POSTAL REGULATORY COMMISSION

FISCAL YEAR 2024 BUDGET REQUEST

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August 1, 2023

The Honorable Roman Martinez IV
Chairman, Board of Governors
United States Postal Service
Washington, D.C. 20268

In accordance with title 39, United States Code, section 205, I am submitting the Budget Request of the Postal Regulatory Commission for FY 2024. This is the Commission's second Budget Request submitted to the Postal Service Governors under the Postal Service Reform Act. The Commission submits this request one month prior to the statutory due date.

Like the Postal Service, the Commission is in the process of transforming as an agency to fulfill its mission in a fast-changing environment. Years of underinvestment and limited funding have resulted in massive infrastructure and organizational deficits that require remediation. The Commission's workforce strains to support the additional workload created by the *Delivering for America* (DFA) Plan and the increasing administrative compliance mandates for its operations.

Since Congress transferred the Commission's Office of Inspector General (OIG) responsibilities to the Postal Service's OIG last year, there has been a significant increase in OIG audits. Those audits are demonstrating that the Commission's bare bones operations are no longer sustainable for compliance with various legal and policy mandates and are out of step with the needs of postal stakeholders, including the Postal Service. In terms of its regulatory responsibilities, it is difficult to see how the Commission can meet the Postal Service's calls for more timely proceedings on the numerous transformational initiatives under the DFA Plan; deal efficiently with day-to-day evaluation of negotiated service agreements and other petitions; and fulfill its expanding federal compliance and security obligations, without expanding the Commission's capacity accordingly.

With the approval of its FY 2023 Budget, the Commission was able to begin implementing its strategic initiatives and funding long-deferred operational investments. For one example, a minor addition of capacity enabled the Commission to seek and obtain an unprecedented second award from the Federal Government's Technology Modernization Fund (TMF). The two TMF awards are funding long-overdue upgrades to our docket system, website, and other IT and data management systems. These upgrades, in turn, will enhance functionality for the Postal Service and other users.

The Commission recently received a supplemental TMF award to engage the Department of Justice's Security Operations Center to assist in monitoring ongoing threats to the Commission's IT systems, thereby safeguarding sensitive data held by the Commission, including data submitted by the Postal Service and other parties. This critical support supplements the Commission's tiny two-person cybersecurity team which, by itself, could not fully counter threats posed by hackers, criminal entities, and foreign powers, some of whom may be seeking a backdoor to attack a much larger target in the Postal Service. The awards will also allow the Commission to comply with Federal laws governing IT security, as well to begin the long process of ascertaining and applying best practices for cybersecurity. In short, investing in Commission capacity is cost-effective and has a multiplier effect that benefits the Postal Service as well.

Despite the welcome receipt of additional funding in FY 2023, the prolonged lack of funding over time has led to a deterioration of Commission infrastructure, outdated technology, and understaffing. To rectify these issues and implement long-deferred investments, the Commission requires time to plan and execute strategic changes as outlined in the Commission's FY 2023 – FY 2028 Strategic Plan. Rebuilding infrastructure, modernizing systems, and hiring and training qualified personnel all take considerable time and resources. While increased funding is a positive step forward, it is essential to recognize that the impact of previous financial constraints cannot be undone overnight, and sustained efforts are necessary for a comprehensive recovery.

The Commission requests $23.399 million for FY 2024. The Commission will use these resources to cover operating costs, inflationary increases, and investments in staff, infrastructure, and technology that will increase regulatory efficiency. The Budget Request presents a balanced approach that will provide much-needed capacity by adding five full-time equivalent employees to the Commission's workforce along with the strategic hiring of contractors. These employees and contractors will help to close important gaps in internal controls and capacity and to enhance the Commission's ability to conduct effective oversight on a timely basis.

Similar to last year's request, this request is mitigated by the Commission's two additional funding sources: holdover funding resulting from a "no-year" fund balance and awards from the TMF. The resulting application of these funds to the FY 2024 Budget means that the Commission's budget request to the Governors will continue to be lower than its planned overall expenses, until the time when the additional funding sources are exhausted. Receiving significant TMF awards represents a substantial cost-saving opportunity for the Commission and the Postal Service. As noted above, this cost-saving opportunity—outside funding for improvements to the Postal Service's user experience and information security—was enabled by the Postal Service's investment in building the Commission's capacity through the previous year's budget.

Sincerely,

Michael Kubayanda

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Michael M. Kubayanda
Chairman

I. BACKGROUND

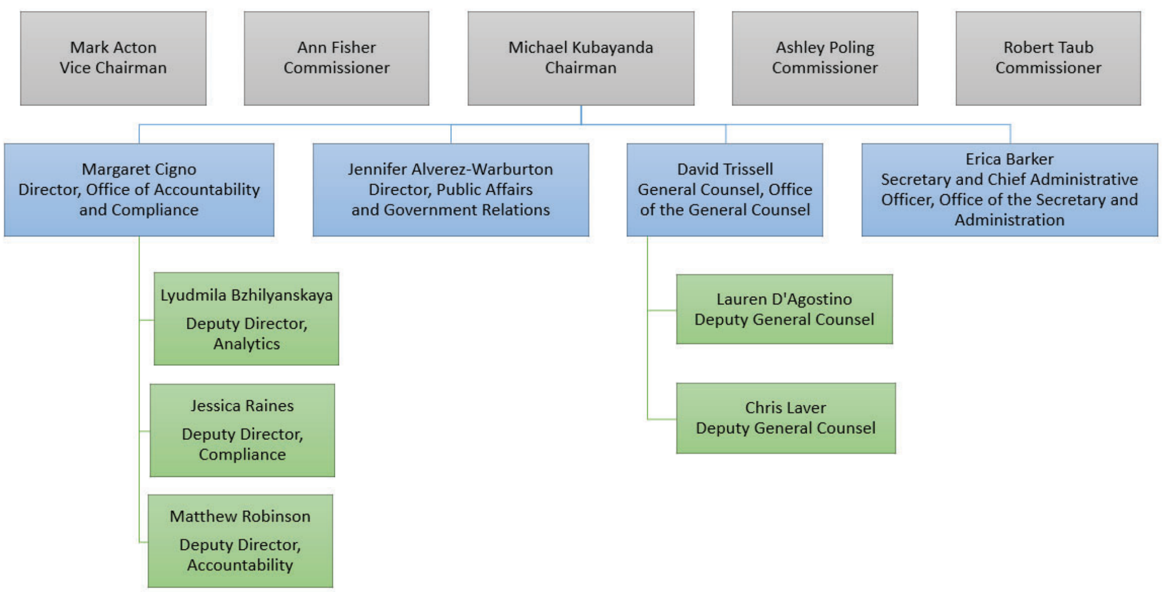
A. Commission Organization

The Postal Regulatory Commission (Commission) is an independent agency that oversees the U.S. Postal Service (Postal Service) and provides analyses of and transparency into postal operations to Congress, stakeholders, and the public. All Postal Service requests for pricing and product classification changes, among many other matters, must be reviewed by the Commission under Title 39 of the U.S. Code.

The Commission is composed of five commissioners, each appointed by the President, and with the advice and consent of the Senate, for terms of 6 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 economics, finance, statistics, cost accounting, and law, as well as public affairs and agency administration. The four offices are:

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



B. Operational Landscape

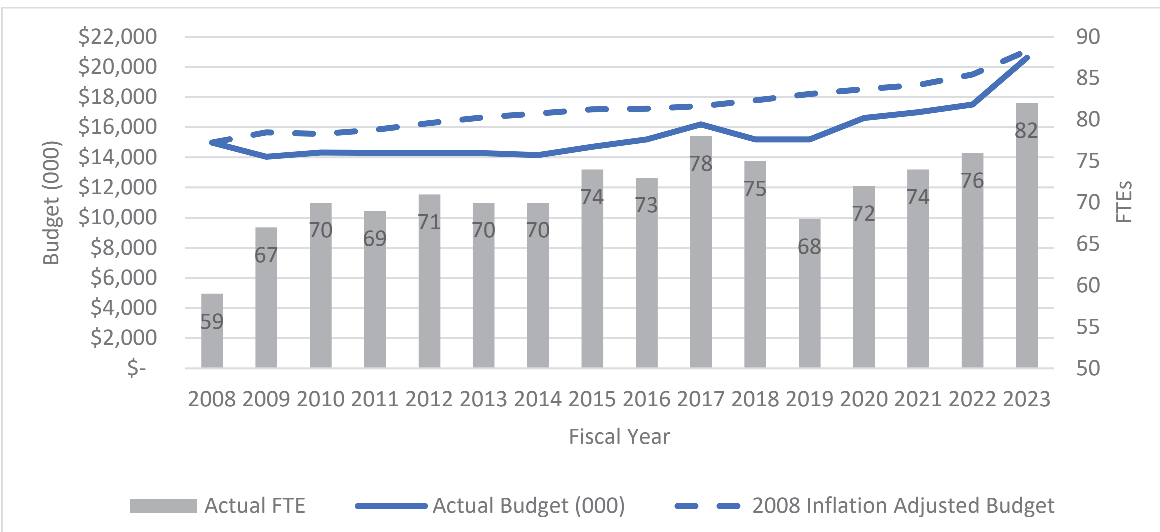
Over the past decade, the Commission has encountered several challenges that have had a direct impact on its budgetary requirements. These challenges provide context for its budget request, and include the impact of past funding constraints, limited resources, and limited technological and data advancements,

compliance demands, and broad regulatory responsibilities. While the Commission's commitment to its mission is unwavering, it faces many inherent limitations as a small agency compared to the Postal Service and its larger Federal agency counterparts.

1. Past funding constraints

As shown in Figure 1, the Commission's appropriated budget from FY 2009 – FY 2022 failed to keep pace with inflation. The Commission's budget increased by 13 percent over a thirteen-year period (FY 2009 – FY 2022). During the same period, inflation increased 30 percent. Even the Commission's FY 2023 Budget Request of $20.6 million is less than a FY 2008 inflation-adjusted budget would have been in FY 2023 ($21.1m); still less than needed to make up for the intervening 15 years' inflation-adjusted budget cuts. Despite this consistent underfunding, the Commission was still able to increase staff to meet the growing needs that resulted from the Postal Accountability and Enhancement Act of 2007 and consistently meet its mission. However, to support its mission-critical personnel, it had to defer significant investments in its IT and operations, as well as limiting expenses for training, travel, and other services.

Figure 1: Historical Commission Budget and FTEs FY 2008 - FY 2023



Years of underfunding and a budget that failed to keep pace with inflation have had significant impacts on the Commission. This funding history has impacted the Commission's mission effectiveness as it currently operates with stretched resources, decreased capacity, outdated technology and infrastructure, and limited innovation and growth. Without appropriate budgetary resources, the Commission will continue to struggle to adapt to changing circumstances and it will operate at increased risk, mainly in areas of cybersecurity and compliance.

2. Limited Resources

The Commission is a very small agency with approximately 82 full-time equivalent positions (FTEs) in FY 2023 and is part of the federal government's Small Agency Council. Despite its mission as the sole regulator of the Postal Service, it still struggles with the unique operational issues and constraints compared to larger Federal agencies. Due to resource constraints from past years of underfunding and its small workforce, the Commission lacks the flexibility to shift resources to respond quickly to emerging issues or changes in priorities affecting the Postal Service.

An ever-increasing workload has also stressed its current workforce, leading to a lack of capacity to handle various tasks. The enactment of the Postal Service Reform Act (PSRA) on April 6, 2022, and the numerous transformational initiatives outlined in the Postal Service's *Delivering for America* (DFA) Plan have resulted in a significant increase to the Commission's workload. As a regulatory body, the Commission is responsible for the thorough and accurate analysis of Postal Service reports on performance, operational, and financial issues to ensure that the Postal Service is compliant with the law. In addition to the core regulatory oversight provided by the Commission related to compliance, the Commission is statutorily required to handle a wide range of other postal issues that differ in scope and complexity. These tasks are generally unpredictable and dependent on Postal Service needs, and the Commission must always be ready to shift its limited resources to fulfill its responsibilities.

The Commission is also unable to utilize more than a handful of academic and private sector experts to supplements its staff, while the Postal Service and the Office of the Inspector General utilize some of the largest contractors. Due to its small size, the Commission experiences reduced economies of scale that impact its operations and limit its ability to take advantage of cost-saving opportunities available to larger agencies.

3. Limited Technological and Data Advancements

The Commission is faced with information technology security and management challenges that threaten (1) the protection of its IT systems from intrusion or compromise by external or internal entities and (2) the planning and acquisition for replacing or upgrading IT infrastructure. The Commission, unlike the Postal Service, is required to comply with the Federal Information Management Security Act (FISMA) and has the same obligations as other, larger federal entities with respect to its IT infrastructure and security, despite operating with only a fraction of other agencies' staff and resources. As a result, the Commission is subject to compliance with security and infrastructure obligations that require significant additional investment. The Commission operates with only two cybersecurity professionals, and the lack of sufficient and sustained funding for its cybersecurity represents the largest threat to Commission operations. These limited cybersecurity resources also impact the Postal Service and present risk to the Postal Service's non-public and commercially-sensitive business data that is maintained within the Commission's systems.

The Commission's IT systems have been hampered by aging infrastructure, most of which was past its useful life and not supported. Its antiquated data environment and analysis tools impede the efficiency and effectiveness of staff's work. The lack of modern data infrastructure and management hinders the Commission's ability to access, process, and analyze Postal data efficiently. Data retrieval becomes a cumbersome and time-consuming task, delaying critical decision-making processes and impeding the Commission's ability to respond promptly to emerging challenges.

4. Legal and Regulatory Compliance Obligations

As a small agency, the Commission is subject to many of the same regulatory and administrative burdens as larger agencies, including compliance with additional laws and Executive Orders that do not apply to the Postal Service. These compliance obligations include reporting due to the Office of Budget and Management, Office of Personnel Management, Cybersecurity and Infrastructure Security Agency, Equal Employment Opportunity Commission, Department of Homeland Security, National Archives and Records Administration, and more. However, the Commission struggles to meet its compliance obligations due to the nature of the compliance requirements (designed with the larger CFO Act agencies in mind) and its limited resources.

In addition to its federal compliance obligations, the Commission also has new and extensive audit management responsibilities. With the abolishment of the Commission's Office of Inspector General in October 2022, the Commission is now subject to audits by the Postal Service OIG. The Commission's previous inspector general conducted at most, one audit per year, and since October 2022, the Postal Service has already completed 2 audits, with 1 audit currently ongoing. While the Commission welcomes the oversight and expertise of the Postal Service OIG, the work created by additional audits has been difficult for its administrative office to absorb, as the Commission does not have a supporting audit office or internal staff dedicated to audit management and response within the Commission. In addition to the capacity needed to respond to increased OIG oversight, the OIG reports have already highlighted known and unknown areas where additional investment in personnel and technology is needed to operate effectively and in compliance with applicable laws and best practices.

II. FY 2023 ACTIVITIES AND ACCOMPLISHMENTS

Over the past year, the Commission made significant strides in fulfilling its mission and delivering on its core objectives. Through prudent financial management and strategic allocation of resources, the Commission achieved notable accomplishments that demonstrate the efficacy of its FY 2023 budget. Due to its FY 2023 budget approved by the Governors, the Commission has achieved ambitious milestones and made significant strides towards building capacity for its mission-critical work and services. The following highlights showcase how the allocated funds have been well spent, yielding tangible results and positive impacts on the Commission's initiatives.

A. New Strategic Plan

In FY 2023, the Commission finalized its FY 2023 – FY 2028 Strategic Plan. The Strategic Plan recognizes and anticipates a potentially significant degree of change to the postal system and the Postal Service.

Strategic Goal 1: Anticipate and adapt to an evolving postal system through a responsive and trusted regulatory framework

Strategic Goal 2: Enhance and expand communication of accurate and relevant regulatory information to postal stakeholders, policymakers, and the general public

Strategic Goal 3: Develop an internal infrastructure to support and strengthen our regulatory capabilities through adaptive policies, efficient processes, and scalable platforms

Strategic Goal 4: Build an organization that will attract, develop, and retain a diverse workforce of experts

The four Strategic Goals balance an external focus on adapting the Commission's regulatory framework to a transforming Postal Service with an internal focus on strengthening the Commission's capabilities to be an effective and efficient regulator through that transformation.

In FY 2023, the Commission also began implementing its strategic plan to ensure that these goals are achieved and retained the services of a consultant to accelerate its implementation of its plan.

B. Increased Regulatory Activities

Over the past year, the Commission's small expert staff handled a significant increase in workload and navigated increasingly complex regulatory matters. The increased workload was influenced by multiple factors, including additional responsibilities and reporting requirements stemming from the PSRA and Congressional oversight, and an increase in regulatory activity before the Commission as initiated by the Postal Service and stakeholders. The Commission also adjudicated an increasing number of proceedings relating to the Postal Service's DFA Plan. This additional workload demands intensive analysis by the Commission, involves extensive public participation, and requires a significant share of the Commission's already strained resources.

As directed by the PSRA, the Commission accomplished the following:

- Conducted a study on the causes and effects of inefficiencies with flat-shaped mail, in consultation with the USPS OIG and with the assistance of the Postal Service, and submitted a report of the Commission's findings to Congress and the Postmaster General on April 6, 2023. As part of the study of flat-shaped mail, the Commission's data analytics team in OAC conducted site visits encompassing several different types of Postal Service facilities, including mail processing plants, transportation hubs, and delivery units.
- Oversaw the Postal Service's development and maintenance of a public service performance information dashboard.
- Initiated review of Postal Service cost attribution guidelines.
- Determined the effect on cost reporting rules of PSRA changes related to the Postal Service's annual payments toward its retirees' projected health benefits. In March, OAC staff completed the review of separate proposals from the Postal Service and a coalition of mailers regarding these PSRA reforms' impact on Postal Service product costs. These changes had substantial effects on the costs reported in the Postal Service's end-of-year Cost and Revenue Analysis report (CRA).

This work resulting from the PSRA was in addition to the Commission's core regulatory responsibilities, which include conducting rulemakings, advisory opinions, pricing and product oversight, public inquiry dockets, and reports required by the PAEA or otherwise requested by Congressional oversight bodies. Additional accomplishments include:

- Review of two market-dominant price changes and three competitive price changes so far in FY 2023, as opposed to one and two prior to FY 2022. This significant increase in workload stems from Postal Service pricing strategies adopted under the DFA Plan.
- Issuance of a report prepared by a contractor on the feasibility of restoring service standards to 2012 levels as requested by the Joint Explanatory Statement accompanying the Consolidated Appropriations Act, 2022 (House of Representatives Report 117-79).
- Review and analysis of an increasing number of negotiated service agreements (NSAs) between the Postal Service and its customers.
- In addition to core regulatory responsibilities, published a fully accessible and user-friendly financial dashboard with downloadable data that provides a visual snapshot of key components of its analysis of the Postal Service's financial reports, including balance sheet and mail volume trends from 2007 to 2022. The dashboard tracks trends in the Postal Service's operating expenses and revenue, operating ratio, percent changes in market dominant mail volume by categories, and the percent share of competitive products contribution to institutional cost.

With respect to the first three bullets—and all other core regulatory activities—the Commission acts solely in response to Postal Service filings and Congressional requests or directives. The Commission thus lacks discretion to control the vast majority of its escalating workload.

C. Added Capacity and Postal Expertise

Over the past year, the Commission has made strategic and impactful new hires that have significantly enhanced its capacity and expertise across various domains. The Commission identified critical gaps in its workforce and aligned hiring efforts with the Commission's strategic goals to successfully onboard top talent with specialized skill sets that align with its mission. The Commission has added ten new positions in FY 2023, including experts in economics, law, and postal data, as well as a Chief Data Officer and the Commission's first Contracting Officer. These new team members bring a wealth of knowledge and experience, providing additional capacity which will support the Commission as it continues to tackle complex challenges.

Their contributions have already proven invaluable in driving innovation, streamlining processes, and elevating the overall performance of the Commission. Despite limited resources and constraints, its small professional staff demonstrated a level of dedication that has been instrumental in successfully managing the surge in responsibilities, ensuring that critical tasks were accomplished effectively and efficiently.

D. IT Modernization

The Commission is engaged in a multi-year IT infrastructure optimization initiative due to the TMF award and support of the TMF Board. Based on this award, the Commission is investing in a replacement of its legacy electronic docketing system, a new user-friendly public-facing website, development of a data management system, and critical cybersecurity upgrades. In addition to its progress on its three critical platforms, the Commission received an additional award from the TMF that is targeted to resolve critical cybersecurity issues resulting from long-term underinvestment in cybersecurity at the Commission.

In June 2023, the Commission deployed its new electronic filing and docketing system called eDockets; replacing its legacy filing online system. It also began development on its second key platform: a new public-facing website. With its new Chief Data Officer, onboarded in Quarter 2 of FY 2023, the Commission established a protype data management system that will be used to inventory, organize, automate, and serve data received by the Postal Service for use by Commission analysts.

III. FY 2024 BUDGET REQUEST

This is the Commission's second Budget Request submitted to the Postal Service Governors, consistent with the PSRA. The Commission's FY 2024 Budget Request matches the Commission's commitment to effectively align its mission resources and comply with the additional requirements under the PSRA.

The Commission requests $23.399 million for FY 2024. This represents an increase of $2.786 million over the Commission's FY 2023 budget of $20.613 million. The increase is due to the following factors:

- Increases to fixed costs, including inflationary adjustments to wages and benefits
- The expiration of rent abatement
- Addition of 5 full-time equivalent employees

In FY 2023, the Commission requested a budget of $20.613 million. In addition, it planned to apply funds from its prior year balances and TMF award for a total spend of $24.479 million. At the time of this request, with two months remaining in FY 2023, the Commission is projected to spend $21.0 million. While projected to spend more than the budget approved by the Governors at the close of this fiscal year, the Commission under-executed on its planned total expenses (i.e., including from prior year balances and TMF awards). Insufficient capacity hindered its ability to undertake planned activities and initiatives fully. However, as FY 2023 comes to a close, the Commission has diligently ramped up activity execution and implementation of planned initiatives.

The Commission's FY 2024 Budget Request is crucial to address the significant capacity and resource gaps that exist between its current operations and the foundational infrastructure required to meet evolving regulatory demands. The FY 2024 Budget Request includes a portion of the under-executed activities from the previous year, along with the costs of implementing new initiatives for FY 2024. As a result, the Commission has increased its use of prior year balances from $2.0 million to $4.0 million in FY 2024 to fund under executed activities from FY 2023.

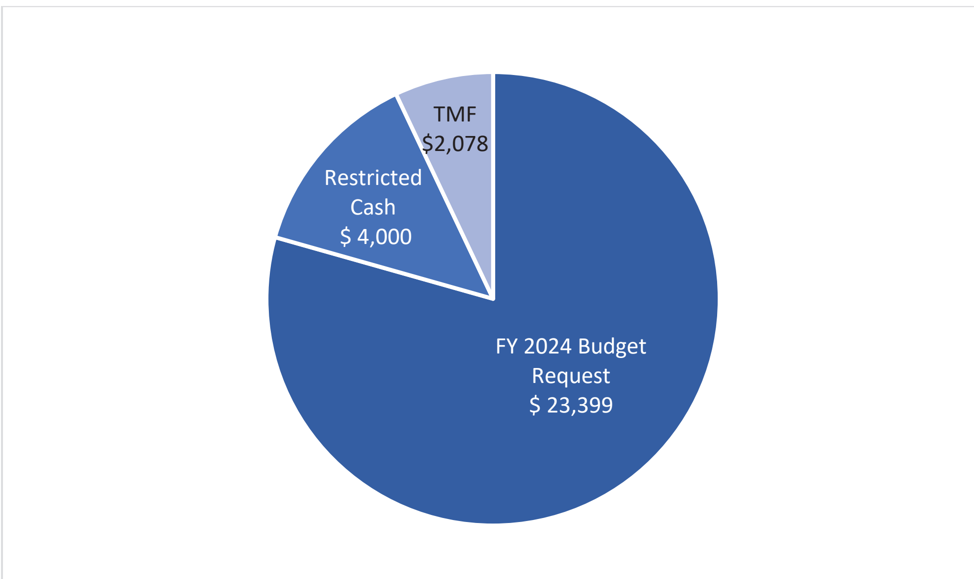
While adequate funding will ensure regulatory compliance and safeguard the public interest, it is equally vital to support the Postal Service's business, particularly when expedited reviews and approvals are integral to the DFA Plan's numerous transformational initiatives. Without the resources necessary to build capacity in response to its increased workload and remedy long-deferred capital investments, the Commission's ability to provide timely oversight of the Postal Service will be at risk.

A. Funding Sources

In FY 2024, the Commission has available prior year balances as well as an award from the TMF to fund additional spending. As a result of this additional spending, the Commission's planned total budget for FY 2024 is $29.5 million. The application of TMF funds results in significant cost savings to the Postal Service, as the Commission will apply $2.1 million of its TMF award to offset a portion of planned spending and thereby mitigate the request to the Governors. The Commission will also apply $4.0 million of prior year balances to further reduce its request to the Governors. The prior year balances and TMF award will be used to fund many one-time contracting and consulting costs that are targeted to remedy numerous compliance and infrastructure deficiencies resulting from past years of underfunding.

Specifically, the Commission offsets its total planned expenses of $29.5 million by using $4.0 million of prior year balances and $2.1 million of is TMF award to arrive at its FY 2024 Budget Request of $23.4 million. Figure 1 below shows the total spending planned in FY 2024 and the proportion allocated by funding source.

Figure 1: FY 2024 Funding Sources ($000)

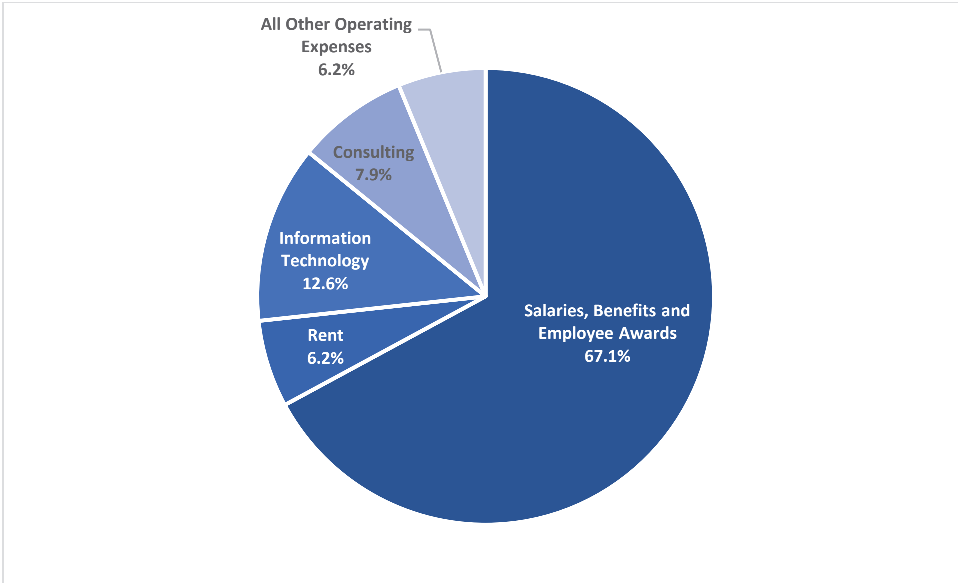


B. FY 2024 Budget Composition

The majority of the Commission's FY 2024 Budget Request is allocated to cover personnel compensation and lease costs, which collectively form the foundation of the Commission's operations. While these essential expenses are the primary focus, the budget also includes a modest increase to fund new hires and limited initiatives that align with the Commission's strategic plan.

Figure 2 below shows the planned distribution of the Commission's total expenditures for FY 2024 applying all funding sources.

Figure 2: FY 2024 Planned Expenditures



As shown in Figure 2, personnel compensation accounts for 67.1 percent of expenditures; rent accounts for 6.2 percent of expenditures; and the remaining 26.7 percent of expenditures is for all other operating expenses including IT, consulting services, and communications.

Table 1 below provides further detail of the FY 2024 Budget Request by Budget Line Grouping and as compared to FY 2023.

Table 1: FY 2023 Budget Plan and FY 2024 Budget Request ($000)[1]

Budget Line Grouping	FY 2023 Budget[2] (91 FTEs)	FY 2024 Budget Request (96 FTEs)
Salaries, Benefits, and Employee Awards	18,391	19,782
Rent, Equipment, Furniture, and Repairs	488	1,820
Services and Printing	487	821
Consulting Services	1,444	2,330
Travel (Domestic and International)	131	280
Training	190	407
Communication	229	200
Information Technology	3,065	3,712
Supplies and Miscellaneous	54	126
Total Planned Expenses	**24,479**	**29,477**
Planned Expenses funded from TMF	**1,866**	**2,078**
Planned Usage from Prior Year Balances (Restricted Cash)	**2,000**	**4,000**
Postal Regulatory Commission Budget Request	**20,613**	**23,399**

IV. BUDGET LINE GROUPING DETAILS

The Commission provides a high-level overview of its Budget Request by budget line grouping, categories which align with USPS accounting. All information provided in this document is supported by data from current recurring expenditures from estimated expenditures for FY 2024.

A. Salaries, Benefits and Awards

The FY 2024 Budget Request includes $19.8 million for Salaries, Benefits, and Awards. This number accounts for 67.1 percent of the Commission's total planned FY 2024 expenses. The Commission's FY 2024 Request, like its FY 2023 Request, is primarily focused on maintaining the Commission's existing FY 2023 employee complement while providing sufficient funding for a FY 2024 level of 96 full time equivalent (FTE) staff.

The primary increase in the salaries, benefits, and awards category is the result of three key factors: inflationary increases, performance-based salary adjustments and awards, and additional hiring. The budget includes the standard salaries and benefit costs for permanent staff, along with the costs of projected salary adjustments and awards. However, the greatest impact on the overall increase of the salaries, benefits, and awards group relates to the

[1] Numbers in table may not add due to rounding.

[2] The FY 2023 Approved Budget Request differs from what was presented to the Governors in August 2022 because $2.1 million was re-categorized from "Consulting Services" to "Information Technology" to be consistent with USPS accounting, which classifies Information Technology Contracting as an Information Technology Expense.

historically high inflationary increases that drive cost-of-living adjustments across the Federal government, including the Commission.

In FY 2024, the Commission intends to increase its personnel complement directly related to achieving the Commission's regulatory mission, as well as operational mission-support positions, to reach a level of 96 FTEs. As the Commission does not have the current capability to assign or track budget by office, it provides the following information showing the increase in number of staff planned for each office across FYs 2023 and 2024:

Table 2: FY 2023 and FY 2024 Full-Time Equivalent Plan[3]

Office	FY 2023 FTE Plan	FY 2024 FTE Plan	Maximum Planned Positions
Commissioners and Commissioner Staff	14	14	16
Office of Accountability and Compliance	29	31	33
Office of the General Counsel	21	21	23
Office of Public Affairs and Government Relations	4	4	4
Office of the Secretary and Administration	19	22	23
Office of Finance and Budget[4]	4	4	7
Total	**91**	**96**	**106**

The Commissioners, the Commissioner staff, the Office of Accountability and Compliance (OAC), and the Office of the General Counsel (OGC) are the offices directly responsible for achieving the Commission's mission to ensure transparency and accountability of the Postal Service and foster a vital and efficient universal mail system. These positions account for 69 percent of the Commission planned FY 2024 FTEs. The remainder of the positions, 31 percent, are within the Office of the Secretary and Administration and the potential new Office of Finance and Budget. The expected growth in these offices is needed to account for long-deferred administrative needs in information technology, finance, human resources, data, and other functions to ensure compliance with applicable laws and best practices.

Office of Accountability and Compliance. OAC is responsible for technical analysis and the formulation of policy recommendations for the Commission. OAC includes experts in economics, finance, accounting, and other quantitative disciplines with subject matter expertise in postal issues. OAC's rigorous and detailed analyses support Commission reports, orders, rate reviews, and advisory opinions.

[3] Consistent with OMB Circular A-11, FTEs are estimated using "Pay Period Method." *See* OMB Circular No. A–11 (2022), at 85-3. As a result, the calculation of FTEs reflects the average number of employees over the year and will not line up with the number of positions that are planned to be hired throughout the year.

[4] The Commission is currently in process of conducting a Finance Assessment to determine whether the Office of Finance and Budget should be a separate office or continue to be a part of the Office of the Secretary and Administration. In addition, the assessment will provide recommendations on the appropriate organizational structure and size of the Office of Finance and Budget.

In FY 2022, the Commission launched a small analytics unit within OAC to utilize modern statistical and software-driven approaches for analyzing data and continue to produce rigorous reports and orders. In FYs 2023 and 2024, the Commission is working to fully staff OAC and build capacity.

Sufficient staffing in OAC is critical to prevent bottlenecks that slow down the production of analytically complex major rulemakings. The speed of such major rulemakings has been cited as a concern at the highest levels of the Postal Service, and an adequately-staffed OAC is one of best ways to address this concern. The FY 2024 budget estimates 31 FTEs for this office, which includes the slow growth of the office between FYs 2022 and 2023; projecting a maximum 33 staff members in OAC by the end of FY 2024.

Office of the General Counsel. OGC is responsible for providing all legal services and legal analyses within the Commission. The General Counsel is designated by the Chairman to serve as the Commission's Designated Agency Ethics Official and administers the Commission's ethics program. The Commission has added staff in OGC near the end of FY 2023 by leveraging flexibility within its budgeted and reserve funds. For FY 2024, this office will maintain its growth from FY 2023, with a maximum staffing level of 23 by the end of FY 2024.

Office of Public Affairs and Government Relations. PAGR serves as the public face of the Commission. PAGR is the Commission's primary resource in support of public outreach and education, media relations, and liaison with Congress, the Postal Service, and other government agencies. PAGR provides information for consumers and responds to their inquiries. Informal complaints regarding individual rate and service inquiries are referred to the Consumer Advocate of the Postal Service. PAGR works closely with Members of Congress and their staffs. The FY 2024 projects 4 FTEs for PAGR, with a maximum of 4 positions by the end of FY 2024.

Office of the Secretary and Administration. OSA provides management and staff support to the Commission's operational offices and oversees the Commission's strategic plan and various initiatives of the executive branch. OSA ensures that the Commission has the physical, technological, and human capital infrastructure needed to accomplish its mission. OSA currently oversees human resources, finance (budget, contracts, procurement, accounting), policy, records, health and safety (including COVID-19 response), facilities, compliance, general administrative services, and the Commission's Electronic Docketing System.

OSA also houses the Commission's information technology (IT), cybersecurity, data management, and data protection functions, which underlie the efficiency of the Commission's daily work. These functions also secure the information produced by the Commission and provided to it by stakeholders, primarily the Postal Service. OSA is responsible for compliance with federal laws including those related to procurement, personnel, and information security. The budget projects to maintain growth from FY 2023 with 21 FTEs for FY 2024, with a maximum 23 employees by the end of FY 2024.

Office of Finance and Budget. In FY 2023, the Commission requested sufficient funding to create an Office of Finance and Budget to provide an independent financial management office within the Commission.[5] The Commission has engaged the services of a contractor to assist the Commission in its review and assessment of the appropriate organizational structure and size of the new office to ensure proper financial and internal controls. The budget allows for a 4 FTEs, with a maximum of 7 employees in the initial Finance and Budget office by the end of FY 2024.

B. Rent, Equipment, Furniture, and Repairs

The FY 2024 Budget Request for Rent, Equipment, Furniture, and Repairs is $1.820 million, including $1.7 million in rent payments according to its lease terms. The amount includes an increase in lease costs due to the conclusion of a large portion of rent abatement received by the Commission.[6]

In FY 2023, the Commission's normal rent costs were $2.1 million, however due to the rent abatement schedule in the Commission's lease payment structure, it was only charged actual rent expenses of $0.5 million. In FY 2024, the Commission's normal rent costs will be $2.2 million, and it will receive approximately $0.4 million rent abatement, resulting in rent expense increases of $1.3 million.

C. Services and Printing

The Commission's FY 2024 Budget Request includes $0.821 million for Services and Printing. This budget group represents a wide variety of services provided to the Commission, including the cost of transit benefits, subscriptions, licensing costs for online legal research tools (Westlaw and LexisNexis), vacancy announcements for USAjobs.gov, and facility, security, and other miscellaneous services.

The largest expense in this category is the cost of printing charged by the Government Printing Office for the Commission's Federal Register notices. This printing expense is statutorily required, and the amount of Federal Register printing required is highly dependent on the quantity of filings that the Commission receives from the Postal Service and postal stakeholders, which makes it difficult to estimate.

D. Consulting Services

The Commission's FY 2024 Budget Request includes $2.330 million for Consulting Services. This budget group includes several one-time consulting contracts, including support for

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[5] The Commission is in the processing of assessing the organizational structure of this office. The Commission anticipates that financial functions currently conducted by the Office of the Secretary and Administration regarding budget, accounts payable, procurement, accounting and potentially contracting will be transferred to this new office. In addition, the Commission is assessing whether it is necessary to expand the capacity of this office to conduct more sophisticated financial analysis, planning, and forecasting.

[6] In the August 24, 2022, letter from Chairman Roman Martinez IV to Chairman Michael M. Kubayanda, Chairman Martinez noted that rent abatements were accounted for in the Commission's FY 2023 budget, and that "[u]nder Generally Accepted Accounting Principles, such abatements should be spread over the life of the lease." With respect to the application of rent abatement, the Budget Request reflects the actual amount needed in FY 2024 to pay for the Commission's lease, which is consistent with how other federal agencies report rental costs. According to the accounting standards that govern federal agencies, "[r]ental increases, rental decreases, lease incentives, and lease concessions should be recognized by the lessee and lessor when incurred as increases/reductions to lease rental expense and income, respectively." *See* Federal Accounting Standards Advisory Board, Handbook of Federal Accounting Standards and Other Pronouncements, June 30, 2022 (Version 21 as Amended), at 10 (SFFAS 54). However, as the Commission lease costs are reported within overall Postal Service lease costs, the Commission has provided its lease to Postal facilities, which details the lease structure and payment schedule; hence, the Postal Service is aware of the structure for the Postal Service's GAAP reporting requirements. For purposes of the Commission's Budget Request, the amount reflects the funding level needed to meet its FY 2024 obligations.

economic analysis, administrative assessments, policy development, special studies, professional services, and other areas. Many of the consulting services for FY 2024 involve assessing and remediating outstanding compliance gaps in the critical areas of financial management, human resources and position classifications, and Section 508 of the Rehabilitation Act of 1973.

Most of the contracts in this group represent one-time non-recurring expenses. These expenses are planned to be funded using the Commission's prior year balances (restricted cash).

E. Travel (Domestic and International)

The Commission's FY 2024 Budget Request includes $0.280 million for Travel. While this is a $149,000 increase from FY 2023, the increase is due to resuming normal travel activities in the post-COVID-19 environment and represents less than 1 percent of the Commission's planned FY 2024 expenses.

The Travel budget reflects sufficient funding to ensure Commission staff and Commissioners can travel for conferences, training opportunities, and the other necessary travel including site visits. In addition, the Commission's Travel budget includes sufficient funding to provide travel costs for remote workers to travel to the Commission for in-person meetings.

F. Training

The Commission's FY 2024 Budget Request includes $0.407 million for Training and represents 1.4 percent of the total planned FY 2024 expenses. This is a $217,000 increase from FY 2023 and is necessary to continue provide long-deferred training opportunities to staff.

This amount includes individual training budgets for each of the Commission's offices, a training budget for Commission-wide training, and funding for the annual all-hands Commission retreat.

G. Communications

The Commission's FY 2024 Budget Request includes $0.200 million for Communications, representing a $29,000 decrease from FY 2023. This amount includes costs for the Commission's telecommunications services, including internet, MTIPs, and wireless.

H. Information Technology

The Information Technology budget for FY 2024 is $3.712 million. From that amount, over 50 percent will be funded from TMF awards in FY 2024.

Absent the planned expenses from TMF awards, the Commission's IT budget reflects an increase of $400,000 for video and audio-conferencing hardware installation to support hybrid meetings and data management projects for the recently created Chief Data Officer department.

I. Supplies and Miscellaneous

The Commission's FY 2024 Budget Request includes $0.126 million for Supplies and Miscellaneous. This amount includes supply budgets for each office within the Commission, subscriptions, shipping costs, and other miscellaneous items.

V. CONCLUSION

The FY 2024 Budget Request is targeted to increase the Commission's capacity and compliance efforts, remedy long-term organizational deficits, and enable the agency to right-size and align its operations to meet the demands of the evolving Postal Service. Beyond being responsive to statutory mandates, the increased funding should have multiplier effects that benefit the Postal Service and facilitate timely review of DFA Plan initiatives.

U.S. POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Office of the Chairman

The Honorable Roman Martinez IV
Chairman, Board of Governors
United States Postal Service
Washington, D.C. 20268

August 17, 2023

Chairman Martinez,

The Commission's fiscal year (FY) 2024 Budget Request reflects the best judgement of a bipartisan majority as to the resources needed to effectively regulate the U.S. Postal Service and carry out our congressionally mandated mission to provide transparency and accountability into the Postal Service. You have requested additional information regarding our FY 2024 Request, which is provided below. Additionally, you have requested that the Commission revise its request. I invite you and your colleagues to meet with the Commission to better understand how a downward revision of our budget request would negatively affect the Commission, the Postal Service, and the public.

The Commission has requested a $2.8 million increase in FY 2024 from our FY 2023 request, which is a 13.5 percent increase. In today's fiscal climate, I can well understand how this may seem profligate to those unfamiliar with the Commission's finances. However, $2.0 million, or 70 percent of this increase, is due to non-controllable increases in our fixed costs.

- $1.3 million will fund a scheduled increase in our fixed lease costs, which you were alerted to in last year's request, and
- $0.7 million will fund inflationary increases in compensation costs and the related increased cost of benefits.

Let me be clear, a reduction in our FY 2024 Budget Request that does not at least fund these increases in fixed costs will likely result in a hiring freeze or layoffs in FY 2024 and directly impair our ability to consider Postal Service requests, including rate changes, NSAs or other proposals in a timely manner. We therefore ask that you consider $22.6 million to be the baseline of our FY 2024 request.

The remaining $0.8 million of the requested increase would fund the cost of additional staff and increased training. The additional staff would increase our analytical capabilities and help with process automation that would help us achieve our strategic goal of considering routine cases more quickly and efficiently. While my colleagues and I do not believe it would be in the best interests of the Commission or the Postal Service for the Governors to reduce our investment in these capabilities, we invite you and the rest of the Governors to meet with us and discuss the value of these investments to the USPS and the postal system before adjusting our budget request.

I understand that approving your regulator's budget—and indirectly our ability to properly oversee the Postal Service—is a fraught task that asks you to balance stewardship of ratepayer dollars with the independence of your regulator. My colleagues and I wish to make that process as straightforward as possible for you. We believe that an easily arranged virtual meeting would allow us to have a productive dialog and discuss the merits of our proposed budget.

Yours truly,

Michael Kubayanda

Chairman Kubayanda

Responses to Questions Posed by Members of the Board:

Question 1

> *"The Governors have in mind the budget negotiation that has occurred for the rest of the federal government, in which discretionary spending at non-defense agencies was held to approximately 1 percent. They would ask the Commissioners to look at that and consider adjusting the proposed budget in light of that."*

The Commission presents the following information in response to the Governors' question with respect to consideration of a 1 percent limitation. As demonstrated below, this limitation is not feasible for multiple reasons, including the exclusion of the Commission and the Postal Service from general governmentwide budget limitations and the fact that a one-percent increase would fail to cover the bare-minimum increases in non-controllable fixed costs the Commission requires to operate.

The Postal Service and the Commission are both "independent establishment(s) of the executive branch" and are exempt from "Federal law[s] dealing with public or Federal contracts, property, works, officers, employees, budgets, or funds, including the provisions of chapters 5 and 7 of title 5[.]" 39 U.S.C. §§ 201, 501, 410. If the referenced government-wide budget negotiation applied to the Commission, it would apply likewise to the Postal Service. However, it does not. As the Postal Service's General Counsel Thomas Marshall explained to the Office of Management and Budget in 2019, "our governing statute clearly indicates that Postal Service and Commission functions are not affected by the operation (or lapse) of Federal budgetary and funding laws."[1] The U.S. Government Accountability Office (GAO) also concluded that the Commission's funds are not subject to general budget limitations, such as governmentwide recissions.[2]

In the *Postal Service Reform Act of 2022*, Congress removed the Commission from the appropriations process, which was the subject of the referenced budget negotiations, because the appropriations process had failed to adequately fund the Commission and had negative impacts on the Postal Service due to lapses in appropriations. If Congress had intended us to simply mirror the average increase in domestic discretionary spending, Congress would not have removed the Commission from the appropriations process.

Most notably, going back nearly 50 years, the Comptroller General issued a report to the Senate that highlighted the potential for "abuse by the Postal Service's Board of Governors of its approval authority over the amount the Commission can spend."[3] The GAO recognized that it was unusual for the funds of a regulatory agency to be under the control of the regulated entity, as it could "*provide a means for limiting the scope of the Commission's activities*." GGD-77-20 at 28 (emphasis added). Although the GAO stated that there was no reason to believe that the Governors would abuse this power, it highlighted a past incident of concern where the Governors negatively adjusted the Commission's budget and opined

[1] Letter from Thomas J. Marshall, General Counsel and Executive Vice President, USPS, to The Honorable Russell T. Vought, Acting Director, Office of Management and Budget, January 11, 2019.
[2] *See* Matter of Postal Regulatory Commission- Amounts Appropriated by Transfer from the Postal Service Fund, B-327122 (November 30, 2015).
[3] *The Role of the Postal Rate Commission Should Be Clarified*, GD-77-20; B-114874, April 7, 1977.

that the “scope of the activities of the Commission should not be subject to the perceptions of the Governors or the state of the [Postal] Service’s financial condition.” GGD-77-20 at 28.

The Commission’s FY 2024 Budget Request reflects both its fixed operational costs and additional resources necessary to bolster its operations. It is essential to view the increase with respect to the nature of the expenses required to achieve a state of operational health and in light of the fact that the Commission’s request reflects the amount of funding necessary to accomplish its full scope of activities as a regulator.

As shown in the table below, due to increases in non-controllable costs, the Commission’s baseline funding level required to maintain its operations in FY 2024 is $22.613 million.

FY 2024 Budget Request
Non-Controllable and Controllable Cost Increases
($ millions)

FY 2023 Approved Budget	**20.613**
Non-Controllable Fixed Costs Increases	
Rent	1.300
Inflationary Salary and Benefits	0.700
Total Non-Controllable Fixed Costs Increases	**2.000**
Baseline FY 2024 Funding Level	**22.613**
Controllable Cost Increases	0.786
FY 2024 Budget Request	**23.399**

In presenting the Commission’s Budget Request, it is imperative to address that the significant portion of the overall increase stems from fixed, non-controllable costs, which account for approximately 70 percent of the budget increase. While the total increase in budget may appear substantial at 13.5 percent, it’s essential to recognize that less than a third of this increase pertains to controllable expenses. The remaining increase is attributed to the rise in non-controllable costs that are beyond the Commission’s discretion. This distinction is crucial as it underscores the need for the Governors to approve an increase in funding at least to cover these fixed non-controllable costs. In order to maintain financial equilibrium and fund its non-controllable costs, the Commission requires Governor approval of a minimum of $22.613 million for FY 2024. As suggested by the Governors, a one percent increase over this baseline funding level would be $22.819 million.

<u>To be clear, a one percent increase from the FY 2023 budget ($206,000.00) would fail to fund increases in the Commission’s non-controllable fixed costs, compromise its ability to function effectively and efficiently, and undermine its status as an independent regulatory agency</u>.

Limiting the Commission to an arbitrary budget increase of only 1% without regard for its actual needs is a problematic approach that will have several negative consequences. As Congress recognized by excluding the Postal Service and the Commission from application of general governmentwide budget limitations, applying a one-size-fits-all approach fails to account for the unique requirements and complexity of the Commission’s operations and responsibilities. A more informed and flexible approach to budgeting is necessary to ensure that the Commission can operate and adapt to changes, invest in necessary upgrades, and provide the quality of service and oversight that the Postal Service and stakeholders rely on.

The Commission's FY 2024 Budget Request of $23.399 million represents a 3.8 percent increase over its baseline funding level. Failure to obtain the full 3.8 percent increase over non-controllable fixed costs requires careful consideration of the broader ramifications of barely funding the Commission beyond its fixed expenses. An insufficient budget allocation, which merely covers the minimum or even a 1 percent increase, risks undermining the Commission's ability to effectively fulfill its regulatory responsibilities. Operating on such a narrow margin, without the benefit of budgetary flexibility or economies of scale, could lead to a range of adverse consequences, including limited resources to implement new regulatory requirements and initiatives, delayed responses to Postal Service requirements and industry changes, and inadequate oversight capabilities.

Over the past 15 years, the Commission has faced the challenging reality of operating with budget increases that have consistently fallen short of inflation. A one percent increase would drastically undermine the Commission's ability to provide accountability into the Postal Service at a time when the Postal Service is rapidly transforming its business model and practices. As directly experienced by the Postal Service throughout the price-cap regime, budgetary limitations based solely on inflationary increases are insufficient to enable necessary investments and unsustainable for financial stability of an organization. Over the last two years, USPS has addressed its own rising costs and deferred investments through rate increases on market dominant products that have gone up by 24.90 percent cumulatively for compensatory classes and 32.09 percent cumulatively for non-compensatory classes. After over 15 years of below inflationary increases, the Commission needs a modest increase over the near term to adequately fund long neglected areas and respond to inflationary cost increases.

Congress made the Commission subject to appropriations in the *Postal Accountability and Enhancement Act of 2006* to ensure its independence from the Governors. At the request of the Commission due to years of below inflation-level funding, Congress removed the Commission from the appropriations process and returned it to the prior Governor-approved budget process in the *Postal Reform Act of 2022*. However, Congress took this action only after assurances from both the Commission and the Postal Service that this action would not threaten the independence of the Commission. In the 38 years from 1970 to 2007 when the Governors previously approved Commission budgets, the Governors consistently approved the Commission's requests.

Adherence to a budget negotiation wholly unrelated to the Postal Service or the Commission without any consideration of the Commission's specific circumstances or history would poorly serve the Postal Service and the public, as well as undermine Congressional intent to create an independent agency to implement postal policy. As demonstrated in its Budget Request, the real budget increase is rather small due to inflationary increases and one-time rent credits that will not reoccur in FY 2024. Requesting 3.8 percent increase over fixed costs reflects the Commission's commitment to maintaining the quality and integrity of its regulatory efforts, which in turn safeguards the interests of both the regulated entity and the industry. The Commission is committed to securing the funding required to fully support its functions and maintain the stability and fairness of the regulatory landscape while also protecting the broader economic and business environment that the Postal Service relies on for its success.

Question 2

> *"Several Governors would like to have a more robust explanation for the various line items that have year-over-year increases. In other words, I need your help to help them understand the differences between the baseline (FY23) and the proposed budget for FY24."*

The Commission's FY 2024 Budget Request is $2.8 million, or 13.5 percent, more than the Commission's FY 2023 Budget Request of $20.613 million that was approved by the Postal Service Governors. Removing the non-controllable pre-planned rent expenses ($1.3 million) and the non-controllable inflationary salary increase ($0.7 million) the Commission's FY 2024 Budget Request is $0.8 million more than the Commission's FY 2023 Budget Request, or 3.8 percent.

Specifically, the Commission's FY 2023 $2.8 million budget increase includes:

- $1.4 million in salary and benefits increases (50 percent of $2.8 million increase)
    - $0.7 million for non-controllable inflationary salary increases, and associated benefits costs, and
    - $0.7 million for salary and benefits costs to incrementally add additional staff throughout FY 2024
- $1.3 million in additional non-controllable rent expenses (46 percent of $2.8 million increase) due to the expiration of a large amount of rent abatements.
- The remaining $0.1 million in increased budget request is to supplement the increasing demands of travel and training at the Commission.

In its FY 2023 Budget Request, the Commission explained that "the Commission's FY 2023 rent expense is offset by a large amount of negotiated rent abatements in FY 2023 when the Commission enters the first year of a new lease term." FY 2023 Budget Request at 2. As further explained in the Commission's FY 2024 Budget Request, "[i]n FY 2023, the Commission's normal rent costs were $2.1 million, however due to the rent abatement schedule in the Commission's lease payment structure, it was only charged actual rent expenses of $0.5 million. In FY 2024, the Commission's normal rent costs will be $2.2 million, and it will receive approximately $0.4 million rent abatement, resulting in rent expense increases of $1.3 million." FY 2024 Budget Request at 13. It is essential to recognize that the expiration of a significant portion of rent abatement and the subsequent inclusion of the full lease cost in the budget should not be considered a genuine increase in budgetary allocation. Rather, this adjustment reflects a return to the standard operational costs that were temporarily mitigated by the abatement. As the Commission communicated those upcoming changes to the Governors in the previous year's budget, this transition was a pre-planned, anticipated event. The Commission also notes that it will experience additional increases in next year's rent costs due to further expiration of rent abatements.

The Commission's Budget Request includes an additional $1.4 million for salaries and benefits, which includes $0.7 million for inflationary salary increases, and associated benefits costs, consistent with the President's FY 2024 proposal to give the federal workforce and average pay increase of 5.2 percent, and $0.7 million in salary and benefits costs to incrementally add additional staff throughout FY 2024 to address the Commission's lack of capacity in key positions, as described in the Commission's FY 2024 Budget Request.

Additional increases in expenses are funded through application of use of its two alternate funding sources. The Commission has offset the remainder of its increased expenses in FY 2024 by using its prior year balances and Technology Modernization Fund (TMF) awards. It is important to note that the Commission attempts to limit the use of these funds to non-recurring expenses to avoid creating unfunded obligations in the future. The Commission is proud of its TMF awards as they are merit based and the Commission is the first small agency to receive two awards. The TMF awards are helping to fund its transition to the cloud, significant upgrades to its cybersecurity capabilities, new database capabilities, and major overhauls of its online docketing system and website—all without needing to request funds from the ratepayers. While the Commission received two significant awards dedicated to technology modernization, the existing state of infrastructure requires additional investments beyond what these awards can provide. The TMF awards are a valuable starting point, but they are targeted towards specific technological upgrades and do not fully address the underlying deficiencies and inefficiencies that have accumulated due to years of neglect and deferred maintenance.

Question 3

> *"In general, I would say that they were not satisfied with the level of information provided."*

The Commission is disappointed that the Governors were not satisfied with the level of information provided. The FY 2024 Budget Request is not only significantly more detailed and nearly four-times longer than the FY 2023 Budget Request; it also proactively addressed the helpful and perceptive questions asked by Chairman Martinez and the Governors in the FY 2023 Budget Request cycle. With a budget less than 0.03 percent of USPS annual revenue and a small number of administrative staff who perform multiple tasks including finance and budget, the Commission likely does not produce finance and budget information in a format a larger agency with full-time accountants would. This is an area we are actively working to improve. The approval of the Commission's FY 2023 budget has allowed us to begin a financial assessment that will provide recommendations for modernizing the Commission's finance and budget operations and exploring whether hiring a chief financial officer or similar position would be appropriate for an agency of its size. The Commission's FY 2024 Budget Request, if approved, would allow the Commission to continue to enhance its finance and budget operations by additional limited hiring.

The Commission is open to any suggestions the Governors may have that would assist them in considering the Commission's annual budget requests.

Question 4

> *"Some Governors would also like a better explanation regarding the funds that are being carried over."*

On November 30, 2015, the GAO issued an opinion concluding that funds appropriated by transfer from the Postal Service Fund to the Commission (1) remain "no-year funds" that do not revert back to the Postal Service Fund at the end of the fiscal year; (2) are not subject to general budget limitations including government- wide rescissions; and (3) if not already obligated, remain available to fund the Commission's operations in subsequent fiscal years. B-327122. In 2017, the Commission began managing its funds as no-year funds going forward.

On May 18, 2020, the Commission entered into an agreement with the Postal Service that acknowledged and agreed that the Commission should have access to all its available appropriated funds starting from FY 2009 to the present date. At that time, the Postal Service and the Commission agreed that based on the information provided by the Postal Service, the Commission's no-year fund balance was $5,953,130.96 for FY 2009 - 2019. As a result of the Commission's funds being classified as "no-year funds" or funds without fiscal year limitation, the Commission is allowed to use this surplus across fiscal years.

At the start of FY 2023 the amount of the Commission's restricted cash balance (formerly termed "carryover") was $5,122,511. Based on current projections, the Commission anticipates having between $4.1 million and $5.1 million of restricted cash balances at the start of FY 2024. The Commission's FY 2024 Budget Request assumes the use of $4.0 million from this account to fund one-time, non-recurring expenses. Remaining balances will be used to offset the Commission's FY 2025 Budget Request. Due to the nature of this account, the Commission has generally limited the use of its restricted cash balance to non-recurring needs to not create long-term obligations that may not be funded once this account is exhausted. Should the Governors seek to have the Commission apply its restricted cash balances to cover recurring operations, then the Commission would need to have reassurances that any recurring operations funded through restricted cash would be approved as part of its baseline funding levels in future years.

Question 5

"…on the request for comparisons/explanations "for differences between the baseline (FY23) and the proposed budget for FY24," he would like to see FY23 Budget, FY23 Actual (projected to end of year), and FY24 Budget."

FY 2023 YTD Actuals and Year End Estimate ($000)

Budget Line Grouping	FY 2023 Budget Plan (91 FTEs)	FY 2023 June 30, 2023 YTD Actuals	FY 2023 Estimated Year End (82 FTEs)[4]	FY 2024 Budget Request (96 FTEs)
Salaries, Benefits, and Employee Awards	18,391	12,502	17,165	19,782
Rent, Equipment, Furniture, and Repairs	488	391	482	1,820
Services and Printing	487	194	626	821
Consulting Services	1,444	302	894	2,330
Travel (Domestic and International)	131	28	83	280
Training	190	54	129	407
Communication	229	95	209	200
Information Technology	3,065	714	1,593	3,712
Supplies and Miscellaneous	54	21	42	126
Total Planned Expenses	**24,479**	**14,299**	**21,222**	**29,477**
Planned Expenses funded from TMF	**1,866**	**440**	**905**	**2,078**
Planned Usage from Prior Year Balances (Restricted Cash)	**2,000**		**0**	**4,000**
Budget Request / Estimated Expenses	**20,613**		**20,317**	**23,399**

As explained in the Commission's FY 2024 Budget Request, insufficient capacity hindered its ability to undertake planned activities and initiatives fully. New statutory requirements under the Postal Service Reform Act of 2022, significantly increased compliance work due to the new Inspector General regime, and increased workload from the Delivering for America initiatives, among other issues, also slowed the Commission's ability to undertake activities planned for FY 2023. However, as FY 2023 comes to a close, the Commission has diligently ramped up activity execution and implementation of planned initiatives—greatly assisted by the capacity growth funded in its FY 2023 budget. As many of these initiatives will now be implemented in FY 2024 rather than FY 2023 as originally planned, the table above reflects these expenses being incurred in FY 2024 and the consequent under-execution in FY 2023. Because most of

[4] While the Commission is expected to average 82 employees over the fiscal year, by September 30, 2023, the Commission anticipates having 88 employees on board to start FY 2024.

the under-executed activities were to be funded from the Commission's restricted cash balances, the Commission now anticipates spending $4.0 million in FY 2024 from the restricted cash balances.

The increases in fixed lease costs and salaries and benefits are explained above. The remaining accounts with significant increases are detailed below:

- Consulting Services increased by $0.9 million, or 61 percent.
  - The Human Resource assessment and the Finance Assessment planned for FY 2023 will be completed in FY 2024. Consequently, those expenses will not be incurred in FY 2023, but will be in FY 2024.
  - New consulting service expenditures in FY 2024 include: Strategic plan implementation support and 508 compliance.
  - For FY 2024 all consulting services are planned to be funded from prior year balances.
- Information Technology increased by $0.7 million, or 21 percent.
  - Projects, including many TMF funded projects, initially planned for FY 2023 are now projected to be completed in FY 2024 shifting those costs from FY 2023 to FY 2024.
  - New and continuing IT projects funded in the FY 2024 budget include: replacing outdated meeting technology in conference rooms, data catalog software tools, website modernization, online docketing system enhancements, Security Operation Center (SOC) services (monitoring, detecting, and preventing attacks on the Commission's network) provided by the department of Justice, and Security Architecture and Cloud Migration.
  - $2.078 million of the IT budget, or 56 percent of the planned IT budget will be funded from the Commission's TMF award.
- Services and Printing increased by $0.3 million, or 68 percent.
  - Additional security through hardware upgrades, increased subscription costs for staff, transit costs, and other administrative programs and offices such as EEO, records management, etc.
- The remaining budget lines (Travel, Training, Communications, Supplies, and Misc.) increased by $0.4 million, or 68 percent.
  - Provides increased training for Commission staff, which had been limited due to below-inflation funding during the years the Commission was funded through appropriations.
  - Assumes increased travel expenses as pandemic restrictions are lifted.

U.S. POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Office of the Chairman

The Honorable Roman Martinez IV
Chairman, Board of Governors
United States Postal Service
Washington, D.C. 20268

August 29, 2023

Chairman Martinez,

In lieu of its August 1, 2023, Budget Request, the Commission submits a budget request of $22.613 million for FY 2024. This revised budget request is a result of our correspondence and discussions regarding the August 1st request. The revised request was approved unanimously by the Commission and is the compromise figure I outlined in my August 17th letter to you. This amount reflects a reduction of $786,000 from its August 1st Request and covers the increase in fixed costs for FY 2024.

Yours truly,

Michael Kubayanda

Chairman Kubayanda

FY 2024 Budget Request

The Commission's Budget Request in FY 2024 is $22.613 million. This number reflects the baseline funding level required to maintain its operations due to increases in non-controllable costs and funds expenses for facilities, supplies, compensation, and employee benefits for FY 2024.

FY 2024 Budget Request: $22.613 million
($ millions)

FY 2023 Approved Budget	**20.613**
Non-Controllable Fixed Costs Increases	
Rent	1.300
Inflationary Salary and Benefits	0.700
Total Non-Controllable Fixed Costs Increases	**2.000**
FY 2024 Budget Request	**22.613**