sharing quality services.

In FY 2021, the Commission will be creating a new strategic plan for the next 5 years. This effort will build upon the existing *Strategic Plan* to ensure the ongoing alignment of agency strategic goals and the performance pay process.

Budget History and Constraints

Over the last several fiscal years, the Commission has been operating at a funding level far below the actual needs of the agency. Given the Administration's desired reductions throughout non-defense discretionary programs and the fact that the Commission—through a unique set of circumstances—had carryover funds, the Commission requested appropriations that were below its actual requirements. By implementing a combination of budget cuts and austerity measures, including hiring and pay freezes, elimination of employee recruitment and retention incentives, and delaying necessary infrastructure improvements and maintenance, the Commission was able to manage the gap between its expenditures and its lower appropriation. As described below, a larger appropriation is now critically necessary.

Since it began accumulating carryover funds,¹ the Commission has continuously submitted fiscally responsible appropriation requests. The Commission's budget requests do not

¹ Given the Commission's unique status as an independent establishment and regulator of the Postal Service, since 2015, the Commission's funds have been available to it without fiscal year limitation pursuant to a decision by the Comptroller General. See B-327122, November 30, 2015. This allows

include an amount for carryover funds; rather the accumulated carryover funds are due to unforeseen staff vacancies and funds set aside for potential and reserved litigation expenses that did not materialize. For example, funds allocated for a commissioner (and staff) billet began to accrue in 2015 and that position remained unfilled for more than 3 years. Beginning in FY 2018, instead of continuing to accrue funds such as this in a carryover balance, the Commission responsibly reduced its appropriation request and used a combination of carryover funds and austerity measures to fill the gap between its appropriated amounts and its spending requirements. The Commission was able to submit reduced appropriation requests in FYs 2018, 2019, and 2020, applying its carryover funds and implementing further budget cuts and deferred investments to meet its actual requirements.

In FY 2018, the Commission deferred IT projects and requested a reduced appropriation. It received an appropriation of \$15,200,000 and was able to apply limited carryover funds to meet the shortfall between the requested and actual appropriation. In FY 2019, the Commission again deferred IT projects and applied a number of other austerity measures to submit a reduced appropriations request. It again received an appropriation of \$15,200,000. In response to the constrained budget environment, the Commission instituted several actions affecting personnel, including a hiring freeze, a training budget freeze, a freeze on non-local professional development events, and suspension of the presidentially-approved, congressionally-authorized pay increase of 1.9 percent. These actions contributed to the highest attrition rate in Commission history, with an 11 percent voluntary separation rate. This turnover occurred at all levels of the Commission, including senior staff, mission-critical positions, and senior executives across the Commission's four major offices.

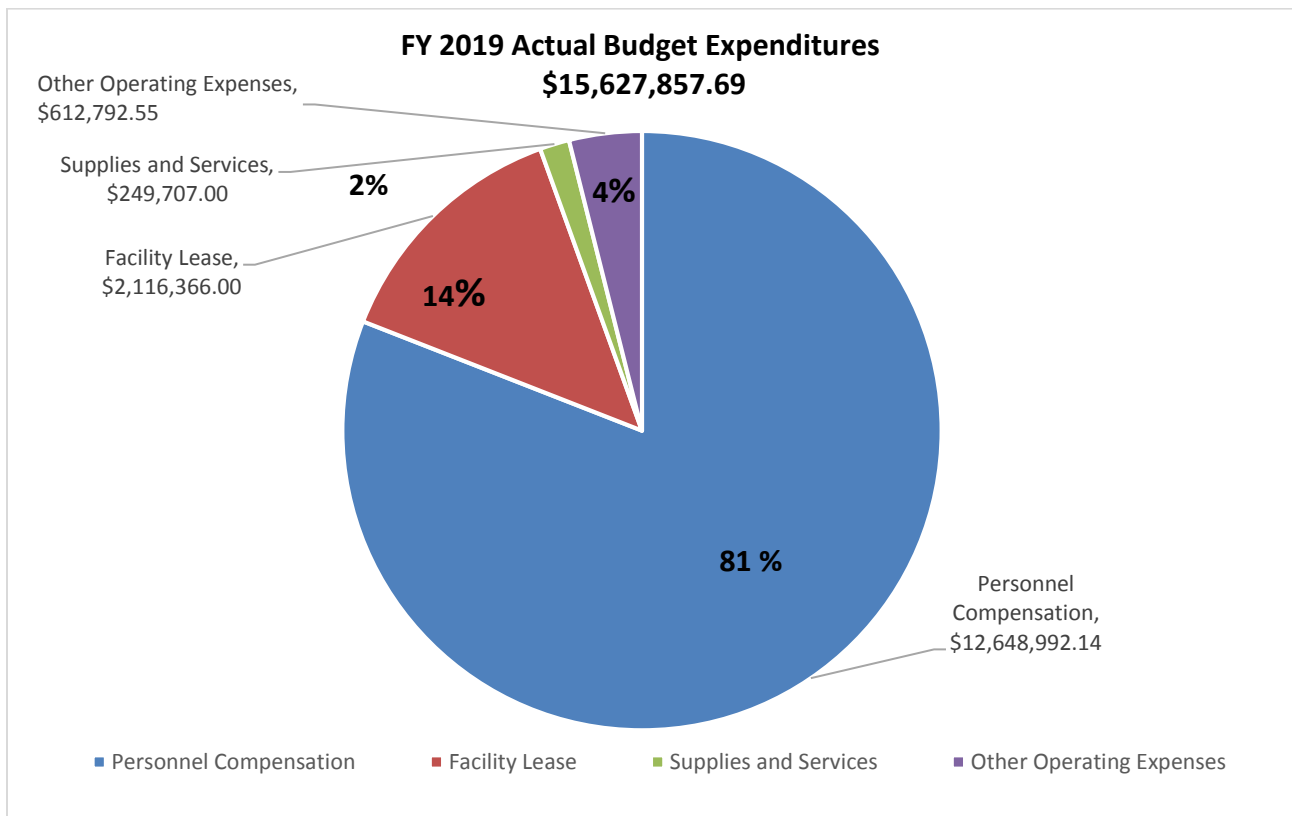
In FY 2020, the President's budget request and the amount appropriated was \$16,615,000. This amount was desperately needed at the Commission, and the funds specifically allowed the Commission to implement the President's 3.1 percent pay increase, reinstitute minimal employee training and recruitment/retention incentives, and begin necessary IT transitions and upgrades. However, even with this increase, the Commission's budget requirement remains higher than its appropriation. Although Commission carryover funding was projected to be completely exhausted by the close of FY 2019, unexpectedly high staff attrition during FY 2019 allowed the Commission to retain a small carryover balance to be utilized in the event of continued budgetary constraints. Considering the above budget history and challenges, the Commission's budget request for FY 2021 reflects the amount necessary to restore and sustain personnel and operational requirements.

the Commission to remain operating for a period of time during a government-wide lapse in appropriation or Continuing Resolutions (CRs) (subject to availability of carryover funds). CRs and government shutdowns do not apply to the Postal Service because its funds are not subject to the appropriations process. Thus, the availability and prudent use of carryover funds allowed the Commission to continue its regulatory oversight of the Postal Service despite budgetary shortfalls, which caused many other federal departments and agencies to shut down.

For nearly 38 years, from 1970 until FY 2008, the Commission received its budget directly from the Postal Service. During this time, the Commission received a consistent budget, with requested increases to cover the Commission’s requirements. When the Commission entered the appropriations process, the agency’s budget decreased dramatically in FY 2009 and remained generally flat until FY 2017. During this time, the Commission deferred needed hiring and investments in IT. After 6 years, this was no longer sustainable and additional monies were appropriated by Congress beginning in FY 2017. However, as detailed above, subsequent years’ appropriations were lower than the Commission’s requirements. Notably, the Commission’s FY 2008 budget was nearly \$15,000,000 and more than a decade later only increased to \$15,200,000 for FY 2018. The Commission has consistently employed numerous cost-reductions and austerity measures to manage operations since entering the appropriations process; however, it has reached a critical point where receiving the President’s recommendation of \$19,200,000 is imperative to meet its statutory obligations.

Personnel Compensation and Lease Obligations

The Commission’s two primary expenditures, personnel compensation and lease obligations, account for 95 percent of the annual appropriation. The chart below illustrates the limited room for budget reductions outside of personnel cuts that will ultimately degrade the Commission’s ability to meet its mission. The Commission is obligated to a long-term lease through 2022, and will continue to explore ways to reduce rental costs and optimize space throughout the Commission even before its lease expires.



The Commission is requesting the funds it needs to restore mission-critical positions, increase pay for performance spending programs, and provide training. In support of the Commission's budget request, the Commission highlights the challenges it is facing with personnel. These challenges result from significant staff attrition and lack of workforce development, increased statutory responsibilities, and workload as detailed below.

SIGNIFICANT STAFF ATTRITION AND LACK OF WORKFORCE DEVELOPMENT

CAP Goal #3: Developing a Workforce for the 21st Century

With the FY 2020 budget request of \$19,200,000, the Commission will be able to support 80 FTEs to meet the increased workload and other obligations facing the Commission. In FY 2018, the Commission strategically assessed its workforce to ensure that it possessed all necessary positions to accomplish its core mission. The Commission's workforce goal for FY 2021 is to preserve its ability to fund and award the current FTEs, fill mission-critical positions, and develop the staff to allow the Commission to fulfill its statutory and regulatory obligations and provide its expertise to the postal community. The Commission will continue to undertake a full evaluation of every vacancy before filling any positions, consistent with the Administration's goal of workforce reshaping and Government reform.

The Commission operates as a lean organization. After accounting for Commissioners, their staff, and administrative support personnel, the Commission has just 45 staff to perform the challenging analytical, technical, and legal work that is the core of the Commission's regulatory responsibilities. An additional resource requirement is that the Commission, by law, must also appoint a professional staff member to serve as an officer of the Commission to represent the interests of the general public in all docketed proceedings. Therefore, the Commission must field "two teams" for every case, further stretching resources.² The Commission, by law, must also maintain an independent Office of the Inspector General, which is comprised of three employees at a current cost of nearly \$500,000 annually.³

The Commission's funding levels over the past few fiscal years have negatively affected the retention of personnel and will impede the Commission in the future in carrying out its statutory and regulatory obligations if the FY 2021 request is not provided. The effects of the budget constraints are acutely evident in both the Commission's Office of Accountability and Compliance (OAC) and Office of the General Counsel (OGC). OAC is responsible for all of the Commission's technical analysis and formulation of policy

² Under 39 U.S.C. § 505, the Commission shall designate an officer of the Commission in all public proceedings to represent the interests of the general public. This officer, the Public Representative (PR), operates independently from the Commission and must adhere to *ex parte* rules. This requirement means that one or more staff members must be appointed PR in every case who, consequently, will not be available to assist the Commission in reviewing, analyzing, and making determinations for that case.

³ This includes the cost of detailees. Under the Inspector General Act of 1987 (Public Law 95-452; 5 U.S.C. App., as amended through Public Law 114-317), for each fiscal year, an Inspector General shall transmit a budget estimate and request to the head of the establishment or designated Federal entity to which the Inspector General reports. For FY 2021, the Inspector General has requested \$529,000.

recommendations for the Commission in both domestic and international matters. This office has experienced a 10 percent reduction in staff and because each staff member in OAC possesses a unique set of skills and expertise, the loss of just one FTE is acutely felt.

Similarly, the Commission's OGC has faced significant staffing shortfalls over the past year. In FY 2019 through the first quarter of FY 2020, OGC experienced a 14 percent reduction in staff due to voluntary separations. This directly impacts the Commission's ability to issue legally sound decisions, pursue rulemaking relevant to postal policy, and fulfill the Commission's statutory responsibilities. Additionally, OGC is responsible for ensuring that the Commission operates in a legally sound manner, including compliance with all applicable federal requirements in the areas of human resources, contracting, records management, and privacy. Finally, OGC is responsible for administering the Commission's ethics compliance (advice and financial disclosures) and FOIA programs, two essential federal requirements necessary to support the Commission's ability to provide transparency and accountability as it regulates within the postal system.

As a result of these personnel vacancies and statutory funding obligations, the most recent Federal Employee Viewpoint Survey results showed a decrease in the Commission's Employee Engagement index to 78 percent, and the largest decreases (all in excess of 22 points) related to questions on pay. Measures such as continuing the hiring freeze and potential staffing reductions, elimination of pay increases, continuing the prohibition on all travel, elimination of all training, and reduction of IT contract support directly led to a reduction in overall employee engagement at the Commission. The Commission anticipates that without sufficient funding these negative trends in attrition and engagement will continue into FY 2020 and FY 2021, seriously jeopardizing the Commission's ability to fulfill its statutory obligations.

It is important to recognize that the Commission deferred most hiring from 2008-2014. In the window between FY 2014 and the funding reduction in FY 2018, the Commission was finally able to make progress towards hiring the adequate number of staff to address the greatly expanded mission assigned under the PAEA. The budget reduction in FY 2019 led to staff shortfalls that will continue into FY 2020 and FY 2021 without adequate funding. The Commission does not anticipate adding personnel above the 80 FTEs at this time, despite the increased workload and obligations described below; rather, it is seeking to staff up to the authorized 80 FTEs necessary to accomplish the Commission's mission.

However, were it able to obtain more than 80 FTEs, the Commission identifies numerous projects that could be undertaken. With additional resources, the Commission would explore more ways to improve its:

- 1) Analysis of the United States Postal Service's financial position, strengthening the Commission's analysis and conclusions, potentially providing financial trend analysis of the Postal Service's financial data throughout the year instead of annually
- 2) Annual Report, reassessing the cost associated with the statutory requirement imposed on the Postal Service (§ 3651(b)(1)(C)), evaluating and updating the costs

not associated with the USO, reporting on the extent to which Market Dominant and Competitive products regulations are achieving the objectives of §§ 3622 and 3633

3) ACD, strengthening analysis to determine if rates were in compliance

As indicated, failure to attain this moderate increase in funding after years of insufficient funding will result in further reductions in staffing that will degrade the Commission's ability to meet its statutory responsibilities, delay timely responses, and affect the customer experience of the Postal Service's stakeholders, especially the American public and businesses.

INCREASE IN AWARDS FUNDING

CAP Goal #3: Developing a Workforce for the 21st Century

The FY 2021 budget request of \$19,200,000 includes a 1 percent increase in awards funding in accordance with the Passback Guidance. This 1 percent increase in awards spending is especially important since the Commission instituted pay measures that negatively affected staff retention (*e.g.*, did not pay the presidentially-approved, congressionally-authorized pay increase of 1.9 percent for FY 2019 due to budgetary constraints).

The human capital goal of the Commission, as stated in the Strategic Plan, is to "recruit, develop, and retain a diverse, high-performing workforce." CAP Goal #3 reflects the Commission's focus on "developing a workforce for the 21st century." To accomplish this goal, the Commission established a performance management policy in FY 2011 and applies a merit pay process to more closely link pay and performance. This policy established procedures for planning, assessing, rating, rewarding, and developing individual employee performance. It is the means by which the Commission measures and recognizes employee performance and accomplishments. This policy works hand-in-hand with the Commission's compensation policy to ensure that pay and performance are also aligned with the budget, which ensures the sustainability over time for the merit pay process. The 1 percent increase in awards spending supports CAP Goal #3 and the Commission's merit pay process.

Consistent with the Passback Guidance, the Commission plans to use the 1 percent increase allowed to bolster its award spending from FY 2020 to FY 2021 for non-SES/SL/ST positions with an additional \$59,064. In FY 2019, the awards spending at the Commission equaled 2 percent of non-SES/SL/ST spending. In accordance with the Passback Guidance, the FY 2021 budget provides for an amount dedicated towards awards equal to 3 percent, reflecting the 1 percent increase in awards spending. This amount will be applied to the Commission's merit pay system for the EOY performance cycle to recognize employees whose performance was critical to mission achievement.

Increased Statutory Responsibilities and Workload

As the regulator of the Postal Service, the Commission employs expert technical and legal staff that possess a unique set of skills related to postal regulation. Not only does the Commission's personnel work to fulfill the Commission's statutory obligations, but they must respond to the ever-changing needs of the Postal Service in a time where the Postal

Service is facing many challenges and threats to its continued viability. As summarized in more detail below, the Commission's increased workload demonstrates the critical need to restore its personnel to at least 80 FTEs and ensure there is sufficient IT support.

Increased Volume and Complexity of Cases

The number of docketed cases before the Commission continues to increase each year and these cases are becoming more complex, particularly those related to rates, new products, service changes, and competition. In FY 2021, the Commission expects a significant increase in workload. The increased workload stems from novel issues arising from the rapidly changing postal and delivery sector and the substantial financial and operational challenges facing the Postal Service. Given the precarious position of the Postal Service in the evolving delivery market, it is critically important that the Commission receive the full resources necessary to arbitrate these issues and carry out its oversight responsibilities.

As the Postal Service considers and implements changes to operating hours, delivery service, and processing infrastructure, the Commission will likely be required to handle several highly complex cases related to these changes. Additionally, as the Postal Service proposes new products, services, and Negotiated Service Agreements (NSAs) to generate additional revenue, the Commission must review these initiatives and service agreements to ensure a predictable, transparent, and effective system of rate and product regulation that complies with the law. As a result, the Commission will continue to handle an increasing number of complex dockets. It is imperative, therefore, that the Commission be able to preserve its ability to maintain its current FTEs, bolstered by strategic new growth, to allow the Commission to fulfill its statutory and regulatory obligations and provide its expertise to the mailing community.

This additional workload will demand intensive analysis by the Commission, involve extensive public participation, and require a significant share of the Commission's resources. In FY 2017, the 10-year anniversary of the PAEA's enactment, the Commission began its critical review, mandated by law, of the Market Dominant system of regulating rates and classifications. As a result of the Commission's findings following this review, the Commission will continue its rulemaking process in FY 2020 and FY 2021. This will entail extensive work and analysis by the Commission, involve significant public participation from postal stakeholders, and require a substantial share of the Commission's resources. Moreover, if a final rule is implemented, the Commission will require significant staff attention and time to implement the new system.

The requested \$19,200,000 places the Commission in a position where it will be able to fulfill its statutory obligations and appropriately regulate the Postal Service.

Increase in Unfunded Projects

However, even at this amount, the Commission will be hard pressed to complete the additional unfunded projects that are needed to fully address the issues facing the Postal Service. For example, the questions surrounding the Postal Service's Universal Service Obligation (USO), including how to define and determine the costs of the USO, will entail extensive resources and the hiring of additional staff beyond the 80 FTEs currently required. To explore these questions, the Commission would need to initiate a variety of

important dockets and engage with postal stakeholders and the public. The USO inquiry is only one example of a vital project that the Commission has not had the resources to explore. Other examples include issues related to the Postal Service's monopoly powers and ensuring fair competition.

The Commission also anticipates many new challenges as the President, Congress, the Postal Service, and interested stakeholders continue to explore the legal boundaries of the PAEA. For example, the Commission anticipates an increased workload based on the important work of the President's Task Force report on the United States Postal System, the 2018 Presidential Memorandum to modernize the system to reimburse postal operators for the delivery of goods, and any proposed legislation from Congress. The Commission anticipates that some of the President's Task Force's recommendations, if implemented, will directly impact the Commission and its work. Extensive engagement with Congress and the possibility of new Commission rulemakings related to the recommendations are anticipated throughout FY 2020 and FY 2021. These recommendations will create significant additional work for the Commission but they have not been accompanied by an increase in funding.

On August 23, 2018, the President issued to the Commission's chairman, as well as other various components of the Executive Branch, a "Memorandum on Modernizing the Monetary Reimbursement Model for the Delivery of Goods through the International Postal System and Enhancing the Security and Safety of International Mail." The report underscored the importance of the Commission's regulatory oversight role to impose increased accountability on the Postal Service. The Commission also serves an important statutory role in making recommendations to the Secretary of State about U.S. Government positions at the Universal Postal Union, particularly in promoting greater transparency and accountability.

Early in FY 2019, the President also issued further direction for the Commission and the Postal Service to implement self-declared rates charged to foreign posts. As a result, the Commission will experience significant increased workload related to its regulatory oversight of international mail. Not only will it require more in-depth analysis of proposals concerning rates for letters, flats, and other Market Dominant products, but the Commission's review of self-declared rates consistent with the President's direction represents new ground. As a result, this process will involve a host of new issues and questions that will require significant staff and IT resources to complete. The international mail issues present the Commission with new and substantial work, yet this additional work has not been accompanied by an increase in funding.

Finally, the Commission expects to adjudicate an increasing number of contentious cases involving requests to expand the scope of Postal Service Competitive products offerings, either through the creation of new Competitive products or the transfer of existing Market Dominant products to the Competitive products list. The Commission may also undertake other special studies requested by the Postal Service, Congress, or as needed to complete its statutory responsibilities.

The various unfunded projects and increased workload are in addition to the comprehensive oversight undertaken by the Commission in accordance with its statutory

responsibilities. As in previous years, the Commission will issue its primary regulatory document, the ACD, assessing the Postal Service’s compliance with ratemaking regulations and applicable laws. In this report, the Commission will review and determine whether Market Dominant rates are within the Consumer Price Index rate cap, whether workshare discounts meet the statutory requirements, whether Competitive products are subsidized by Market Dominant products, and whether Competitive products pay their attributable costs as well as an appropriate share of fixed postal costs. The report will also evaluate the Postal Service’s service performance. The Commission will also issue three additional reports: *The Analysis of United States Postal Service Financial Results and 10-K Statements*, *Analysis of the Postal Services Program Performance Report and Performance Plan*, and *Annual Report to the President and Congress*.

Increase in Litigation-Related Workload

Over the past several years, the Commission has faced an increase in challenges to its decisions, due in part to a rapidly changing—and increasingly competitive—postal environment. Challenges to Commission decisions, both by the Postal Service and its competitors, have caused additional strains on the Commission’s resources. *See USPS v. Postal Regulatory Commission*, D.C. Cir. No. 16-1412 (April 6, 2018); *USPS v. Postal Regulatory Commission*, D.C. Cir. No. 16-1284 (April 6, 2018); *UPS v. Postal Regulatory Commission*, No. 16-1354 (May 22 20, 2018); and *UPS v. Postal Regulatory Commission*, No. 1019-1026 (pending, oral argument held January 13, 2020). Additionally, consumer-led lawsuits have increased and demonstrate that as the Postal Service’s financial conditions worsens, consumers are paying more attention and exercising their rights to challenge Postal Service decisions. *See Carlson v. Postal Regulatory Commission*, D.C. Cir. No. 18-1328 (Sept. 13, 2019). Under the Court’s decision in *Carlson*, the Commission is now required to consider an exhaustive list of statutory objectives and factors in each individual rate case submitted by the Postal Service. Although these objectives and factors were considered by the Commission previously, the Court’s decision now specifically requires the Commission to extensively consider and evaluate them within the context of each rate case, including addressing specific comments filed by any commenters. This decision will increase the workhours necessary for the Commission to meet its statutory obligation as now defined by the Court. Given the trend, these types of challenges are expected to continue.

Information Technology

CAP Goal #1: Modernize IT to Increase Productivity and Security

In addition to personnel challenges, the Commission is facing significant challenges in IT due to deferred investments, cybersecurity threats, and aging systems. With the requested budget amount of \$19,200,000, as authorized by OMB in Directive M-17-28, the Commission seeks to maintain and optimize its IT infrastructure and strengthen its cybersecurity posture with funds dedicated to IT maintenance and improvements as described below. The Commission seeks to transform the Commission’s enterprise infrastructure, strengthen its cybersecurity posture, build a modern IT workforce by implementing cloud-computing solutions, and leverage shared IT services. The requested

funding will allow the Commission to align with CAP Goal #1, “Modernize IT to increase productivity and security.”

The IT budgetary resources will be used to address critical systems requirements, to improve continuity operations, and to allow for required exfiltration, penetration, and phishing tests; and for the transition to Enterprise Infrastructure Solutions (EIS), the required annual security assessment of IT systems, the move to cloud-based services for Commission applications, IT contract support, records management, and the required annual OIG evaluation of Federal Information Security Management Act (FISMA) compliance. The budget also must include funds necessary for the annual maintenance and monthly recurring charges for IT systems, including Managed Trusted Internet Protocol System (MTIPS) and dual-factor authentication.

Critical Systems Requirements

The Commission’s docket system is reaching the end of its life and is in immediate need of overhaul. In FY 2019, the Commission continued work on developing a cloud-based electronic document management system, which will provide internal and external customers with access to the Commission dockets system (the primary repository of Commission records) and replace the current aging system. This effort also aligns with the goals in the Passback Guidance concerning M-19-21, Transition to Electronic Records. Without the full funding request, the Commission is facing the potential failure of its dockets system. The Commission and the Postal Service, stakeholders, and the public rely on the Commission’s docket system to function efficiently and effectively.

Cybersecurity Needs

The Commission deferred much-needed IT expenditures for many years, and was finally able to begin modest investments in its IT infrastructure and make progress toward achieving FISMA compliance and greater cybersecurity in the window between FY 2014 and the FY 2018 reduction. However, the IT modernization plans are severely impacted by the current budget climate, and the Commission currently operates “At-Risk,” as defined by the Department of Homeland Security. This type of cyber-risk is not acceptable to the Commission.

Great strides were made in recent years toward hardening Commission systems and increasing Commission monitoring capabilities by implementing Continuous Diagnostic and Mitigation (CDM) as a shared service through the Department of Homeland Security (which also aligns with CAP Goal #5: Sharing quality services), despite the budgetary constraints. However, the Commission reached a point where further investments were placed on hold. In FY 2021, if funded as requested by the Commission, the Commission will implement the next phase of CDM and continue ongoing critical projects to ensure the security of Commission data and systems in the face of increased cybersecurity threats by obtaining up-to-date technology that ensures cyber-threats are systematically and effectively identified, evaluated, and mitigated.

The Commission operates a small IT team to handle all information technology needs for the Commission. This small and hard-working team provides all IT support for the Commission staff and for the public-facing web applications. However, there is a growing

skills gap in modern, up-to-date cybersecurity. This skills gap has been highlighted as the Commission implemented the first phase of CDM, and the Commission has realized the need to recruit a skilled cybersecurity professional to ensure that the Commission competently utilizes the CDM dashboard and other cyber information to monitor and mitigate threats. The Commission requires a cybersecurity specialist to establish and manage a cybersecurity program for the Commission, provide continuous monitoring and risk remediation of our IT assets, and safeguard the Commission's IT Infrastructure, applications, and data.

Modernization Initiatives

CAP Goal #2: Leveraging Data as a Strategic Asset

The Commission also intends to continue with other modernization initiatives that support CAP Goal #2 "Leveraging data as a strategic asset." The Commission recognizes that data contained in its docketing system is a primary strategic asset, and values the openness and transparency that this system affords to the general public. To ensure that this asset is available to all, the Commission needs to implement a suitable replacement to its aging dockets system, enhance its website to ensure compliance with the law, as well as conduct network exfiltration, phishing, and penetration testing as required by FISMA.

In FY 2020 and FY 2021, the Commission will finalize the implementation of an electronic document management system, in line with the priorities in the Passback Guidance. This system will provide compliance with OMB/National Archives and Records Administration (NARA) Records Management directives and improve the safeguards and security of Commission records, while providing a system for modern data governance. As stated above, funding is necessary for this new electronic document management system as the Commission's current dockets system is reaching the end of its life and subject to failure.

As part of this modernization initiative, the Commission plans to move the remaining majority of IT services and applications to the cloud in FY 2020-2021 by implementing Office 365 (including email) and moving continuity/disaster recovery systems to a Microsoft Azure cloud-based repository.

Enterprise Infrastructure Solutions Transition

The Commission also plans to begin implementation of its selected solutions for the upcoming telecommunication contract transition from Networx to EIS, and will finalize its implementation plan in early FY 2020. In FY 2020 and FY 2021, the Commission will work with GSA on the transition activities to ensure that the Commission has a compliant and up-to-date telecommunication infrastructure by the EIS transition deadline. This is a major project for the Commission IT staff and will require dedicated resources to complete.

An expected and necessary result of implementing these increased capabilities is the ongoing budgetary impact of annual licensing, service, and maintenance fees. The cost of these annual recurring fees is high. For example, MTIPS alone results in a monthly recurring cost of approximately \$10,000 (\$120,000 per fiscal year)—which is 0.8 percent of the entire Commission budget for this one mandated service. The Commission is seeking to alleviate some of this budgetary burden in its transition to EIS. This transition, however,

also requires a one-time implementation cost before the return on investment can be realized.

Conclusion

The Commission is comprised of a small team of hard-working highly qualified personnel responsible for the oversight of the Postal Service and its \$71.3 billion in annual revenues. The President is recommending an appropriation of \$19,200,000 in order to fulfill the Commission's mission to function as Congress intended and enable it to address challenges presented by past budgetary constraints and personnel and IT challenges.

If funded below the President's recommendation of \$19,200,000, the Commission will be hampered in its efforts to timely execute the Commission's workload, resulting in an inability to provide adequate regulatory oversight for postal matters. The Commission's budget represents a tiny fraction of the massive operating revenue of the Postal Service, and strong oversight of this changing industry is needed now more than ever. A Commission that lacks the funds to function as intended by Congress would likely facilitate a further degradation in certain Postal Service operations and potentially fail to curb possible abuse of the Postal Service's market power.

Obligation by Object Classification

(\$ In Thousands)

Object Classification	FY 2019 Appropriation (74 FTEs)	FY 2020 Appropriation (71 FTEs)	FY 2021 President's Recommendation (80 FTEs)
Personnel Compensation	\$ 12,272	\$ 12,707	\$ 14,455
Other Personnel Compensation	\$ 91	\$ 230	\$ 270
Subtotal	\$ 12,363	\$ 12,937	\$ 14,725
Supplies	\$ 1	\$ 42	\$ 80
Office Furniture & Equipment	\$ -	\$ 1	\$ 1
Office Equipment Rental & Repair	\$ -	\$ 1	\$ 1
Contractual Services	\$ -	\$ 315	\$ 332
Consulting Services	\$ 6	\$ 325	\$ 710
Advertising	\$ 1	\$ -	\$ 1
Building Repairs & Alterations	\$ -	\$ 1	\$ 5
Subtotal	\$ 8	\$ 685	\$ 1,130
Travel	\$ 1	\$ 6	\$ 17
Training	\$ 1	\$ 23	\$ 140
Printing and Reproduction	\$ 161	\$ 157	\$ 150
Lease	\$ 1,899	\$ 2,213	\$ 2,146
Miscellaneous, Subscriptions	\$ -	\$ -	\$ 86
Communications	\$ -	\$ 260	\$ 224
Information Technology	\$ 767	\$ 334	\$ 582
Subtotal	\$ 2,829	\$ 2,993	\$ 3,345
Total Obligations	\$ 15,200	\$ 16,615	\$ 19,200

Office of the Inspector General

Resources

The Commission's Office of the Inspector General was established in June 2007 as required by an amendment to the Inspector General Act of 1978 included in the PAEA. The Commission's Inspector General has a dual reporting responsibility to both commissioners and Congress.

The role of the OIG is to detect and deter fraud, waste, abuse, and mismanagement within Commission programs, as well as to promote efficient and effective use of Commission resources. To accomplish this, the OIG conducts, supervises, and coordinates independent audits, inspections, evaluations, and other reviews in accordance with applicable law. The OIG communicates the results of these assessments to commissioners, Commission management, Congress, other oversight entities as appropriate, and to the public. Generally, the OIG communicates these results in formal reports that contain findings and recommendations aimed at correcting any deficiencies identified and at promoting efficiency and effectiveness in Commission programs and operations.

The OIG maintains a hotline to allow employees and the public to anonymously report allegations of fraud, waste, abuse, and mismanagement.

The IG requested \$529,000 for the office's personnel, travel, and training costs as well as the Commission contribution to the Council of Inspectors General on Integrity and Efficiency (CIGIE). The request includes \$5,000 to satisfy training requirements and anticipated CIGIE dues.

Proposed Appropriations Language

*Postal Regulatory Commission
Salaries and Expenses
(including transfer of funds)*

For necessary expenses of the Postal Regulatory Commission in carrying out the provisions of the Postal Accountability and Enhancement Act (Public Law 109-435), \$19,200,000,⁴ to be derived by transfer from the Postal Service Fund and expended as authorized by section 603(a) of such Act.

⁴ Pursuant to 39 U.S.C. § 2009, “The President shall include [the Commission’s appropriation request], with his recommendations but without revision, in the budget transmitted to Congress under section 1105 of title 31.” To accommodate OMB’s request in the context of developing the Administration’s budget, the Commission transmits the President’s appropriation recommendation of \$19,200,000.

Strategic Goals, Work Plans, and Performance Objectives

Postal Service Accountability

STRATEGIC GOAL 1 - DELIVER ACCURATE AND OBJECTIVE ANALYSES AND DECISIONS TO ENSURE TRANSPARENCY AND ACCOUNTABILITY OF THE POSTAL SERVICE.

- **Strategic Objective 1.1.** Thoroughly and accurately analyze and apply statutes, regulations, and Commission precedent.
- **Strategic Objective 1.2.** Ensure transparent, accurate, and informative Postal Service reporting for evaluation of lawful compliance of rates and service performance.
- **Strategic Objective 1.3.** Responsibly, transparently, and efficiently lead the review of the existing statutory system for regulating rates and classes for Market Dominant products, as well as consider, and, if necessary, implement modifications or an alternative system.

FY 2021 Work Plan Strategies

- Analyze, develop, and implement public policy as it relates to postal matters.
- Execute a visible and effective advisory role with regard to measureable and dynamic Postal Service and mail delivery service performance.
- Consult on, revise, and augment performance standards and goals for Market Dominant products.
- Assess and refine the rules, regulations, and systems established for publication of relevant Postal Service data.
- Prepare analytical framework.

FY 2021 Work Plan

- Review and evaluate Postal Service financial data.
- Enforce compliance determinations.
- Review and evaluate Postal Service international data and proposals for the UPU.

Public Access and Participation

STRATEGIC GOAL 2 - ACTIVELY ENGAGE WITH CONGRESS AND STAKEHOLDERS IN SUPPORT OF A DYNAMIC POSTAL SYSTEM.

- **Strategic Objective 2.1.** Continue to strengthen proactive and responsive communication to foster a collaborative relationship with Congress.
- **Strategic Objective 2.2.** Foster constructive communications with the Postal Service and stakeholders to streamline the regulatory process.

- **Strategic Objective 2.3.** Clearly communicate complex analyses and decisions to address the needs of diverse stakeholders.

FY 2021 Work Plan Strategies

- Effectively communicate the outcome of Commission work to Congress in a timely fashion.
- Update the strategic communication plan to facilitate targeted congressional outreach.
- Participate in hearings on postal regulatory related matters.
- Facilitate efficient and effective Commission regulatory process and clearly articulate Commission expectations and timelines.
- Strengthen open communications with stakeholders.

FY 2021 Work Plan

- Maintain and update comprehensive strategy for outreach to the public and media. Implement consistent messaging, updating, and branding for public documents and the Commission’s website.
- Continue to enhance government relations through proactive outreach and relationship building with Congress and the Executive Branch, and Federal, state, and local governments.
- Maintain a timely system to track, analyze, and respond to public and consumer inquiries and correspondence, including “informal complaints.”
- Identify legislative and public affairs priorities. Develop Commission Annual Report.

Integration and Support

STRATEGIC GOAL 3 - PROVIDE AN OPTIMAL INTERNAL INFRASTRUCTURE TO SUPPORT MANAGEMENT OF PRIORITIES, WORKLOAD, AND EMERGING REQUIREMENTS.

- **Strategic Objective 3.1.** Optimize support infrastructure to manage and advance system capability, requirements, and security.
- **Strategic Objective 3.2.** Prioritize and manage workload to increase capacity and agility.
- **Strategic Objective 3.3.** Collaboratively work across functions to maintain open internal communication and address emerging requirements.

STRATEGIC GOAL 4 - RECRUIT, DEVELOP, AND RETAIN A DIVERSE, HIGH-PERFORMING WORKFORCE.

- **Strategic Objective 4.1.** Exercise Commission flexibilities to attract and retain a diverse, high-performing workforce.
- **Strategic Objective 4.2.** Maintain fair and impartial human capital management.
- **Strategic Objective 4.3.** Continue to enhance the Commission’s commitment to being an employer of choice.

FY 2021 Work Plan Strategies for Strategic Goals 3 and 4

- Optimize IT capabilities.
- Strengthen and modernize the records management program.
- Streamline and standardize procurement policies and processes.
- Maintain ongoing communication of priorities among commissioners and senior staff.
- Collaborate to develop and effectively communicate administrative guidance and investment priorities.
- Attract and hire qualified and diverse candidates consistent with Federal laws.
- Strengthen relationships with affinity groups to ensure diverse outreach efforts.
- Maintain a Human Capital Plan.
- Maintain the Commission's strong commitment to equal employment opportunity.
- Involve employees and participants as agents of diversity, inclusion, and mutual respect.
- Continue refining administrative and HR analytics to inform decision-making.

FY 2021 Work Plan for Strategic Goals 3 and 4

- Develop and maintain the Commission's annual budget and fiscal processes based on Administration guidance.
- Assess all IT security policies, practices, and enforcement procedures to ensure functionality and security of electronic communication systems such as website, dockets, Local Area Network, webcasts, email, Voice-Over-Internet Protocol telephony, etc.
- Execute FY 2021 IT project plan.
- Ensure that Commission records are properly maintained in accordance with policies and procedures.
- Continue to improve the records management program at the Commission. Review and modify, as necessary, records schedules and policies to meet records management directives and to simplify Commission workflow processes. Implement necessary technology to maintain a modern records management system, including management of all electronic records.
- Ensure the website – both internal and external – is current, accessible, and useful to stakeholders.
- Continue to maintain financial controls to ensure adequate fiscal responsibility.
- Ensure equipment and facilities are sufficient, safe, and secure.
Enforce up-to-date IT security requirements.