POSTAL PERILS AND PROMISE:
A primer on reform
TPA is a rapid response taxpayer group dedicated to analyzing and researching the consequences of government intervention in the economy. TPA examines public policy proposals through a non-partisan focus, identifying how government waste and overreach impacts taxpayers and consumers regardless of the political party responsible. TPA holds government officials in the United States, and around the world, accountable through editorials, statements, coalition letters, public interest comments, and radio and television interviews. TPA recognizes the importance of reaching out to concerned citizens through traditional and new media, and utilizes blogs, videos, and social media to connect with taxpayers and government officials. While TPA regularly publishes exposés and criticisms of politicians of all political stripes, TPA also provides constructive criticism and reform proposals based on market principles and a federalist philosophy. TPA empowers taxpayers and consumers to make their opinions known to their elected and non-elected officials and embraces bold solutions to hold an ever-growing government in check.

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The United States Postal Service (USPS) faces growing problems in managing essential services and keeping costs under control, amidst shifting consumer preferences, flawed management, and outdated pricing models leading to staggering losses of nearly $4 billion annually. Unfortunately USPS leadership has so far refused to enact any fundamental structural reform, preferring price increases such as the January 27 rate hike - the largest increase since the Civil War.

In this report, the Taxpayers Protection Alliance (TPA) identifies some of the largest cost drivers faced by the USPS, which lead to large annual losses despite the USPS's approximate $3.7 billion in taxpayer subsidies identified in this report. Cost drivers include:

- **Highway Contract Rate (HCR) Inflation:** Despite spending more than $3.6 billion for in excess of 8,000 HCR contracts, the USPS demonstrated little oversight over these agreements. Contractors often failed to satisfactorily perform a service requested by the USPS due to easily avoidable mistakes, costing the agency more than $1 billion annually.

- **Inconsistent Use of Scheduler Tools:** To determine which workers will do which tasks at which locations, the USPS has created a "F1" Scheduling tool, which relies on inputs such as productivity, mail volume, and mail processing machine availability to solve the jigsaw puzzle of employee assignment and roles. However many facilities simply do not use their F1 Scheduler to determine workhour budgets, costing the agency $420 million annually in labor costs.

- **Unnecessary Vehicle Purchase Preferences:** USPS will soon need to replace the majority of its aging fleet, and is currently in the midst of deciding amongst competing bids for new truck designs. Unfortunately, the stated choice to prefer "green vehicles" and domestic manufacturers will cost the agency more than $220 million over and above the $821 million annual increase in capital spending to purchase the new fleet.

- **Redundant Facilities Still Open:** Thousands of Post Offices operate at a loss and remain open despite being within 10 miles of another Post Office. The slowed pace of closures cost the agency more than $20 million annually.

- **Outdated Pricing Formulas and Flawed Reselling Program:** The USPS chronically underestimates how much package deliveries contribute to agency costs, to the tune of nearly $1.50 per package. The agency also allows small Postage buyers access to discounts reserved for bulk buyers. These flawed pricing systems cost the agency at least $1.6 billion annually.

- **Total Potential Savings for Reform:** If the USPS follows the recommendations of this report to reign in wasteful spending and reform its pricing systems, the agency can save a total of at least $3.2 billion annually averting the need for any future taxpayer bailout.
There has never been an agency quite as troubled and defensive about their problems as the United States Postal Service (USPS). The Taxpayers Protection Alliance (TPA) has examined the USPS during all the key junctures throughout its recent history, ranging from the USPS’s creation of an internet website in 1994 and the passage of the Postal Accountability and Enhancement Act of 2006 to the release of the Task Force report on the United States Postal System in 2018.

Unfortunately, at all these key moments in USPS history, policymakers and agency officials have refused to use these critical opportunities for genuine reform, and instead opted to kick the can down the road and blame others for the agency’s issues. Meanwhile, any attempt to point out problems at the USPS and identify potential reforms are met with fierce blowback by the USPS’ Public Relations staff.

Hopefully, this time may be different. With the current Administration calling for large changes at USPS, including more realistic pricing formulas and stronger bilateral negotiations, a critical mass of citizens, federal officials, and lawmakers are demanding a more transparent, responsible agency. The Task Force report, released in November of 2018, provides a myriad of reform options, but many recommendations require Congressional action. As many taxpayers know all too well, little gets done in Congress, and the possibility of genuine and meaningful Congressional reform of the USPS in the foreseeable future is slim. Furthermore, putting the onus of action on Congress sets the stage for the troubling possibility of taxpayer bailouts despite the report’s warning against this policy move.

While TPA recognizes the desirability and necessity of congressional action (and the consequences of congressional inaction), the report’s recommendations are actionable by the agency itself, as opposed to requiring outside intervention. The recommendations are designed to be quickly implemented with rapid benefits for consumers and taxpayers. Efficiency and pricing reforms, coupled with a widespread effort to root out waste, can put the USPS on a firmer fiscal footing while protecting taxpayers from further exposure and turmoil. The recommendations outlined could save the USPS more than $3 billion a year.
Established in 1971 as the successor organization to the United States Postal Department (USPD), the United States Postal Service (USPS) is an independent agency of the US federal government. The USPD, which had been in existence since 1792, did not permit postal workers to engage in collective bargaining, a key point of contention between federal management and workers that felt they were undercompensated and forced to work in substandard conditions. This tension culminated in the US postal strike of 1970, which became the largest "wildcat" (i.e. not led by a national union) strike in American history.1 As the result, workers attained higher wages and working standards and the Nixon Administration saw the need to make large-scale structural reforms to the mail delivery system. Collective bargaining rights for federal workers were enshrined in the Postal Reorganization Act of 1970 which transformed the USPD into the USPS.2

Like its predecessor, the USPS has a monopoly on first-class mail (defined as letters weighing under thirteen ounces) in addition to standard mail (bulk advertising items). But since the 1970 Postal reorganization, significant legislative changes have altered the way that the USPS delivers mail and interacts with its employees. Most significantly, the Postal Accountability and Enhancement Act of 2006 (PAEA) separated Postal products into two broad categories: market-dominant and competitive.3

Policy makers were concerned that the USPS’ entry into the package business, in which it had to compete with private providers (hence the term "competitive"), was interfering with providing traditional (i.e. market-dominant) products such as letters where it possessed a monopoly. The act stipulated that the USPS could no longer increase rates on market-dominant products above the rate of inflation and forced the USPS to price competitive products high enough to offset "attributable" (i.e. marginal) costs.

Therefore, USPS in theory was barred from undercutting shipping competitors from uneconomically low rates and cross-subsidizing this through increasing monopoly rates on letters. Additionally, the USPS was required to fund retirees’ financial benefits ahead of time, ending the previous practice of funding obligations out-of-pocket in real time.4

This change, heralded by then-Chief Financial Officer and Executive Vice President H. Glen Walker as "a far-sighted and responsible action that places the Postal Service in the vanguard of both the public and private sectors in providing future security for its employees,"5 has since been made into a scapegoat by Postal leadership for the agency’s fiscal troubles.

Indeed, while the PAEA mandated the most significant, promising reforms for the USPS since the Postal Reorganization Act of 1970, these promises were not fulfilled. To the contrary, a “perfect storm” of inept leadership and unfavorable economic trends have left the USPS in dire fiscal straits. Rather than use the opportunities presented by the 1970 Act to reinvigorate the USPS, USPS leaders have continually neglected to employ sound financial management, which has resulted in more than $70 billion in losses and more than $125 billion in un-

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2 "Public Law 91-375, An act to improve and modernize the postal service, to reorganize the Post Office Department, and for other purposes." *Government Publishing Office*. August 12, 1970.
4 Ibid.
funded liabilities for the USPS since PAEA’s enactment. As Chart 1 shows, every year since 2006 has seen the USPS record net losses in the billions of dollars.

A key issue underpinning these losses have been USPS’s refusal to adequately adapt to the rise of the internet and a corresponding decline in traditional mail. A 2018 Pew Research Center analysis found that, from 2005 to 2018, the number of Americans adults offline has declined from 32 percent to 11 percent. This has contributed to the mass replacement of letters with emails resulting in billions of dollars of annual revenue losses for the USPS. As Chart 2 documents, first-class mail (letters, postcards or packages up to 13 ounces) volume has nearly halved over the past twenty years, with declines particularly significant over the past decade or so.

Anderson, Monica, Jiang, JingJing, and Andrew Perrin. “11% of Americans don’t use the internet. Who are they?” Pew Research Center. March 5, 2018.
For FY 2018, the USPS reported first-class mail revenues of $25 billion, down from $25.7 billion the previous year and $28.2 billion five years prior (FY 2013). These losses have been blunted somewhat by the rise of competitive products, such as packages produced by e-commerce giants. Shipping revenue continues to climb higher; the shipping and package business experienced a $2 billion (10.1 percent) increase from FY 2017 to 2018 (from $19.5 billion to $21.5 billion).

However USPS’s actions regarding treatment of e-commerce packages has resulted in significantly less revenue than should have been collected, and as such they have been unable to adequately mitigate these losses.

As a result of increase in shipping costs, higher package volumes are driving record operating costs that far exceed revenue. As discussed in this report, the outdated way that the USPS calculates costs for packages is leading to uneconomically-low prices, leading to lower-than-necessary revenue and undermining the goal of PAEA to prevent competitive products from subsidizing market-dominant products.

PAEA’s allowance of Negotiated Service Agreements (NSAs), or special, largely-classified contracts between the USPS and large merchants to facilitate mass shipping at discounted rates, has contributed to the problem of artificially-low prices. For example, a 2013 NSA granting Amazon the exclusive benefit of Sunday delivery led

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Amazon to have exclusive access to low postage rates for one day each week. Furthermore, as the Washington, DC-based think-tank Capitol Forum has repeatedly pointed out, the "postage reselling" program allows for artificially-low rates for small postage buyers that likely equate to hundreds of millions of dollars of forgone revenue each year.

In addition to these contract-related issues, clear instances of financial mismanagement regularly plague the Postal Service, preventing the agency from regaining a firmer fiscal footing.

As a part of their fleet acquisition process, the USPS has stated that replacement vehicles will "feature hybrid and new technologies, including alternative fuel capabilities." Despite the rationale of minimizing the environmental effects of its fleet, phasing in expensive and inefficient "low carbon" technology will only balloon the service’s already-large debt. Examining global adaptation costs, Bloomberg New Energy Finance analysts found last year that electric fleets will remain more expensive than their conventional counterparts until at least 2024, even after taxpayer subsidies are taken into account.

Some USPS expenditures have little to do with actual operations. Since 2014, for instance, the USPS has wasted more than $16 million (taken from asset forfeiture and consumer fraud awareness funds) to finance the production of a TV crime drama called "The Inspectors" focusing on postal inspectors. Rather unsurprisingly, the drama was a complete failure, yet this spending continues despite repeated claims by agency officials that the USPS lacks sufficient funds to comply with the universal service obligation.

While a wide range of reports have focused on particular issues related to USPS management, few have undertaken a comprehensive accounting of USPS's issues. Additionally, few comprehensive attempts have been made to discuss potential steps forward to mitigate the USPS's fiscal problems. This report discusses the wide-range of problems facing the agency and recommends changes that the USPS can make to shore up their finances and return to their core mission of "to bind the Nation together through the personal, educational, literary, and business correspondence of the people." In the first section, the report discusses current efforts to monitor waste and efficiency and how these efforts more often than not come up short. The second section focuses on the complex landscape of mandates and subsidies that accrue to, and flow from the Postal Service. The third section concludes the report and presents common sense, practical recommendations to keep the USPS a viable institution.

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Most citizens have a positive opinion of the USPS, but the agency's image has been declining over the years. According to the Inspector General (IG), public perceptions of delivery accuracy, overall delivery performance, and carrier courtesy have all declined over the FY 2015-2017 period. Part of the traditional appeal of USPS was the idea of a lean, mean postal processing machine. Americans could expect to drop off a piece of mail with little to no hassle at minimal expense, and wait only a few days (sooner with expedited shipping options) for the mail to arrive at the recipient's address.

But inefficiencies and shortcomings behind the scenes are complicating that task, at substantial costs to the agency and taxpayers.

### INCONSISTENT USE OF SCHEDULER TOOLS

The USPS has a significant problem determining which workers will do which tasks at which locations. The USPS uses something known as an F1 Scheduler, which relies on inputs such as productivity, mail volume, and mail processing machine availability to solve the jigsaw puzzle of employee assignment and roles. While theoretically such a program should result in the efficient allocation of human capital, and the USPS uses this efficiency tool at 265 processing facilities nationwide, an audit by the IG in March of 2018 found widespread inconsistencies in implementation that were reducing efficiency at considerable cost.

Reviewing the staffing situations at these processing facilities, the IG found that a plurality (109, or 41 percent) of facilities had staffing levels at least 5 percent above what the Scheduler would predict. An additional 60 facilities (23 percent of the total) were at least 5 percent below optimal staff levels, which may counterintuitively increase costs if a backlog forces the facility to have employees work overtime at increased pay rates. In fact, “facilities with complements under F1 Scheduler results incurred about 18 percent more overtime.”

Nationally, the USPS does not use their F1 Scheduler to determine workhour budgets for their processing facilities. Rather, USPS national management makes these budgetary determinations based on the status-quo, plus consideration of mail volume changes, operational factors, and new initiatives in a separate process from the F1 Scheduler (despite overlap in some input functions). This results in a mismatch of workhour budgets and staff level/assignment determinations at a more local level, creating a confused environment not conducive to efficient mail handling.

It isn’t always the case that scheduling tools produce the “optimal” result. In both the public and private sectors, management must repeatedly review and assess not only adherence to existing standards, but how well standards predict productivity and labor costs. To these ends, best practices call for management to undertake a Verification, Validation, and Accreditation (VV&A) process to see how well standards are measuring up to reality. Management at these facilities failed to complete a VV&A analysis, due to a lack of awareness of such a process.

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Ibid.
IG estimates that, if budgeted workhours were consistently placed in alignment with FI Scheduler modeling results, the USPS could save $420.1 million in annual labor costs (based on FY 2018 data).15

**HIGHWAY CONTRACT RATE INFLATION**

In their FY 2018 financials, the USPS attempts to excuse cost escalations that contributed to the $3.9 billion net loss incurred through the year. According to the USPS, “Operating expenses for the year were $74.4 billion, an increase of $2.2 billion, or 3.1 percent, compared to the prior year. This was driven by an increase in compensation and benefits of $896 million due to contractual wage increases and increased transportation expenses of $623 million primarily due to higher package volume, increases in fuel prices and **higher highway contract rates.**”16(emphasis ours).

Of these listed factors, highway contract rates (HCRs) are the most prone to abuse. Despite spending more than $3.6 billion for more than 8,000 HCR contracts, the USPS conducted little oversight over these agreements. Too often, contractors fail to satisfactorily perform a service requested by the USPS due to avoidable mistakes on the part of the contractor. The IG explains that irregularities “commonly include missed, late arriving, and late departing trips.” Network Distribution Centers can detect problems by using “scanning to track HCR vehicles entering the facility yard, docking at the facility, or leaving for another facility.”17 Once a chargeable irregularity is documented, it’s up to administrative officials to pursue the offenders and request reimbursements from them. Therefore, these “chargeable irregularities” should result in the USPS recouping funds from contractors. In reality, however, this does not happen. In fact, the IG found that officials did not pursue reimbursement requests for any of the 22,225 chargeable irregularities documented between FYs 2016 and 2017. Officials failed to review PS Forms 5500, which document irregularities found during the aforementioned scanning process.18

Even if management was committed to undertaking complete reviews, they have a shortage of necessary information for a variety of reasons. For example, PS Forms 5500 for trips that did not originate at the officials’ assigned Distribution Center will typically not be available for the official to inspect; an official at the departure Center would have to send over the documentation, which frequently does not occur. Additionally, PS Forms 5500 are only required to be retained for one year, which creates serious accounting issues given that typical HCR contracts run from 2 to 4 years.

For the Chicago Network Distribution Center, the IG estimates that $7 million is at risk for a mere 11 contracts renewed during the FYs 2016 and 2017.19 In September of 2017, the IG performed a similar analysis of the Jacksonville Network Distribution Center, using irregularities data for FY 2015 and 2017. The IG found similar deficiencies in collecting data and creating reimbursement requests and estimated that $17.3 million was at risk for the 45 contracts renewed over the FY 2015 to 2016 period.20

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15 Ibid.
18 Ibid.
19 Ibid.
While the IG is likely in the process of securing estimates for the 19 other NDCs, it is possible to roughly estimate annualized national costs for unreimbursed HCR chargeable irregularities. Averaging Chicago and Jacksonville’s excess cost per contract yields a midpoint estimate of $510,000 of fraud per contract over a two to four-year period. Even under the conservative assumption that all HCR contracts last for four years, the annualized cost of fraud per contract is $127,500. The USPS has 8,000 contracts nationwide, implying that national annualized costs of HCR irregularities is $1.02 billion.

VEHICLE PURCHASES

One of the most recognizable features of the USPS is its delivery fleet. The design of mail delivery trucks have shown little change over the past few decades. But, this is becoming a major issue for the USPS, as more than half of all trucks are older than 20 years. This issue has become increasingly visible as an uptick in fires has compromised the operation of Grumman Long Life Vehicles (LLVs) purchased by the USPS. Nearly 100 truck fires in fiscal year 2017 alone have underscored the desperate need to replace the aging fleet, as the USPS deliberates on the best truck vendor for the job. With depleted capital resources due to decades of financial mismanagement, the USPS has limited options in choosing the truck of the future.

Despite the agency recording large fiscal losses for twelve years straight, it has little choice but to increase capital spending to facilitate a large-scale fleet replacement to prevent even further losses in the future. According to a Government Accountability Office (GAO) report released in June, “USPS projects average annual capital-spending cash outlays of $2.4 billion from fiscal years 2018 through 2028—about 70 percent more than the average of $1.4 billion from fiscal years 2007 through 2017.”

While information technology and mail processing spending will get a boost, the primary driver for the increase in capital outlays will be fleet acquisition. Commencing in fiscal year 2019, the USPS plans to spend an annual average of $821 million on new vehicles purchases.

The USPS is still in the process of deciding which vehicle model to choose with competing bids from five different vendors. The agency has, however, stated that it will prioritize prototypes with “hybrid and new technologies, including alternative fuel capabilities.” With few exceptions, hybrids are more expensive than their conventional counterparts even taking into account the better fuel mileage. According to a study by consulting firm Vincentric LLC, 22 of 29 top hybrid vehicle models were more expensive over a lifecycle basis than comparable regular vehicles. Bloomberg projects that, even if lithium prices fall and remain steady, electric vehicles will remain considerably more expensive than the fossil fuel fleet until at least 2024. But rising prices of key electric battery inputs such as cobalt and lithium are putting upward pressure on battery prices and global demand pressures show no sign of abating anytime soon. The USPS tilt against a conventional fleet is a costly bet predicated on a price plunge of metals with soaring popularity and rising prices and is unlikely to be successful.

Due to rapidly-changing market variables and a focus on more popular vehicles such as cars and larger-haul trucks, attempts to estimate the lifetime-cost of electric delivery vehicles and diesel-run delivery vehicles (which make up USPS’ current fleet) have been few and far-between. Yang et al discuss the tradeoffs that governments and companies face in delivery truck procurement and estimate corresponding costs over the life-

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23 Ibid.
25 Paul A. Eisenstein. "Do Your Math Carefully to Figure Out If Hybrids Are Worth the Added Cost." NBC News. September 3, 2016.
time of competing vehicles. A further problem arises in that "a truck needs to wait from four up to 8 hours to be fully charged," and as such vehicle charging "may not be able to meet the needs of vehicles in time, especially for vehicles which require more daily mileage and higher punctuality, such as taxis, buses, and delivery trucks." Thus, entities such as the USPS seeking to purchase electric vehicles may need to opt for "battery swap," in which fleet purchasers’ contract with battery rental companies to charge and provide batteries which can then be put into the vehicle on a frequent basis. Yang et al estimate that light-duty battery-swap trucks cost over 21 percent more than conventional diesel trucks over the lifetime of the vehicles, due to high upfront acquisition costs, continued battery rental and charging costs, and maintenance. Other analyses show higher upfront costs with "alternative" vehicles but fail to track lifetime costs. Reuters cited figures in 2017 showing, "A typical 40-foot electric bus costs around $750,000, compared with about $435,000 for a diesel bus." This amounts to a 72 percent cost difference, although taking into account continued fuel versus battery charging costs as Yang et al did leads to an even more accurate estimate.

Using Yang et al’s conservative estimates (and assuming that the USPS’ preference for “hybrid and new technologies,” including alternative fuel capabilities” amounts to electric vehicle purchases, choosing a vehicle vendor based on this preference would cost the agency an addition $172.41 million per year over its slated $821 million annual expenditure over the next decade to acquire new vehicles.

The USPS is considering two foreign-origin bids (from Indian and Turkish manufacturers), but will likely be steered toward domestic bids due to the sway of "Buy American" provisions. While the USPS isn’t subject to the Buy American Act, it does have an acquisition provision for considering domestic suppliers first and their stated preference for domestic-origin assets makes it likely that they will follow its guidelines. Therefore, the USPS may pay an even more unnecessarily-high price for its fleet over the next decade.

Despite some methodological constraints, and uncertainty regarding the policy options available to the USPS, it is possible to broadly estimate the unnecessary costs these provisions will add if followed. With the statute permitting agencies buying lower-priced goods from a foreign producer if the procurement is greater than 6 percent when compared to the corresponding domestic offer, if it assumed conservatively that foreign bids will be chosen if more than a 6 percent discount applies, then a rough differential can be estimated.

As the USPS projects spending $821 million annually over the next decade to acquire new vehicles, voluntarily adhering to "Buy American" provisions at the 6 percent handicap level would add $49.26 million per year onto purchase costs.

Adding the "Buy American" total to the alternate vehicle procurement costs yields an annual total of $221.67 million in increased costs to the agency as the result of these priorities. This would add an additional $2.3 billion to the cost of fleet acquisition over the course of the decade.

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28 Ibid.
32 It should be noted that this percentage handicap applies only to bids by large businesses; small domestic companies enjoy a 12 percent price-handicap. As the USPS is dealing with primarily large bidders, the conservative assumption of a 6 percent handicap will be used in this analysis.
CONTINUED OPERATION OF REDUNDANT “LOW WORKLOAD” RETAIL FACILITIES

A "low workload" facility (which the USPS defines as a facility which claims a walk-in revenue of less than $27,500 (or $10,000 in Alaska) and earned workload of less than two hours per day) may prove necessary to serve a remote area many miles away from another retail facility. One notable example is the Post Office in Barrow, Alaska, one of the northernmost towns in the United States with a population of roughly 4,500. Regardless of revenue performance, the closure of such a remote Post Office would require residents to travel around 60 miles to Atqasuk, a path not traversable by road. According to data from 2011, more than 200 "low workload" post offices across the country are more than 20 miles from the nearest Post Office. Closing these facilities could cause substantial harm to isolated communities and undercut the Postal Service’s Universal Service Obligation.

The vast majority of "low workload" facilities, however, are 10 miles or less from the nearest alternate Post Office, and the continued operation of these redundant offices costs the USPS hundreds of millions of dollars annually. In 2011, USPS identified 1,801 such Post Offices, as a part of a larger effort to identify unnecessary facilities that could be closed as a part of the Retail Access Optimization Initiative (RAOI). While not all facilities listed by the USPS under the RAOI are low workload, low workload facilities comprised 77 percent of all Post Offices identified for closure or consolidation.

After the USPS announced its RAOI plan in July 2011, the Postal Regulatory Commission (PRC) spent several months reviewing the comprehensive proposal. Finally, in December 2011, the PRC issued a unanimous opinion rejecting the plan and questioning the underlying logic of the initiative. The PRC, citing a lack of screening of the socioeconomic status of populations vulnerable to RAOI closures and the lack of “clear, tangible, measurable goals for future nationwide service changes,” advised that the USPS go back to the drawing board and devise new proposals using more comprehensive modeling of facility-specific data.

In response, USPS released an alternative Post Office Structure Plan in May of 2012, which aimed to “keep the nation’s smallest Post Offices open for business, while providing a framework to achieve significant cost savings as part of the plan to return the organization to financial stability.” The most significant announced change was “modified retail window hours to match customer use,” resulting in the reduction in operating hours for thousands of rural facilities from 8 hours to 6 hours (or in many cases, 4 or 2 hours).

Postmasters around the country were given early retirement incentives in order to reduce labor costs in areas that saw little Postal business. While this change initially went hand-in-hand with the discontinuation (i.e. closure) of a record number of postal retail facilities, the adaption of a “kinder, gentler” approach meant that discontinuation could only remain a viable strategy for so long. As Table 1 shows, the FY 2011 through FY 2013 period saw a historic number of temporary “suspensions” turn into permanent “discontinuations” as a part of an aggressive closure policy coinciding with the RAOI plan. During the FY 2011 through FY 2013, the USPS was averaging 111 suspensions a year. Discontinuations per year averaged 197, as the USPS cleared previous suspensions and discontinued newly-suspended facilities. From FY 2014 through FY 2017, suspensions slowed down to an average of 56.5 per year.

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34 "Barrow, AK post office locations." Post Office Finder.
36 Ibid.
During this period, the USPS did not convert any suspensions into discontinuations. In its 2016 Annual Compliance Report, USPS stated, “confusion can arise whenever a large scale effort to discontinue retail units, even those that are in longstanding suspended status, are announced. Further, clearing the backlog of suspensions could have complicated efforts at the federal level to secure necessary consensus on ongoing legislative reforms under consideration.”39 (emphasis ours)

### Table 1: Suspensions and discontinuances of post offices, 2008-2019

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The USPS finally succeeded in clearing a significant proportion of this backlog in FY 2017, turning 304 suspensions that had been lingering for the past three years into discontinuations.\textsuperscript{40} Allowing a backlog of suspensions to accumulate over a multi-year period creates considerable uncertainty for consumers of suspended facilities and gives the impression that the USPS is using sleight of hand to close facilities without public input (as communities are unable to appeal such suspensions).

A slowdown of suspensions coupled with an even-greater slowdown of discontinuations may therefore be the worst possible combination of policies, as the USPS fails to make significant inroads closing redundant facilities while keeping the process closed from the public.

By suspending roughly 54.5 fewer redundant facilities per year than the peak FY 2011 though FY 2013 period, the USPS is forgoing significant savings. The USPS’s fiscal analysis of its unprofitable, “low workload” facilities revealed that each facility on average has a net operating loss of $60,974.\textsuperscript{41} As this figure was published in FY 2011, the inflation-adjusted figure in 2018 is $68,101. Multiplying this sum by 54.5 and taking into account the cumulative foregone cost of not closing these facilities, yields an average annual foregone cost figure of \textbf{$20.41 million} over the next decade.

\textsuperscript{40} “Post Office discontinuances and suspensions: A decade in review.” Save the Post Office. February 26, 2018.

The “Postal Reselling” Program

As a quasi-business, the USPS often tries pricing strategies common across for-profit sectors. One pricing practice commonly seen in the private sector is that of bulk discounts. The USPS gives discounts to large companies that regularly use a large volume of postage and come to special pricing agreements via NSAs. If a large company seeks to get preferential pricing treatment from the USPS, they must show the “ability to make and present in an acceptable format accurate forecasts of future mail volumes for USPS products,” as well as establish thorough documentation of historical and current mail volumes and quality control management. Should the applicant company’s application be approved, the USPS begins a negotiation process, which if successful, results in an NSA.  

While large volume discounts make sense from a fiscal and economic perspective, extending discounts to businesses without significant volume results in unsound and preventable losses. This discounting of postage without taking into account vendor size regularly happens due to USPS’ “postal reselling” program allowing approved vendors to resell postage at deeply discounted rates. As such, companies can take advantage of these steeply discounted rates to purchase in bulk, then resell at an inflated rate (yet cheaper than the retail price) to consumers who do not purchase in bulk.

USPS states that “Registered end-users of USPS-approved PC Postage products” are among those eligible for “Commercial Plus pricing [which] is available to customers whose cumulative account volume exceeds 5,000 pieces in the previous four quarters and who have a customer commitment agreement with USPS.”  

Agreements with individually-approved PC approved vendors suggests that the USPS tries to limit discounted postage to high-volume consumers. One (heavily redacted) NSA, for instance, contains a clause stipulating that, “applicable discounted prices will be based on Customer’s volume of Contract Packages shipped during the previous full Contract Quarter.” But in practice, PC approved vendors have been found to grant buyers Commercial Plus pricing regardless of the volume requirements identified by the Postal Service.

In June 2017, Capitol Forum released the results of investigation into postage rates encountered by low-volume shippers that purchased postage from a variety of approved PC vendors such as Stamps.com and Pitney Bowes, as well as software liaisons between consumers and PC vendors (ie. EasyPost, Ordoro, ShippingEasy). As a part of their investigation, Capitol Forum sought to purchase and print labels for mail to be sent between either Washington, D.C. and Manhattan, New York (Zone 3) or Washington, D.C. and El Segundo, California (Zone 8). Using barcode decoding technology that uses Information-Based Indicia (ICI), Capitol Forum was able to determine how much the software platforms (via the PC vendors) spent to acquire the labels in the first place.

Take, for instance, Ordoro, a software platform which implores potential consumers to “Get access to our Commercial Plus Pricing and Dimensional Rates...Our USPS accounts get discounted rates that are only available to high volume shippers and is likely to meet or beat the current rates that you get from your other postage accounts.” If a low-volume company walked into a Post Office in 2017 and sought to mail a 3 lb. parcel from Washington, DC to El Segundo (Los Angeles), California, they’d pay $14.90 in postage. Capitol Forum was able to accomplish the same shipping transaction via Ordoro for just $7.32. Capitol Forum’s barcode decoding software revealed that Ordoro paid the USPS just $7.04 for the label that they ultimately purchased. If the USPS had refused to sell discounted postage to Ordoro for reselling, USPS would have collected $7.86 more from the low-volume shipper.  

As Tables 2 and 3 demonstrate, significant disparities exist between what low-volume shippers pay at the USPS versus PC-approved vendors, at significant cost to the USPS. Both Ordoro and ShippingEasy are software platforms that operate as middle-men between consumers and PC-approved vendors such as Stamps.com. Based on this data, the Postal Service loses anywhere from 12.9 percent to a staggering 52.8 percent from postal resales going to low-volume postage buyers via these software platforms. Unfortunately, it is not possible to estimate the size and extent of subsidies flowing to low-volume buyers, as firms such as Ordoro and Stamps.com do not provide detailed-enough financial information to the public to create an estimate.

The USPS itself refuses to divulge revenue impacts, “Due to concerns with the commercial sensitivity of competitive product pricing strategy that may be protected from disclosure under 39 USC 410(c) (2)...” This fits into a broader pattern of the USPS not disclosing information about its reselling program, or competitive product dealings in general. The IG notes, “In response to certain requests for information related to our work on the Postal Partnerships and PC Postage projects, the Postal Service was slow to respond, sometimes taking more than a month to fulfill our requests. In some instances, the Postal Service initially told us that documents we requested did not exist. After we discovered additional evidence of the documents, we pressed the Postal Service further and they eventually divulged more records.”

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46 Ibid.
48 Ibid.
### Table 2: Postal reselling discounts given to ordoro consumers

<table>
<thead>
<tr>
<th>Mail categories</th>
<th>Ordinary (commercial base) postage</th>
<th>Paid to USPS</th>
<th>Loss to USPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat rate envelope</td>
<td>5.95</td>
<td>4.94</td>
<td>-1.01</td>
</tr>
<tr>
<td>Small flat rate box</td>
<td>6.45</td>
<td>5.19</td>
<td>-1.26</td>
</tr>
<tr>
<td>Medium flat rate box</td>
<td>12.4</td>
<td>10.61</td>
<td>-1.79</td>
</tr>
<tr>
<td>Large flat rate box</td>
<td>17.05</td>
<td>14.74</td>
<td>-2.31</td>
</tr>
<tr>
<td>Parcel, 3 lbs, zone 3</td>
<td>7.38</td>
<td>5.56</td>
<td>-1.82</td>
</tr>
</tbody>
</table>


### Table 3: Postal reselling discounts given to shipping easy consumers

<table>
<thead>
<tr>
<th>Mail categories</th>
<th>Ordinary (commercial base) postage</th>
<th>Paid to USPS</th>
<th>Loss to USPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat rate envelope</td>
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<td>5.18</td>
<td>-0.77</td>
</tr>
<tr>
<td>Small flat rate box</td>
<td>6.45</td>
<td>5.63</td>
<td>-0.82</td>
</tr>
<tr>
<td>Medium flat rate box</td>
<td>12.4</td>
<td>10.85</td>
<td>-1.55</td>
</tr>
<tr>
<td>Large flat rate box</td>
<td>17.05</td>
<td>14.9</td>
<td>-2.15</td>
</tr>
<tr>
<td>Parcel, 3 lbs, zone 3</td>
<td>7.38</td>
<td>6.5</td>
<td>-0.88</td>
</tr>
<tr>
<td>Parcel, 3 lbs, zone 8</td>
<td>14.9</td>
<td>13.12</td>
<td>-1.78</td>
</tr>
</tbody>
</table>

POSTAL PERILS AND PROMISE

While the IG has not issued a public report on low-volume discounts, it has reported on mislabeling of postage through PC-approved resellers. If, for example, “claimed weight by mailer does not match actual weight,” or “claimed zone does not match actual,” the USPS the mail to be “shortpaid.”

After first pointing out the issue in 2013, the IG recommended substantial corrective actions to USPS, including improved controls and automated systems. Disappointingly, the USPS opted for a significantly more limited course of action, primarily involving increased information-sharing between the agency and approved PC resellers, as well as some increased auditing. Unsurprisingly, these limited measures proved to be insufficient in stopping mislabeling and fraudulent PC postage with USPS estimating a FY 2016 shortpaid total of $235 million.

In response to continued scrutiny by the IG, the USPS unveiled an Automated Package Verification (APV) system in August 2017. The system, which is designed to “automate identification and recovery of shortpaid PC Postage parcels,” has an unproven track record and remains unevaluated by the IG. The IG did note in May of 2017, however, that software issues remain and collection and payment systems remain incomplete. Additionally, 17 percent of parcels will fall outside the scope of the APV system, and the presumed cost of shortpaid postage from these parcels will likely continue without further significant action by the USPS.

Finally, there is a cost to implementing the new automated system, although this dollar figure is not available to the public. Until the APV is demonstrated to have made inroads in reducing mislabeling, this report considers the PC reselling program to cost the USPS at least $235 million annually. This is a conservative estimate, because, as previously noted, the subsidy to low-volume postage buyers remains unquantifiable, with the true total likely significantly higher.

SUNDAY DEAL, MISCELLANEOUS PILOT PROGRAMS WITH AMAZON

An exclusive 2013 deal to deliver Amazon parcels on Sundays has led to rapid cost escalation for USPS. While any “mail matter” can be delivered by USPS on Sunday, customers have to go through Priority Mail Express at a far higher price than ordinary shipping. That’s why, in describing the Sunday deal with Amazon back in 2013, USPS’ IG argued that, “what’s really new is the low cost of the service...Utilizing the Postal Service’s ubiquitous delivery network Amazon.com is able to keep its costs down and, for example, give its Amazon Prime members who get unlimited, free two-day shipping the flexibility to get packages on Sundays.”

But in the five years since the approval of the deal, Sunday-related parcel delivery costs have risen rapidly. Since Sunday operations are dictated by the deal granting Amazon exclusive Sunday access, the result is hardly an efficient operation. The IG finds that, in the San Francisco District, “the increased use of higher cost full-time city carriers and scheduling uncertainty” has resulted in more than $2 million in additional quarterly operating costs. Additionally, parcel volume uncertainty leads to overstaffing with employees paid at the overtime rate.

Similarly, if Amazon wants to test out a new delivery service concept, they can rely on special USPS agreements to get privileged access to thousands of households that their competitors are unable to obtain. Before any other player had a opportunity in the grocery delivery market, the USPS penned a trial arrangement with Amazon in 2014 for the San Francisco market. The USPS agreed to make same-day deliveries of AmazonFresh

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50 Ibid.
51 Ibid.
groceries, allowing the company unique access to Postal vehicles for drop-offs between 3 a.m. and 7 a.m.\(^{54}\) (not a very convenient time for consumers). By exclusively offering Amazon the opportunity to establish itself as the first major e-grocer, the USPS gave the multi-billion corporation a major leg-up over any potential competitor. By the time that the USPS’s delivery offerings were extended to other retailers after that initial test, Amazon already had a reputation for being the first company in an innovative and highly lucrative market.

The market has been flooded with similar services since the pilot program’s inception in 2014, showing that the USPS arbitrarily intervened into a market where their services were far from necessary. Shipt, for instance, which delivers groceries, home goods, clothes, and other items from Target via tens of thousands of personal shoppers, will offer same-day shipping on “all major product categories” by the end of 2019. Unlike USPS’s non-public grocery arrangement (which was hampered by late and missed delivers according to a Recode report), Target’s acquisition of Shipt and Shipt’s arrangements with shippers are subject to market conditions in the public’s eye.

The USPS maintains that, even though there are significant costs associated with the Sunday deal and pilot arrangements, the revenue is greater than the costs and therefore there is no cause for concern. The agency, however, overlooks the revenue forgone by giving preferential rates to one company. If the USPS decided to immediately charge Amazon Priority Mail Express rates for its Sunday deliveries, the company would unlikely respond by ending its two-day Prime option, which allows it to maintain significant market-share.

Similarly, it is unlikely to significantly change its logistical strategy; Amazon is actively building its own logistics network regardless of USPS posting policies. Amazon’s current Delivery Service Partner program, which allows individuals to set up their own delivery business with a $10,000 investment and a vehicle leasing agreement with the company, already reflects an aggressive pivot toward self-delivery. Logistics roles are unlikely to be filled at a fast rate, given the tightness of the American labor market.\(^{55}\)

For these reasons it is likely that, if USPS ended its preferential pricing treatment toward Amazon, the agency could recoup significant additional revenue. Unfortunately, the amount of revenue remains impossible to estimate, since there is no available public price data.

But, allowing Amazon packages exclusive access to Sunday delivery means more to Amazon than simply avoiding Priority Mail Express. Due to an outdated parcel pricing formula agreed to by USPS and its regulator more than a decade ago, all packages are priced in a way that severely underestimates their contribution to wear-and-tear.

The agency, for instance, assumes, under a formula born out of the 2006 Act which directed the PRC to establish various financial controls, that “competitive products” such as packages are responsible for less than 15 percent of wear-and-tear costs for newly acquired trucks.\(^{56,57}\) Considering, however, that the USPS’s new trucks are designed specifically to carry more packages, and packages make up a considerable part of the USPS’s activities, such an assumption seems grossly inaccurate.

These assumptions are the result of a 2007 PRC ruling in which the Commission mandated that “competitive products” were to be priced under the assumption that they were responsible for 5.5 percent of institutional costs.\(^{58}\) On January 3, 2019, the PRC adopted a final rule increasing that minimum share to 8.8 percent of min-

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\(^{55}\) Ali Montag. “Amazon says this business opportunity could make you up to $300K a year — here’s how to get into the program.” CNBC. September 6, 2018.


imum costs, but this total is still significantly lower than the actual share of costs that competitive products are responsible for. Today, competitive products are responsible for more than 30 percent of USPS total attributable costs, meaning that the USPS is chronically underestimating packages’ impact on wear-and-tear. Therefore, arrangements such as Sunday delivery may be deemed as profitable by Postal regulators, but only under outdated and inaccurate assumptions.

ESTIMATING FEDERAL, STATE, AND LOCAL SUBSIDIES TO THE UNITED STATES POSTAL SERVICE

In response to multiple reports, analyses, and op-eds criticizing the financial management of the USPS, the public relations arm of the USPS typically responds by citing the difficulties that come with “self-financing.” The claim that “The Postal Service receives NO tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations” appears on the USPS’s website, and is frequently repeated in statements, opinion articles, and various media appearances by USPS staff.

This, however, is a strongly misleading statement, even if there is no Congressional line-item devoted to the USPS. As detailed in a number of reports through the years, USPS enjoys exemptions from many taxes on the federal, state, and local level, and enjoys special loan arrangements with the US Treasury which, given projected unending deficits that are unlikely to be repaid, constitute de facto taxpayer funded bailouts. In this research analysis, we aim to examine the extent of subsidies flowing from taxpayers at all levels of government to the USPS. To arrive at an estimate, this report examines previous analyses, and update presented calculations. Additionally, new data is used to arrive at new estimates in several areas.

BACKGROUND ON PREVIOUS ANALYSES

A number of studies over the past decade have attempted to quantify the total yearly value of taxpayer subsidies received by the USPS. In 2008, the PRC estimated that indirect subsidies to the USPS totaled $4.9 billion annually ($5.83 billion adjusting for inflation). The analysis attempted to quantify the economic advantage accruing from the USPS’s first class monopoly. Additionally, the PRC produced estimates of the value of state and local tax exemptions on business income, property, fuel, vehicle registration, and other levies.

The PRC estimate, however, significantly understated the value of the subsidy by excluding a number of relevant factors. A 2015 study by Robert J. Shapiro of Sonecon revisited the assumptions used by the PRC with a more comprehensive investigation of all subsidies enjoyed. Shapiro argued that the 2008 PRC study failed to take into account several federal benefits enjoyed by the USPS, including subsidized loans from the Treasury and revolving corporate tax payments. Additionally, Shapiro found that the PRC underestimated the value of state and local tax exemptions and general monopoly benefits. For instance, the PRC failed to take into account the benefits of monopoly access to business and personal mailboxes when competing with private businesses in delivering packages and urgent mail. Incorporating revised tax expenditure estimates, monopoly access benefits, and other federal benefits, as well as the implicit value of the monopoly on First Class Mail and subsidized loans from the Treasury, Shapiro concludes that the total Postal Service subsidy exceeds $18 billion.
Below, TPA seeks to provide updated subsidies enjoyed by the USPS. Additionally, costs arising from the organization’s unique funding requirements and other legal obligations are quantified and compared to estimated subsidies.

**SUBSIDIES**

**FEDERAL SUBSIDIES**

- **Corporate Income Tax**

Private companies are ordinarily required to pay a 35 percent corporate tax rate, which was lowered to 21 percent at the beginning of the year due to the implementation of the Tax Cuts and Jobs Act (TCJA). While the USPS is required to estimate their taxable income and resulting tax liability based on statutory rates, funds are not paid to the Internal Revenue Service. Rather, funds are transferred to the “Postal Service Fund” in the Treasury Department, which is designed to collect proceeds from USPS operations. But since the USPS is allowed to draw on said funds for legal functions, the organization has free reign in taking from the PSF to fund ordinary operations. Thus, USPS payments into the PSF are counted as subsidies for the purpose of the analysis.

In a filing submitted to the PRC in February of 2018, “The Postal Service reports a taxable competitive products income of $5.454 billion. Multiplying its taxable income by a tax rate of 35 percent, the Postal Service calculates a FY 2017 assumed Federal income tax on competitive products income of $1.909 billion.” To provide a figure incorporating the latest tax changes, the taxable income of $5.454 billion is multiplied to the new corporate tax rate of 21 percent, resulting in an alternative assumed tax total of $1.15 billion.

- **Treasury loans**

Unlike its private competitors, the USPS has the ability to obtain subsidized loans from the Federal Financing Bank (FFB) run by the US Treasury Department. In their FY 2017 financial statements, FFB summed up the current financing situation: “The USPS has a total borrowing authority of $15 billion. The USPS borrowed up to this debt ceiling on September 30, 2017. The USPS repaid $4 billion of the outstanding amount on October 2, 2017. The USPS can be expected to borrow up to the ceiling amount at different times in the coming year.”

Based on the USPS’s FY 2017 10-K (the organization’s annual financial filing), the organization paid $226 million in interest in FY 2017, implying an average effective interest rate of around 1.5 percent. In contrast, FedEx and UPS reported effective interest rates of 3.57 percent and 2.24 percent respectively for FY 2017. Using a weighted average based on the respective interest expenses and outstanding debt for the two companies results in a weighted average interest rate of 2.79 percent. If the USPS was required to service its debts at the constructed, higher interest rate, interest expenses would be approximately $418.5 million. Subtracting the USPS’s $226 million in interest expenses from this hypothetical figure yields a subsidy total of $192.5 million.

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• **Total Federal Subsidies/Benefits**

Table 4 summarizes the federal benefits afforded to the Postal Service in 2018. This total of **$1.34 billion** excludes benefits associated with the economic benefit of monopoly, since monopoly benefits do not directly cause the federal government to forgo revenue or expend resources. If, however, Sonecon’s inflation-adjusted estimate of mailbox monopoly ($15.1 billion) is taken into account, federal benefits would total over **$16.4 billion**.

Table 4: Postal reselling discounts given to shipping easy consumers

<table>
<thead>
<tr>
<th>Benefit/Exemption</th>
<th>Subsidy Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Income Tax</td>
<td>$1,150</td>
</tr>
<tr>
<td>Treasury Loan Subsidy</td>
<td>$193</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$1,343</strong></td>
</tr>
</tbody>
</table>

**STATE AND LOCAL SUBSIDIES**

• **Property Tax**

The USPS is exempt from direct state and local levies, including property taxes, sales taxes, business taxes, and vehicle registration fees. Given the USPS’s extensive land holdings, the lack of property taxation is one of the largest governmental benefits bestowed on the organization. The IG found that, in 2012, the fair market value of the USPS’s land holdings exceeded **$85 billion**.\(^7^1\) Since then, there has been no further attempt to quantify aggregate property holdings.

The current value of holdings can be estimated using commercial real estate price data from the International Monetary Fund.\(^7^2\) Adjusting the 2012 figure for year-over-year percentage increases in prices, and subtracting out proceeds from annual property sales, TPA estimates 2018 aggregate property holdings by the USPS to be valued at **$125.65 billion**. This, multiplied to the latest available estimate of average property tax rate across the United States (1.15 percent),\(^7^3\) results in an implied property tax subsidy of **$1.45 billion**.

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\(^7^3\) Constance Brinkley-Badgett. “Comparing average property taxes for all 50 states and D.C.” USA Today. April 16, 2017.
• **Business Income/Corporate Tax**

In a filing submitted to the PRC in February of 2018, "The Postal Service reports a taxable competitive products income of $5.454 billion." According to the Organisation for Economic Co-operation and Development (OECD), American states and localities reported an effective weighted corporate tax rate of 6.01 percent in 2017. Multiplying this average rate to taxable competitive products income results in an implied annual subsidy of **$328 million**.

• **Fuel Tax Exemption**

The USPS has not released information as to state fuel taxes paid, and state-by-state policies are not consistently published online. A 2002 IG report states that Postal operations in 45 states and the District of Columbia are exempted from state fuel taxes. A 2007 survey by the Institute for Research on the Economics of Taxation found that, of the 19 states that responded to the query, 15 allowed the USPS a complete exemption of fuel taxes. In lieu of more recent data, a conservative assumption is used that half of all fuel tax payments in the US are successfully avoided by the USPS.

The American Petroleum Institute (2018) reports the weighted average of state taxes/fees and diesel as 33.56 and 35.35 cents per gallon, respectively. The USPS has most recently (FY 2016) reported fuel usage for gasoline and diesel as 150.3 and 31.8 million gallons respectively. Based on these estimates and applying the assumption that 50 percent nationwide tax payment assumption, the USPS’s fuel tax exemptions save them **$30.84 million** annually.

• **Misc. Benefits**

In addition to corporate, property, and fuel taxes, states and localities exempt the USPS from an array of other taxes and fees. These include: parking tickets, sales taxes, vehicle registration fees, tolls, business licensing fees, and state franchise taxes. There is insufficient data to make independent estimates for these items and rely on inflation-adjusted PRC reported figures from 2006 (included in the aforementioned 2008 report) to arrive at 2017 subsidy estimates. These figures are listed below in Table 5.

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Table 5: Value of miscellaneous USPS exemptions from state and local taxes and fees ($ millions)

<table>
<thead>
<tr>
<th>Benefit/Exemption</th>
<th>2006</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Use Taxes</td>
<td>$200</td>
<td>$244</td>
</tr>
<tr>
<td>Vehicle Registration Fees</td>
<td>$115</td>
<td>$140</td>
</tr>
<tr>
<td>Tolls</td>
<td>$77</td>
<td>$94</td>
</tr>
<tr>
<td>Parking Tickets</td>
<td>$31</td>
<td>$38</td>
</tr>
<tr>
<td>State Franchise Fees</td>
<td>$15</td>
<td>$18</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$438</strong></td>
<td><strong>$534</strong></td>
</tr>
</tbody>
</table>


**Total State and Local Benefits**

Table 6 summarises the value of each state and local tax/fee exemption afforded to the USPS. This report finds that, for 2017, state and local exemptions totaled **$2.34 billion**. In contrast to the PRC’s (2007) analysis and Son-econ’s (2015) study, this analysis omitted the value of tax compliance costs. While the USPS does benefit from avoiding these costs, they cannot be considered a subsidy. Avoided compliance costs do not cause states and localities to forgo revenue or expend resources.

Table 6: Value of USPS exemptions from state and local taxes and fees in 2017 ($ millions)

<table>
<thead>
<tr>
<th>Benefit/Exemption</th>
<th>Subsidy Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exemption</td>
<td>Subsidy Value</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>$1,450</td>
</tr>
<tr>
<td>Misc. Taxes</td>
<td>$534</td>
</tr>
<tr>
<td>Business Income Taxes</td>
<td>$328</td>
</tr>
<tr>
<td>Fuel Taxes</td>
<td>$31</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$2,343</strong></td>
</tr>
</tbody>
</table>
Estimating the total implicit subsidization of USPS is no easy task and requires multiple assumptions due to gaps in the data. The USPS, for instance, has not updated their tally of states that tax the fuel purchased for deliveries. Additionally, the “market interest rate” that the USPS would have to pay if it did not have access to subsidized Treasury loans can only be roughly estimated. Using conservative assumptions and defining “subsidy” as funds forgone by federal, state, and local governments, this study finds that subsidies totaled $3.68 billion in 2017. However, using a broader category of “benefits” would include quantified estimates of the USPS’s mailbox monopoly. Adding Sonecon’s inflation-adjusted estimate of the mailbox monopoly benefits to our measured subsidies results in an expanded figure of $18.78 billion.

Sonecon’s analysis presents a more plausible estimate of benefits than the 2008 PRC estimate, BECA because of the former’s inclusion of competitive products into the equation. Even if we take the PRC’s contention at face value that the monopoly benefit is roughly cancelled out by legal requirements (ie. the universal service obligation), the Postal Service is still netting a governmental subsidy of nearly $4 billion a year. Given this significant advantage bestowed on the Postal Service, lawmakers have a responsibility to hold the USPS to a high standard of fiscal responsibility.

<table>
<thead>
<tr>
<th>Level of Exemption</th>
<th>Subsidy Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>State and Local</td>
<td>$2.34</td>
</tr>
<tr>
<td>Federal</td>
<td>$1.34</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$3.68</strong></td>
</tr>
</tbody>
</table>

Table 7: Value of USPS exemptions from federal, state, and local taxes and fees in 2017 ($ billions)
The USPS is hemorrhaging resources that could be better used in serving consumers and furthering the agency’s mission to “provide prompt reliable, and efficient services to patrons in all areas and...render postal services to all communities.” Instead of addressing the IG’s many recommendations, USPS leadership continues to pursue half-measures and take a defensive posture that does the agency little good over the long-run. In response to legitimate questions posed by TPA about the USPS package pricing in *The Hill* in January 2018, USPS Public Relations Manager Dave Partenheimer argued that the agency, “conducts rigorous analysis regarding the price sensitivity of our package delivery offerings,” despite the aforementioned pricing of packages at a share of institutional costs that no longer reflects actual costs.

The agency’s pricing problem is two-fold: it lacks the appropriate methodology for determining how much packages contribute to the wear-and-tear of Postal infrastructure and fails to consider the opportunity costs of its pricing strategies. Even if legal requirements “guarantee that the prices that the Postal Service charges for our package products are appropriate,” the assumption that packages contribute to less than 15 percent of trucks’ depreciations comes from an outdated methodology and ensures that delivery package costs and corresponding pricing will be lower than any “appropriate” level.

Even if the USPS’ pricing methodology still manages to net the agency a profit, revenues versus costs should not be the only consideration. As mentioned before, it’s likely that ending the Sunday deal would result in increased revenues to the USPS. The IG has noted previously, however, that research about Postal price elasticity is sorely lacking, and any research conducted into the issue is not public information. Additionally, in a disturbing lack of transparency, the agency refuses to comment on the costs of the postage reselling program, despite the high opportunity costs that almost certainly come with the program. The small-volume shippers inappropriately receiving CPP pricing instead of CBP pricing would likely still find the USPS to be the cheapest shipping, and the agency would likely save hundreds of millions of dollars per year by cutting out the middleman and decreasing the prevalence of shortpaid postage.

In addition to flawed pricing approaches, the USPS suffers from inefficiencies and skewed spending practices that needlessly take away from revenues. Despite the USPS’s mission to provide universal service, duplicate or overlapping operations in many areas leads to red ink, and consequently less comprehensive, broad-based services over the long-run. The agency has proven unable to close redundant offices that are close to other offices, yet costing more resources than they bring in.

Staffing levels remain inefficient across the country due to the inconsistent use of the F1 scheduling tool. Simply being more consistent in F1 usage could save the USPS nearly $500 million per year. Highway contracts are needlessly inflated, as contractors fail to satisfactorily perform their duties. USPS’ failure to hold contractors accountable, coupled with systemic accounting issues, likely cost the agency more than $1 billion annually.

In addition to these present issues, the USPS faces large, unnecessary increases in future capital spending absent reforms. The USPS is expected to spend $5 billion on the replacement of more than half of its truck fleet. Yet, stated preferences for American-made trucks and alternate fuel systems will likely cost the agency more than $220 million each year over the next decade (approximately 20 percent higher than necessary spending).
As the USPS continues to hemorrhage money unnecessarily, the USPS alleges that its hands are tied and until Congress enacts significant reforms, the agency will continue to lose money year-in-year-out. In an inappropriate piece personally attacking Forbes Contributor Steve Pociask, USPS alleges that “high fixed costs due to factors such as our Universal Service Obligation to deliver to more than 155 million delivery points up to six days a week, and the fact that we are required to participate in federal pension, health benefits, and worker’s compensation programs” while can only be fixed via statutory reform.

Yet the agency’s Public Relations team repeatedly neglects to mention that it receives billions of dollars in taxpayer subsidies. This analysis finds that, via exemptions to various taxes and low-interest Treasury loans, the USPS enjoys $3.6 billion in government funds each year not available to its private competitors. This falls short of “prefunding” costs for workers’ future retirement liabilities; the USPS is expected to pay up to $5.8 billion per year in funding future workers’ retirement liabilities, which is not expected of its private competitors. Private shippers, however, would likely be penalized via stock market valuations for pension underfunding and poor fiscal management in general. This is not something the USPS has to worry about, since they are insulated from bankruptcy and going out of business.

The USPS’s financial advantages given to it by federal, state, and local governments, combined with long-overdue efficiency and pricing improvements, give the agency fiscal space to pay off its Treasury debts and avert a bailout without Congress having to step in.
1. **Make more consistent use of F1 Scheduler.** Reducing the mismatch of workhour budgets and staff level/assignment determinations and corresponding, unnecessary overtime hours can save the USPS $420 million in costs per year.

2. **Reign in on highway contract “chargeable irregularities.”** Increasing oversight over the more than 8,000 HCR contracts would stem the rising tide of irregularities, described by the IG as “commonly include missed, late arriving, and late departing trips.” If management made more complete reviews of HCR contracts, and endeavored to more completely share paperwork with managers at other facilities, the USPS could save $1.02 billion in costs per year.

3. **Proceed with vehicle purchases without “Buy American” and “alternate fuels” preferences.** The USPS can voluntarily choose to forgo their stated preferences for American-made trucks and trucks reliant on alternative energy sources, at significant savings to the agency. By choosing a conventional fleet offered by the lowest bidder, the USPS can save $222 million in costs per year.

4. **Close redundant, “low workload” Post Offices.** Suspending 54 more “low workload” facilities per year would put the USPS on par with previous suspension rates, and result in savings for the agency. To ensure that consumers are not significantly inconvenienced and the USPS continues to make good on its Universal Service Obligation, the agency should limit closures to Post Offices within 10 miles of another Office. This strategy would save the USPS $20.41 million per year over the next decade.

5. **End the Postage reselling program.** Companies such as Stamps.com cost the USPS hundreds of millions of dollars per year by purchasing postage at steeply discounted rates, and using the rates to secure discounts (at Commercial Plus Pricing) for low-volume shippers that would ordinarily have to pay higher rates (Commercial Base Pricing rates). Ending this middleman discount and reducing corresponding incentives for shortpaid postage would save the USPS $235 million per year.

6. **Readjust the portion of institutional costs attributable to package deliveries.** While the Postal Regulatory Commission is currently evaluating the idea of raising postage costs for packages, they will likely refrain due to pressure from shippers and fears about e-commerce sellers switching to alternatives. If the PRC decides to reassign package costs to 25 percent of institutional costs, prices would rise commensurate with the true impact of packages on USPS infrastructure. Even taking price elasticities into account (ie. the ability of e-commerce firms to rely less on USPS after price hikes), the USPS would likely save $1.40 billion per year via realigned package pricing.
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Annual Savings ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Readjust institutional costs</td>
<td>$1.40</td>
</tr>
<tr>
<td>Reign in highway contract waste</td>
<td>$1.02</td>
</tr>
<tr>
<td>Consistently use F1 scheduler</td>
<td>$.42</td>
</tr>
<tr>
<td>End the Postage reselling program</td>
<td>$.24</td>
</tr>
<tr>
<td>End stated vehicle purchase preferences</td>
<td>$.22</td>
</tr>
<tr>
<td>Close redundant facilities</td>
<td>$.02</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$3.32</strong></td>
</tr>
</tbody>
</table>

Should the USPS follow these recommendations, the agency would save $3.32 billion per year, allowing management to more than offset controllable losses each year and a majority of total net losses. Congressional action could add to savings, by allowing the USPS to pursue innovative arrangements that would likely save additional billions of dollars per year.

Allowing the agency to expand their use of public-private partnerships, for instance, could lead to less expensive, dedicated post offices and more kiosks at stores such as Staples, CVS, and Rite Aid. Additionally, allowing the agency to leverage its mailbox monopoly by selling access to mailboxes across the country to private shippers would likely amount to billions of dollars in new revenue. While these benefits have not yet been quantified, it is likely that associated Congressional reforms in conjunction with management reforms identified in this report would allow the agency to offset its total net losses in any given year and allow the USPS to pay back its debts to the US Treasury more quickly.

As this report demonstrates, USPS management has it within their power to overcome the majority of losses it faces in any given year. Should Postal leaders focus on process and pricing reforms, the agency will finally begin to see positive performance results and less red ink. Blaming a dysfunctional Congress is a convenient excuse for inaction. The USPS has the ability to make the necessary changes to be financially stable.