



Testimony of

The Honorable Robert G. Taub, Vice Chairman

On Behalf of the

Postal Regulatory Commission

Before the

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I. EXECUTIVE SUMMARY

Good Morning, Chairman Sessions, Ranking Member Mfume, and Members of the Subcommittee. Thank you for convening this important hearing on the state of the United States Postal Service (Postal Service) and the critical role the Postal Regulatory Commission (Commission) plays in providing transparency and accountability for the American people. I appreciate the opportunity to appear before you to address the challenges facing the Postal Service and offer the Commission's unique perspective in tackling the issues that the Postal Service faces today.

As background, I have been involved with postal issues for much of my career both at the Commission since 2011 and here in the House of Representatives and this Committee from 1995-2009. I was appointed to the Commission three times following unanimous confirmations by the U.S. Senate in 2011, 2016, and 2023. The President designated me Chairman of the Commission for more than 6 years, from December 2014 until January 2021. For 2025 and 2026, I was elected Vice Chairman of the agency by my fellow commissioners who join me here today. We have had a vacancy in the position of Chairman since October 2025, and pursuant to law, the Vice Chairman acts as Chairman of the Commission in the absence of a designated Chairman.

Almost 3 months ago, the Postmaster General of the United States testified before you and presented a dismal future of the Postal Service, stating that it would run out of cash and stop delivering mail within 12 months. He also presented three "doors" from which Congress could choose a solution. Two doors leading to continued dismal results and the quickened demise of the Postal Service (e.g., stopping mail delivery, severely reducing service, closing Post Offices, and raising prices), and one he referred to as the "Goldilocks Choice" which he championed would be "just right" and solve all of the problems – which can generally be described as give us more money.

The "Goldilocks Choice" is not the panacea for the Postal Service's ills. The proposal includes increasing its borrowing cap and reallocating Civil Service Retirement System (CSRS) liabilities to support investments and universal service. It proposes reforms to diversify retirement funds and challenges current actuarial assumptions to

reduce pension payments. Finally, the Postal Service advocates for Federal Employee's Compensation Act (FECA) reforms to apply private-sector best practices, projecting significant savings. Unfortunately, none of these remedies get to the crux of the Postal Service's financial situation: fixing the fundamental funding structure of the Postal Service while preserving appropriate service and delivery standards by defining the Universal Service Obligation (USO) America expects of its Postal Service.

There are many causes for why the Postal Service is in the situation it is in today—my prepared remarks dive deeper into these complex situations and highlight how the Commission in many instances has raised concern about them over the years. While the Commission may agree with the Postmaster General on some of the causes of the current predicament, some of the Postal Service's explanations give us pause. Its proposed solutions should also be viewed cautiously.

The Commission cautions against adopting the Postmaster General's approach of just granting the Postal Service the freedom to operate like a “truly independent entity” and ridding it of any regulatory or statutory requirements and hoping that will make everything better. This approach combined with the “Goldilocks Choice” can generally be described as give us more money with less oversight. The Postal Service is not an independent entity; it is a government entity with two statutory monopolies over letter delivery and mailbox access that no other private sector company or truly independent entity enjoys. This is why Congress established specific (and limited) statutory and regulatory guardrails, and the Commission has implemented over the past 56 years, to protect consumers and businesses from potential monopolistic abuse, such as predatory pricing, poor service, and unfair competition.

The Commission also cautions against endorsing the Postmaster General's plan to move full steam ahead with the Delivering for America (DFA) Plan—a plan which promised break-even operations by FY 2023 and a cumulative 10-year net income of \$0.2 billion. In fact, in year 6 of the 10-year DFA Plan, the Postal Service has incurred \$31 billion in losses and is on a path to lose even more in the remaining 4 years of its implementation. It is a plan that promised to streamline and make more efficient the delivery of mail and parcels and save the Postal Service \$28 to \$40 billion, as initially

estimated, yet implementation of the plan has consistently slowed mail delivery across the United States, specifically in rural areas, which to a greater extent rely on affordable and reliable mail delivery. And the mounting financial losses continue, a situation the Commission warned about on several prior occasions.

The Postmaster General also suggested raising the \$15 billion in borrowing authority of the Postal Service, which was last adjusted in 1992. The Postal Service has received significant financial relief from Congress in recent years, including \$10 billion in COVID relief, \$3 billion in funding for electric vehicles and approximately \$57 billion in balance sheet relief under the Postal Service Reform Act (PSRA) of 2022, without all of which postal finances would be even worse. The 2022 law also required Medicare enrollment for eligible postal retirees, which Congressional Budget Office (CBO) estimated would generate longer term cost savings of \$2.5 billion over the 2021-2031 period. Now more money is being requested, with no structural solution in sight. Whether to adjust the Postal Service's statutory borrowing authority is ultimately a policy judgment for Congress, however, the Commission is doubtful that "just \$15 billion more" is going to solve the problem. Extend the date of the ultimate crisis, yes; but prevent it, no.

To that end, the Commission recently provided the Postal Service a total of potentially \$15 billion or more in relief through FY 2030 and averted a cash crisis in the near term by issuing a waiver of its regulations requiring minimum retirement payments. The Commission's action offers some "breathing room" and extends the time period before the Postal Service's "reported insolvency" and the stated crises of stopping mail delivery to at least another several years provided the Postal Service makes judicious decisions about its expenditures starting now.

There are several other areas where we disagree with the Postal Service on how it got into the position it's in now, or how it will get out of it. But for today, I'd like to focus most of my remarks on the areas where we agree. The Commission believes that clearly defining the USO is the most important step Congress can take to ensure that the Postal Service can continue to serve the nation.

And that is one issue both parties agree on—and is supported by the U.S. Government Accountability Office (GAO)—which also testified along with the Postmaster General in March: **Define the Universal Service Obligation for our U.S. Postal Service.**

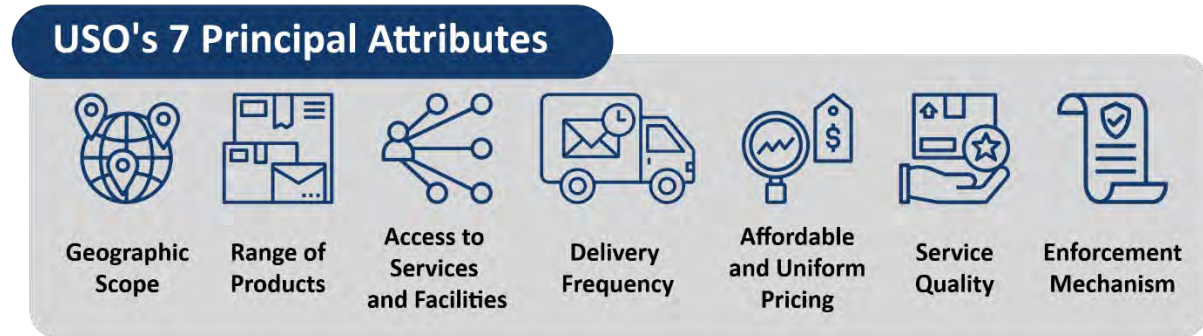
In short, the USO, which dictates postal services for the nation, should be defined. Defining the USO means describing what the country needs from our Postal Service and setting up a system to fully pay for them. Using the Postmaster's own words: "just tell us what you want us to do and how to pay for it and we'll do it." It really is just that simple.

Defining the USO involves answering tough questions, but in doing so it also, and perhaps more importantly, forms the basis for the infrastructure and financial arrangements needed to support a self-funded Postal Service for the next 250 years. Those tough questions may include:

- How many days of delivery each week are needed in 2026?
- What are acceptable delivery service times across the nation?
- Does the Postal Service need to offer fewer or more products and services?
- Should delivery service and access be the same across the nation?

The Commission has experience setting the parameters of the USO. In 2006, Congress asked the Commission to provide a comprehensive report on universal service and the postal monopolies. In 2008, the Commission presented its report and identified seven specific attributes that make up universal service. I think it's important to name them here: (1) geographic scope; (2) range of products; (3) access to services and facilities; (4) delivery frequency; (5) affordable and uniform pricing; (6) service quality; and (7) an enforcement mechanism. The first four of these attributes directly impact the costs the Postal Service incurs. The fifth attribute directly impacts the revenue of the Postal Service and the sixth attribute addresses service performance. By defining the USO, Congress would clarify the Postal Service's public service mission by addressing the acceptable level of postal service—and how to

pay for it. To date, however, other than mandating 6-day a week delivery, Congress has not defined the USO.



Once the duties of the Postal Service under the USO are defined, the costs for providing them can be assigned, and a viable financial structure can be established to support the level of universal service required. The Commission stands ready again to take on this responsibility.

Today I'd like to explain to you what the Commission is and what it does, how we got here, and why the Commission believes defining the USO is the solution to our predicament, and also why we believe we are uniquely qualified to assist in defining the next 250 years for our Postal Service.

II. POSTAL REGULATORY COMMISSION 101

A. Who We Are

The Commission was established as an independent federal agency charged with ensuring the transparency and accountability of the United States Postal Service. It is composed of 5 commissioners, each appointed by the President and confirmed by the Senate for a term of 6 years. We're a very small micro-agency, just over 90 employees total including the Commissioners, consisting of a professional staff with expertise in law, economics, finance, statistics, and cost accounting. Established as an independent federal regulatory agency, the Commission is the regulator, not the operator of our nation's Postal Service. The public interest role of a regulator in this case is clear: to protect captive customers and ensure fair competition. The Commission determines the legality of the Postal Service's prices and products,

adjudicates complaints and fair competition issues, oversees the Postal Service's delivery performance consistent with statutory requirements, and holds public hearings on Postal Service service-related changes that have nationwide impacts. Its mission is to ensure transparency and accountability of the Postal Service and foster a vital and efficient universal mail system.

In 1970, President Richard M. Nixon signed into law the Postal Reorganization Act. This momentous legislation would transform the Post Office Department into a newly independent Postal Service the following year.

The law also simultaneously created the Postal Rate Commission as the 1970 Act ended Congress' role in setting stamp prices. The Commission was created by a Congress that, by 1970, had grown weary of the political brawls involved in setting postal rates. Later, with the passage of the Postal Accountability and Enhancement Act of 2006, the agency was renamed the Postal Regulatory Commission. With its new name, it was provided with significantly expanded regulatory responsibilities to address the new law's significant expansion and streamlining of the Postal Service's ability as a government monopoly to change rates, introduce new products and compete much more in commercial markets, which are explained later in this testimony.

B. Who We Regulate

The Postal Service, formerly the United States Post Office Department, has existed before the establishment of our country, and the public relies on it for essential functions like paying bills, correspondence, staying informed, receiving medicine, benefit checks, and voting in elections, among others. Article 1 Section 8 Clause 7 granted Congress the enumerated power "To establish Post Offices and post Roads."

Uniquely, the Postal Service operates as an independent government agency and was designed to be self-funding, relying on revenue from the sale of its products and services to finance its operations rather than tax revenue.

Unlike almost any other federal agency, the Postal Service operates in a commercial marketplace but also has a large contingent of captive customers, given the Postal Service's market dominance or monopoly, over certain products and services.

The law provides the Postal Service with a statutory monopoly over mailboxes and the delivery of letters. Significantly, these two monopolies provided the Postal Service upwards of \$5.9 billion in benefits for FY 2024. To that end, the public interest in Congress creating the Postal Regulatory Commission is high—to ensure independent accountability of the Postal Service’s exercise of these broad and expansive authorities to protect American households, businesses and taxpayers and to ensure fair competition.

C. What We Do

The Commission has several responsibilities to ensure transparency and accountability in our national Postal Service.

1. These roles, summarized below, are discussed in further detail throughout the testimony.

Monitoring Service Performance and Delivery Standards

- The Commission evaluates Postal Service service performance against national delivery standards using detailed Postal Service data that it analyzes and publishes.
- This oversight is intended to ensure timely delivery, transparency in delays, and accountability when the Postal Service misses statutory obligations.

Ensuring Financial Transparency and Legal Compliance

- The Commission reviews Postal Service financial data for compliance with federal law, including cost coverage, financial reporting standards, and operational transparency.

Consumer Protection and Public Input

- The Commission provides a formal complaint process, engages stakeholders and the Postal Service leadership regularly, and maintains public dockets to enhance transparency.

- It enables public comment on rate changes and service proposals to ensure the public has a voice in postal oversight.

Market Dominant Ratemaking and Price Oversight

- The Commission administers a ratemaking system for Market Dominant products to protect the public from excessive rate increases.
- The Commission is currently reviewing the Market Dominant Ratemaking System to assess any changes needed to meet statutory objectives.
- In FY 2025, the Commission increased the Postal Service pricing flexibility by amending regulations on incentives for Market Dominant products.

Negotiated Service Agreements (NSAs) and Competitive Safeguards

- NSAs are customized private agreements between the Postal Service and customers, often involving volume-based discounts or tailored terms for Competitive products.
- The Commission reviewed 1,719 Postal Service NSAs in FY 2025 for legal compliance and approved them rapidly.
- While approving NSAs, the Commission worked to ensure the Postal Service does not compete unfairly with private shipping competitors.
- For Competitive products, the Commission ensures they cover their costs and are not subsidized by Market Dominant captive customers.

Need for Independent Regulation Given Governmental Advantages

- Unchecked, the Postal Service has incentives to price monopoly products above competitive levels, risking excessive prices and inefficiency.
- The Postal Service enjoys additional government advantages, including tax exemptions, exemptions from most federal laws relating to public or Federal contracts, property, works, officers, employees, budgets, or funds, sovereign immunity, certain Federal Tort Claims Act exceptions, rulemaking authority, and access to lower-cost federal borrowing.

- Because of these advantages, an independent regulator is critical to constrain market distortion, abuse of power, and anticompetitive behavior.

Examination of Postal Service Impacts on Nationwide Basis

- The Postal Service must request a Commission Advisory Opinion for operational changes with a nationwide service impact, enabling a public hearing on proposed changes and customer impacts.
- Advisory Opinions are nonbinding but allow Commission experts to flag service risks, disproportionate geographic or customer impacts, and questionable assumptions.
- Since DFA's 2021 rollout, the Commission's Advisory Opinions have found slower mail, disproportionate harm to rural communities, speculative savings, and worsening finances and productivity.
- The Commission warned that speculative gains likely would not outweigh certain widespread service downgrades, a warning the Postal Service did not heed.
- Regional Transportation Optimization (RTO) implementation has progressed widely and disproportionately affected rural areas.
- Across multiple DFA-related Advisory Opinions since 2021, the Commission consistently warned of overstated savings and detrimental service impacts.
- The Postal Service proceeded despite warnings and publicly criticized the most recent Advisory Opinion, while observed results have aligned with Commission concerns.
- The experience indicates the advisory process is an inadequate check on nationwide service changes, suggesting a need for stronger statutory authority.

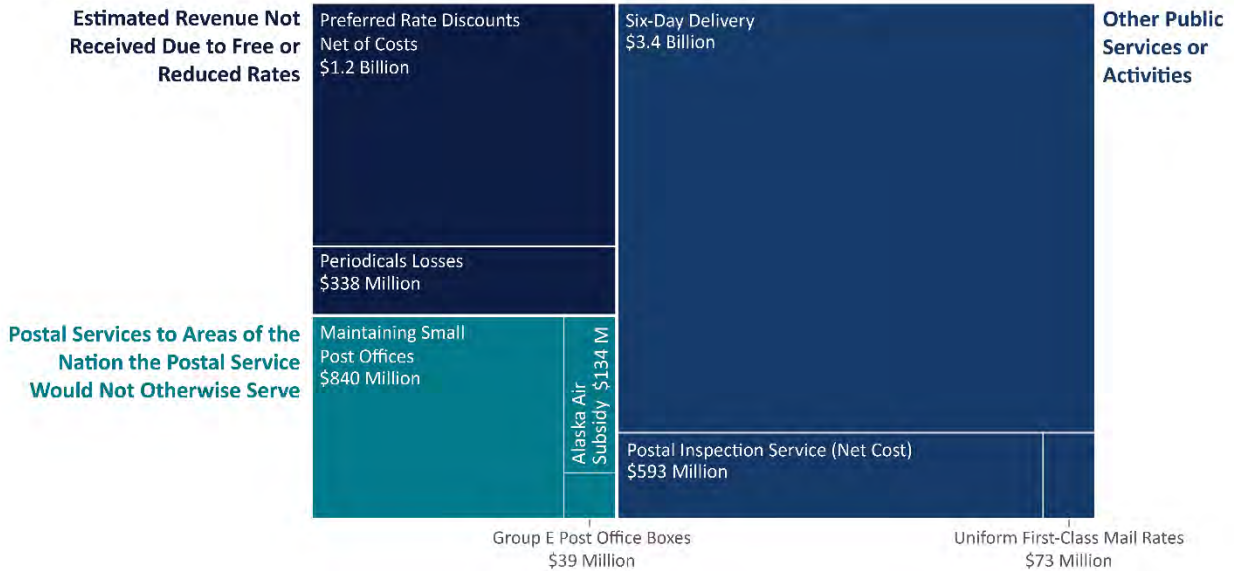
Annual Compliance Determination:

- The Commission evaluates Postal Service compliance annually with legal requirements on rates, fees, and service standards, issuing directives to improve financial and service performance.
- Workshare Discounts: The Commission reviews the Postal Service's worksharing rates to ensure pricing efficiency and alignment with regulations that encourage processing and transportation work to be done more efficiently, relying on private section partnerships.
- Service Performance Monitoring: The Commission analyzes Postal Service data to ensure national delivery standards are met, promoting timely delivery, transparency in delays, and accountability.
- Financial Transparency and Legal Compliance: The Commission reviews Postal Service financial data for compliance with federal law, focusing on cost coverage, reporting standards, and operational transparency.

Determining the Cost of Universal Service and the Value of the Monopoly:

- In our Annual Report to the President and Congress, the Commission estimates the costs incurred by the Postal Service for three types of public services or USO activities: postal services to areas of the Nation the Postal Service would not otherwise serve; free or reduced rates for postal services as required by Title 39; and other public services or activities the Postal Service would not otherwise provide but for legal requirements.
- In our Annual Report issued in January 2026, the Commission estimates total USO costs at \$6.6 billion for FY 2024. Six-day mail delivery alone costs \$3.4 billion per year (FY 2024), up from \$2.2 billion in FY 2019, reflecting rising labor costs and declining labor efficiency.

Universal Service Obligation Estimated Costs (FY 2024)



- The Postal Service retains a valuable statutory monopoly over letter mail and sole access to the mailbox. The Commission estimates the annual value of the postal monopoly as a counterbalance to the cost of the USO. Both the cost of the USO and the Value of the Monopoly estimates are prepared using a transparent and dynamic process that incorporates input from the Postal Service and stakeholders.
- As seen in the table below the unfunded USO costs fluctuate from year to year.

Table 1
Estimated USO and Monopoly Costs

	FY 2019 Cost (Dollars in billions)	FY 2020 Cost (Dollars in billions)	FY 2021 Cost (Dollars in billions)	FY 2022 Cost (Dollars in billions)	FY 2023 Cost (Dollars in billions)	FY 2024 Cost (Dollars in billions)
PRC Estimated USO Costs	\$5.79	\$5.90	\$6.18	\$6.00	\$6.31	\$6.59
PRC Estimated Monopoly Value	\$4.72	\$3.82	\$3.10	\$4.19	\$3.74	\$5.92

Source: Postal Regulatory Commission, *Annual Report to the President and Congress FY 2024*, February 11, 2025; Postal Regulatory Commission, *Annual Report to the President and Congress FY 2025*, January 28, 2026 (FY 2025 Annual Report).

2. The postal monopolies and the Commission's role in guarding captive customers and ensuring fair competition.

Key elements of the Commission's responsibilities that warrant additional explanation are estimating the values of the two statutory monopolies entrusted to the Postal Service, and how these monopolies' value to the Postal Service are balanced against the cost of the USO, and how the Commission protects captive customers while ensuring fair competition for mail products.

The Postal Service has two significant statutory benefits unavailable to any other participant in the delivery sector. The letter monopoly is a criminal prohibition, codified in the Private Express Statutes, outlawing the carriage of certain categories of mail, specifically "letters," by any carrier other than the Postal Service.¹ The mailbox monopoly is the Postal Service's exclusive right to deposit mailable matter in any mailbox.² Together the monopolies confer significant financial benefits to the Postal Service—benefits that are balanced against the cost of the Postal Service providing universal service.³ The monopolies combine to restrict entry of competitors, confer a competitive advantage on the Postal Service, and provide the Postal Service with a protected revenue stream. The Commission estimates the combined value of those monopolies, in FY 2024, to exceed \$5.9 billion.⁴

The postal monopolies ensure that there are captive customers in the postal network, an immense benefit to the Postal Service. The Postal Service, by virtue of this captive customer base, has an incentive to price those products subject to the monopoly or where the Postal Service enjoys significant market power, at rates that are higher than they might otherwise be in a competitive marketplace. Without a meaningful check on the Postal Service's pricing authority, these prices could be excessive or foster great inefficiency in the postal system.

¹ 18 U.S.C. § 1693.

² 18 U.S.C. § 1725.

³ See generally Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, December 19, 2008.

⁴ FY 2025 Annual Report at 40-42.

Until 1970, Congress itself set postal rates. When creating the Postal Service in 1970, and again when providing it even more authority and freedom in 2006, Congress did not turn over unilateral pricing authority to the Postal Service. Instead, it devised a check, the Postal Regulatory Commission, to ensure the Postal Service, as a governmental entity that wields immense (sanctioned by law) market power, is operating in line with the principles articulated in Title 39 of the United States Code. The Commission exists to ensure the viability of the Postal Service by guaranteeing that it does not abuse its immense market power, and that it operates with sufficient transparency and accountability. The Commission also supports the vital universal service mission of the Postal Service.

Unchecked, the Postal Service has little incentive to price products over which it enjoys market power in a way that reflects the needs of the postal system as a whole, or specifically the interests of mailing stakeholders. Beyond the monopolies, the Postal Service also enjoys significant advantages as a government entity that is also competing in commercial markets, including exemptions from taxes (federal, state, and local income, property, and sales taxes), exceptions from vehicle licensing fees and enforcement penalties, sovereign immunity, an exception for postal matter from the Federal Tort Claims Act, and the ability to promulgate rules binding on entities it cooperates and competes with. The Postal Service is also able to borrow directly from the Federal Financing Bank (though limited in its borrowing authority) and access lower interest rates than available to private entities.

So long as the Postal Service enjoys these significant advantages as a government entity competing in commercial markets, it is critical that an independent regulator be available to monitor and, if necessary, constrain its ability to distort the market, abuse its market power, or define the terms of competition with its rulemaking authority.

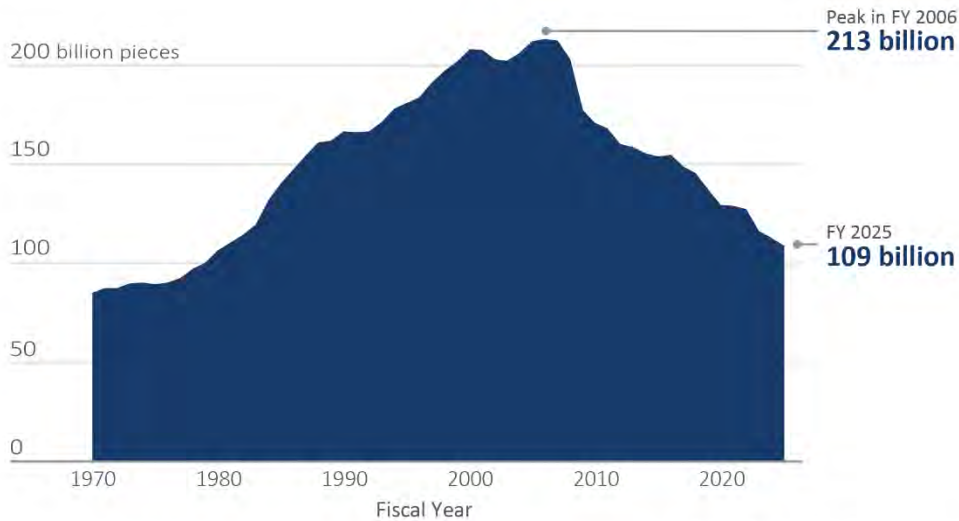
III. HOW WE GOT HERE

A. The State of the Postal Service

The Postal Service’s financial and service performance issues did not happen in a vacuum. They also did not happen overnight. Many of the issues the Postal Service faces today are very similar to those it has faced for decades. This is particularly clear in written testimony from Postal Rate Commission Chairman Ed Gleiman to the House of Representatives in 1995, more than 31 years ago.⁵

Chairman Gleiman testified at that time that the Postal Service was “near the precipice and will soon lose substantial volume to many competitive, high-tech forms of communication.” His words proved prescient as, in fact, the Postal Service has experienced a steady decline in volume for the last 20 years, from 213 billion pieces of mail at its peak in FY 2006 to just 109 billion pieces of mail in FY 2025.

**Figure 1
Mail Volume Decline Over Last 20 Years,
1970-2025**



Source: United States Postal Service

Postal Regulatory Commission

Source: 1970-2025 USPS Periodic Reporting, <https://prc.arkcase.com/portal/filings/129500>.

⁵ Testimony of Edward J. Gleiman, Chairman, Postal Rate Commission, Before the House Committee on Post Office and Civil Service, May 24, 1994 (Chairman Gleiman 2024 Testimony), https://www.prc.gov/sites/default/files/testimonies/Gleiman-May-24-1994_0.pdf.

As Chairman Gleiman wrote at the time:

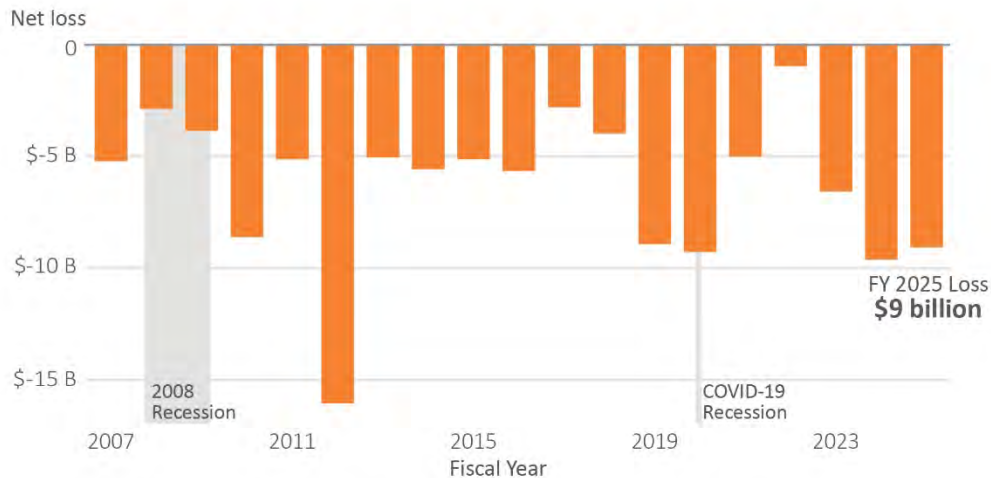
Service must be maintained, and costs must be controlled or all mailers will actively seek cheaper and more reliable alternatives to the mail.

...

In essence, what is expected of the U.S. Postal Service-- or any postal operation for that matter--is consistent and reliable service at a reasonable price. The Postal Service's greatest challenge, and the focus of its managerial resources, should be directed to achieving that goal, while controlling costs and positioning its product line to best withstand future competition.⁶

Since Chairman Gleiman's testimony more than 30 years ago, the Postal Service has been unable to achieve that goal, and as a result, finds itself in even greater financial trouble today.

Figure 2
Postal Service Financial Position Worsened in FY 2025



Data excludes \$57 billion in debt relief in 2022 from the Postal Service Reform Act (PSRA)
Source: Postal Regulatory Commission, United States Postal Service 10-K
Postal Regulatory Commission

⁶ Chairman Gleiman 2024 Testimony at 11, 19.

By statute, the Postal Service's products fall into two distinct categories, Market Dominant and Competitive. Market Dominant products are products and services over which the Postal Service maintains significant market power. Users of these products are considered captive customers. Competitive products are products in markets with healthy competition. Regulation of these two categories differs significantly, with tighter controls over the rates the Postal Service can charge for Market Dominant products designed to ensure the Postal Service does not abuse its market power. Regulation over Competitive products is much looser and primarily designed to ensure the Postal Service does not use its Market Dominant revenue and monopoly advantages unfairly in the competitive market.

Also by statute, the Postal Service's expenses are separated into two distinct buckets, attributable costs and institutional costs. Attributable costs are costs that can be reliably assigned to a particular product. Institutional costs are costs that cannot be reliably assigned to a particular product. Institutional costs are paid for through revenue in excess of attributable costs. Each product's revenue in excess of attributable costs is known as that product's contribution to institutional costs.

Because the Postal Service was designed to be a self-funding government service, it receives very little taxpayer funding. As such, the Postal Service's financial position depends on its ability to maintain volume, raise revenue and control expenses. Unfortunately, over the past 2 decades, it has struggled to do those things.

In large part, the prolonged financial deterioration of the Postal Service has been driven by:

- an irreversible collapse in high-contribution Market Dominant mail volume (First-Class letter mail),
- an accelerating cost base that has grown almost twice as fast as revenue,
- and a growing dependence on Competitive products (packages) that, while profitable, cannot fully offset the loss of the high-contribution Market Dominant mail that previously underwrote the institutional costs of the postal network.

In the 10-year period from FY 2016 to FY 2025, total revenue grew by 15 percent, while operating expenses grew 20 percent. The result has been 9 consecutive years of net operating losses, with cumulative operating losses of \$20 billion over the past decade, a model that is unsustainable for any business. Table 2 shows the income/(loss) by year for the past 10 years.

Table 2
Net Income (Loss)

Fiscal Year	Net Operating Inc/(Loss) (\$ in millions)	Non-Cash Adjustments (\$ in millions)	Total Net Income/(Loss) (\$ in millions)
2016	\$610	\$8,327	(\$5,591)
2017	(\$1,341)	\$6,565	(\$2,742)
2018	(\$2,089)	\$6,680	(\$3,913)
2019	(\$3,192)	\$11,278	(\$8,813)
2020	(\$3,601)	\$13,545	(\$9,176)
2021	(\$2,689)	\$9,414	(\$4,930)
2022	(\$472)	(\$57,020)	\$56,046
2023	(\$2,259)	\$4,016	(\$6,478)
2024	(\$1,825)	\$9,588	(\$9,520)
2025	(\$2,725)	\$7,127	(\$8,978)
5-Year Total (FY 2021–FY 2025)	(\$9,970)		
10-Year Total (FY 2016–FY 2025)	(\$19,583)		

Source: United States Postal Service, Form 10-K, FY 2016–FY 2025, <https://about.usps.com/what/financials/>.

Note: Non-cash adjustments include all non-cash workers' compensation costs, accruals for certain unfunded retirement liabilities, and one-time adjustments, such as the one-time PSRA adjustment to Retiree Health Benefits Fund (RHBF) unfunded liabilities and normal costs.

It should be noted that the Postal Service has received significant financial relief from Congress in recent years, including \$10 billion in COVID relief, \$3 billion in funding for electric vehicles and approximately \$57 billion in balance sheet relief under the PSRA of 2022, without all of which postal finances would be even worse. The PSRA relief was not a cash infusion but rather eliminated the Postal Service's retiree health benefit (RHB) prefunding liability, a requirement it had already been unable to meet since FY 2012. The law also requires Medicare enrollment for eligible postal retirees, generating longer term cost savings, estimated by CBO at \$2.5 billion over the 2021-2031 period. At the same time, since FY 2014, the Postal Service has elected not to pay roughly \$30 billion in required CSRS and Federal Employees Retirement System amortization payments to the U.S. Office of Personal Management (OPM) without consequence to date. This has, in effect, allowed the Postal Service to unilaterally increase its borrowing beyond its debt limit.

1. Volume Decline and Revenue Mix Deterioration

Mail volume decline, and the Postal Service's inability to cut expenses adequately in response, is the primary cause of the Postal Service's financial deterioration. In the last 10 years, total mail volume declined from 154 billion pieces to 109 billion pieces, a loss of 45 billion. Twenty-one billion pieces have been lost in the last 5 years alone.

This volume decline is concentrated in Market Dominant mail, which represents 94 percent of total volume. Total Market Dominant mail volume declined 32 percent from 150 to 102 billion in the span of a decade. First-Class Mail, the mail that makes the highest contribution to institutional costs, fell from 62 to 42 billion pieces while Marketing Mail, which also has a healthy cost coverage, dropped from 81 to 57 billion pieces.

Despite significant rate increases, Market Dominant revenue fell from \$51 billion to \$46 billion, a decline of \$5 billion or 10 percent. In FY 2016, Market Dominant products generated 73 percent of total revenue but by FY 2025 that share had fallen to 58 percent. Market Dominant revenue per piece rose from approximately \$0.340 to

\$0.448 as rate increases under the Commission’s pricing authority partially offset volume losses.

In contrast, Competitive products volume grew 45 percent over the decade (from 4.5 to 6.5 billion pieces), providing a meaningful revenue offset but at a higher cost per piece. Although Competitive products revenue grew 83 percent, at only 6 percent of total mail volume, revenue from Competitive products cannot offset Market Dominant volume losses.

Table 3 illustrates the change in volume and revenue since FY 2016 by class. Table 4 shows the change in proportion of volume and revenue between Market Dominant and Competitive products in that same period.

**Table 3
Volume and Revenue by Category**

Product Category	FY 2016 Volume (Pieces in Billions)	FY 2025 Volume (Pieces in Billions)	Percent Change	FY 2016 Revenue (\$ in Billions)	FY 2025 Revenue (\$ in Billions)	Percent Change
First-Class Mail	62.3	42.1	-32.30%	\$29.10	\$26.00	-10.50%
USPS Marketing Mail	80.9	56.8	-29.80%	\$17.70	\$15.90	-10.20%
Periodicals	5.6	2.4	-56.30%	\$1.50	\$0.90	-41.40%
Total Market Dominant	149.8	102.1	-31.80%	\$50.90	\$45.80	-10.00%
Competitive Products	4.5	6.5	45.00%	\$18.50	\$33.90	83.00%
Total Mail	154.3	108.7	-29.60%	\$69.40	\$79.60	14.70%

Source: PRC derived from Docket No. ACR2016, Library Reference PRC-LR-ACR2016-1, March 31, 2017; Docket No. ACR2025, Library Reference PRC-LR-ACR2025-1, March 27, 2026.

**Table 4
Revenue Mix Shift**

Revenue Category	FY 2016	FY 2019	FY 2021	FY 2023	FY 2025	10-Year Change
Market Dominant Revenue (\$ in Billions)	\$50.90	\$45.70	\$41.60	\$43.60	\$45.80	-10.10%
Percent of Total Revenue	73.30%	65.40%	54.90%	56.70%	57.50%	-15.80%
Competitive Revenue (\$ in Billions)	\$18.50	\$24.20	\$34.20	\$33.30	\$33.90	83.00%
Percent of Total Revenue	26.70%	34.60%	45.10%	43.30%	42.50%	15.80%
Total Net Operating Revenue (\$ in Billions)	\$71.50	\$71.20	\$77.00	\$78.40	\$80.60	12.70%

Source: PRC derived from Docket No. ACR2016, Library Reference PRC-LR-ACR2016-1, March 31, 2017; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1, May 7, 2020; Docket No. ACR2021, Library Reference PRC-LR-ACR2021-1, May 18, 2022; Docket No. ACR2023, Library Reference PRC-LR-ACR2023-1, June 17, 2024; Docket No. ACR2025, Library Reference PRC-LR-ACR2025-1, March 27, 2026.

2. Expense Escalation and Labor Cost Pressure

The Postal Service has been unable to decrease costs in response to the Market Dominant volume and revenue declines. In fact, expenses have increased over the past decade. The expenses driving the increase are compensation and transportation. Salaries and benefits grew 26 percent, from \$48 to \$61 billion, with wages per workhour rising from \$31.65 to \$39.93. Purchased transportation costs grew from \$7 billion to \$8 billion.

Compensation and benefits is the largest cost category for the Postal Service, consistently accounting for approximately 70 percent of total operating expenses. In FY 2025, salaries and benefits accounted for 68 percent of total operating expenses. Total compensation per workhour, which includes wages and benefits, grew from \$51.20 in FY 2016 to \$59.79 in FY 2025. Retirement costs grew from \$7 to \$9 billion.

**Table 5
Labor Cost Metrics**

Metric	FY 2016	FY 2021	FY 2025	FY 2016–FY 2025 % Change
Salaries & Benefits (\$ in Billions)	\$48.10	\$54.00	\$60.50	25.78%
Average Wages/Workhour	\$31.65	\$34.29	\$39.93	26.16%
Total Compensation/Workhour	\$51.20	\$53.68	\$59.79	16.78%
City Carrier Cost/Workhour	\$41.33	\$45.60	\$52.86	27.90%
Rural Carrier Cost/Workhour	\$36.26	\$39.05	\$45.35	25.07%
Total Workhours (in Millions)	1,158	1,191	1,135	-1.99%

Source: Commission derived from United States Postal Service, Financial Information, September 2016, November 15, 2016; United States Postal Service, Financial Information, September 2021, November 10, 2021; United States Postal Service, Financial Information, September 2025, November 17, 2025.

3. Contribution to Institutional Cost

Contribution to institutional cost is the amount by which each product's revenue exceeds its attributable costs, leaving a surplus to help fund the postal network fixed costs. In FY 2016, Market Dominant products contributed \$23 billion to institutional cost coverage. From FY 2016 through FY 2021, this amount dropped significantly, falling to \$14 billion before recovering to \$23 billion in FY 2025 as additional rate flexibility provided by the new rate structure designed by the Commission partially compensated for volume losses.

Contribution to institutional costs from Competitive products grew from \$6 billion in FY 2016 to \$13 billion in FY 2021, during a period of pandemic-driven e-commerce demand. However, by FY 2025, that contribution had fallen to \$10 billion.

Table 6
Contribution to Institutional Cost (by Category)

Product	FY 2016 (\$ in Billions)	FY 2021 (\$ in Billions)	FY 2025 (\$ in Billions)	10-Year Change
First-Class Mail	\$16.00	\$11.40	\$15.50	-3.20%
Marketing Mail	\$6.50	\$3.40	\$6.80	4.10%
Periodicals	(\$0.50)	(\$0.80)	(\$0.30)	N/A
Total Market Dominant	\$22.60	\$14.40	\$23.30	3.00%
Competitive Products	\$6.00	\$13.20	\$10.30	71.70%
Total Contribution	\$28.60	\$27.60	\$33.60	17.50%

Source: Commission derived from Docket No. ACR2016, Library Reference PRC-LR-ACR2016-1, March 31, 2017; Docket No. ACR2021, Library Reference PRC-LR-ACR2021-1, May 18, 2022; Docket No. ACR2025, Library Reference PRC-LR-ACR2025-1, May 21, 2026.

4. Cash Flow

The Postal Service’s losses have contributed to a decrease in liquidity and cash on hand. Postmaster General David Steiner asserted in his testimony of March 17, 2026, that “at our current run rate and if we continue to pay our required obligations in the same manner as we have done in recent years, then we will be out of cash in less than 12 months.” While the Commission questions a number of the assumptions in this statement, the Postal Service is indeed facing a liquidity crisis in the near to mid-term. The Commission’s recent waiver of specific requirements related to funding retiree costs should mitigate this liquidity crisis.

The Postal Service began FY 2016 with \$7 billion in cash and ended with \$8 billion. Cash rose steadily through FY 2021, reaching \$24 billion, driven by the \$10 billion provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, revenue from an increase in parcel volume due to COVID-19, and temporary suspension of large capital programs. The drawdown on the cash balance that followed FY 2021 was largely due to increased investment.

In FY 2023, the Postal Service's cash balance declined by \$12 billion. This was due to the purchase of \$14 billion in short-term investments partially offset by \$5 billion from investments that matured. In FY 2024, \$15 billion was received from investments that matured, replenishing unrestricted cash.

Table 7
Postal Service Cash Balance End of Year, FY 2016–FY 2025

Fiscal Year	End of Year Unrestricted Cash Balance (\$ in Millions)	Year-over-Year Change (\$ in Millions)	Key Event
FY 2016	\$8,077	\$1,443	
FY 2017	\$10,513	\$2,436	
FY 2018	\$10,061	(\$452)	
FY 2019	\$8,795	(\$1,266)	
FY 2020	\$14,358	\$5,563	COVID parcel surge
FY 2021	\$23,858	\$9,500	CARES Act provided \$10 billion
FY 2022	\$19,607	(\$4,251)	Package normalization, Inflation Reduction Act of 2022 (IRA) funds \$3 billion, debt repayment \$1 billion
FY 2023	\$8,055	(\$11,552)	DFA capex \$3 billion, net debt increased \$3 billion, and investments
FY 2024	\$4,617	(\$3,438)	DFA capex \$4.2 billion, net debt increased \$2 billion, and investment redemptions
FY 2025	\$8,210	\$3,593	investment redemptions

Source: United States Postal Service, Form 10-K, FY 2016–FY 2025, <https://about.usps.com/what/financials/>.

5. Liquidity Analysis going into FY 2026

In addition to unrestricted cash on hand, the Postal Service's liquidity position includes restricted cash, restricted noncurrent cash, short-term investments, IRA funds, and the \$15 billion Treasury debt facility. As of Quarter 2 of FY 2026, the Postal Service had \$4.5 billion in unrestricted cash, \$3.6 billion in current restricted cash, and \$3.9 billion in noncurrent restricted cash, a combined total of \$11.9 billion in cash and near-cash resources. Additionally, \$1.9 billion in IRA appropriation funds remained available

for capital spending on electric delivery vehicles, effectively reducing the cash draw otherwise required for DFA investment.

Table 8
Postal Service Liquidity Position FY 2021–Q1 FY 2026

Liquidity Component (\$ in Millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Q2 FY 2026
Cash & Cash Equivalents	\$23,858	\$19,607	\$8,055	\$4,617	\$8,210	\$4,483
Restricted Cash (Current)	\$449	\$1,011	\$1,544	\$2,005	\$3,487	\$3,634
Restricted Cash (Noncurrent)	\$0	\$3,000	\$35	\$66	\$1,658	\$3,877
Short-Term Investments	\$0	\$0	\$8,790	\$9,513	\$0	\$0
IRA Funds Remaining		\$3,000	\$3,000	\$3,113	\$2,032	\$1,920
Debt Remaining	\$4,000	\$5,000	\$2,000	\$0	\$0	\$0

Source: United States Postal Service, Form 10-K, FY 2016–FY 2025, <https://about.usps.com/what/financials/>; United States Postal Service, Form 10-Q, Quarter 2, FY 2026, <https://about.usps.com/what/financials/financial-conditions-results-reports/fy2026-q2.pdf>.

Earlier this year, the Commission approved a waiver of the \$2.4 billion minimum retirement payment requirement for FY 2026, with an expectation of at least \$3 billion in annual ongoing relief. This waiver provided immediate liquidity relief, reducing the likelihood of a FY 2027 cash crisis.

Also, with the additional rate flexibility granted by the Commission, total revenue has grown every year from FY 2021 through FY 2025, which improves liquidity. The 5-year cumulative revenue impact of rate changes across all products was a positive \$7 billion, significantly outweighing the negative impact of volume declines. The Postal Service projects FY 2026 revenue to increase to \$84 billion.

Although the data cited above does not support the claim that the Postal Service will exhaust all of its cash in FY 2027, the Postal Service's liquidity is under pressure

from operating losses of approximately \$2 to \$3 billion per year, elevated capital spending, and the mismatch between a high-cost, fixed network and declining high contribution volume. Looming RHB payments will exacerbate the Postal Service's liquidity crisis in coming years. The Postal Service RHBF, from which payments to OPM for RHB are currently made, is expected to be depleted in FY 2031. When the fund is depleted, the Postal Service will have to pay the annual premiums, estimated to be about \$6 billion by FY 2031, from operating revenue.

B. The Postal Service's Self-Help Efforts Have Not Worked

1. DFA Savings Not Realized, Debt Has Increased and Service Stalled

The Postal Service's suggestions of "self-help" and a "Goldilocks solution" are questionable, and history indicates will not solve the problem. On March 23, 2021, the Postal Service published a 10-year strategic plan outlining potential operational and network changes intended to achieve financial stability and service excellence. It called this plan Delivering for America (DFA).⁷ The Postal Service claimed that inaction would result in \$160 billion in cumulative losses between FY 2021 and FY 2030, and projected that the DFA Plan would lead to break-even operations by FY 2023 and cumulative 10-year net income of \$0.2 billion.⁸ Figure 3 below outlines the Postal Service's original expectations for this initiative.

⁷ United States Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, March 23, 2021 (DFA Plan), https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf.

⁸ DFA Plan at 7.

**Figure 3
Postal Service DFA Plan Initiatives and
Projected FY 2021–FY 2030 Financial Impacts**

INITIATIVE	KEY ELEMENTS	FY2021 - FY2030 FINANCIAL IMPACT RANGE (LOW TO HIGH \$B) ¹
DELIVERY INITIATIVES	<ul style="list-style-type: none"> • Maintain six-day mail and seven-day package delivery • Replace NGDV fleet and replace rural POVs • Optimize office and street efficiencies 	\$10 - \$14
TRANSPORTATION INITIATIVES	<ul style="list-style-type: none"> • Align service standards to maximize surface network capabilities • Optimize long and short haul surface network • Minimize redundant lanes and unplanned late and extra trips • Modernize logistics management systems 	\$7 - \$10
MAIL PROCESSING INITIATIVES	<ul style="list-style-type: none"> • Reset 24-hour clock to improve service performance • Consolidate mail processing operations • Modernize package equipment and other plant automation 	\$5 - \$7
ADMINISTRATIVE FUNCTIONS INITIATIVES	<ul style="list-style-type: none"> • Realign HQ, Area, and Districts into 3 national business units • Reduce non-transportation contractor spend 	\$3 - \$5
RETAIL INITIATIVES	<ul style="list-style-type: none"> • Align hours of operation to customer demands at low traffic Post Offices • Rationalize stations and branches • Modernize retail lobbies to enable expanded digital, small- and medium-sized business and government services 	\$3 - \$4
TOTAL FINANCIAL IMPACT		\$28 - \$40

Notes: 1) The initiative financial impacts shown include a proportional allocation of interest savings achieved from these initiatives.

Source: DFA Plan at 48.

Instead of reaching the DFA projected break-even net income by FY 2023, however, the Postal Service actually incurred a \$6.5 billion net loss in FY 2023 due to higher than projected expenses.⁹

Table 9 below shows that the DFA projections were far from reality. Although the Postal Service’s FY 2021 through FY 2025 cumulative revenue exceeded the DFA Plan projected revenue, actual cumulative controllable expenses were much higher than planned. This resulted in a \$9.7 billion controllable income loss over this time period instead of the \$1.3 billion projected controllable income, an \$11 billion negative swing. As a result of the overall higher expenses, cumulative net loss from FY 2021 through FY 2025 was \$30.9 billion, which is \$23.1 billion higher than the DFA Plan projection.

Table 9
5-Year Projected and Actual Cumulative (Total) Revenue, Expenses and Income (Loss), FY 2021–FY 2025

Revenue and Expenses	DFA Plan Projections	Actual	Difference (Actual vs. Projected)	
	\$ Billions	\$ Billions	\$ Billions	%
Total Revenue	\$368.0	\$397.1	\$29.1	7.9%
Controllable Expenses	\$366.7	\$406.8	\$40.1	10.9%
Controllable Income (Loss)	\$1.3	-\$9.7	-\$11.0	-846.2%
Non-Controllable Expenses	\$9.1	\$21.2	\$12.1	133.0%
Net Income (Loss)	-\$7.8	-\$30.9	-\$23.1	-296.2%

Note: The FY 2022 one-time, non-cash impact of the PSRA was excluded for year-over-year comparability.

Source: Commission’s calculations using data from the DFA Plan, Figure 35 at 51; FY 2024 Annual Report to Congress at 53; United States Postal Service, Fiscal Year 2025, *Annual Report to Congress*, December 29, 2025, at 53 (FY 2025 Annual Report to Congress), <https://about.usps.com/what/financials/annual-reports/fy2025.pdf>.

⁹ Compare *id.* at 51, with United States Postal Service, Fiscal Year 2024, *Annual Report to Congress*, December 26, 2024, at 53 (FY 2024 Annual Report to Congress), <https://about.usps.com/what/financials/annual-reports/fy2024.pdf>.

Since publishing the original DFA Plan in 2021, the Postal Service has issued three annual progress reports that continually revised its financial outlook downward.¹⁰ The Postal Service originally projected \$0.2 billion in net income over 10 years. One year later, this projection was downgraded into a projected net loss of \$70 billion in the DFA Second-Year Progress Report published in 2022 and was further revised to \$80 billion of net loss in the DFA 2.0 Report published in 2024.¹¹ These self-proclaimed “progress reports” do not paint a picture of financial health, nor do they instill confidence that the path chosen was the right one.

As part of the DFA, the Postal Service also planned to improve transportation processes and eliminate inefficient transportation runs by scaling the Postal Vehicle Service (PVS) program and insourcing transportation activities on the routes that traditionally involved contracted.¹² Table 10 shows, however, the increased costs for both PVS and contracted transportation between FY 2024 and FY 2025, so that all cost savings occurred in the first year and were partially reversed in FY 2025. As the Postal Service Office of Inspector General (OIG) found, the Postal Service “did not always insource [contracted transportation] to provide the lowest total cost to logistics.”¹³

¹⁰ United States Postal Service, *Delivering for America: First-Year Progress Report*, April 7, 2022, <https://about.usps.com/what/strategic-plans/delivering-for-america/assets/usps-dfa-one-year-report.pdf>; United States Postal Service, *Delivering for America: Second-Year Progress Report*, April 2023 (DFA Second-Year Progress Report), <https://about.usps.com/what/strategic-plans/delivering-for-america/assets/usps-dfa-two-year-report.pdf>; United States Postal Service, *Delivering for America 2.0: Fulfilling the Promise*, September 30, 2024 (DFA 2.0 Report), <https://about.usps.com/what/strategic-plans/delivering-for-america/assets/dfa-2-0-fulfilling-the-promise-2024.pdf>.

¹¹ DFA Second-Year Progress Report at 9; DFA 2.0 Report at 22.

¹² DFA Plan 2.0 at 12. See also United States Postal Service, Office of Inspector General, Report No. 24-093-R25, Postal Vehicle Service Operations, March 27, 2025, at 3 (OIG PVO Report), <https://www.uspsoig.gov/sites/default/files/reports/2025-04/24-093-r25.pdf>.

¹³ See OIG PVO Report at 4-5.

Table 10
Change in Costs:
Postal Vehicle Service (PVS) vs. Contracted Transportation,
FY 2023–FY 2025 (\$ in Millions)

Category	FY 2023–FY 2024	FY 2024–FY 2025	Total
Postal Vehicle Service	\$94	\$147	\$241
Contracted Transportation	-\$472	\$132	-\$340
Total	-\$378	\$279	-\$99

Source: Docket No. ACR2025, Notice of the United States Postal Service of Filing its Response to Question 12 of Chairman’s Information Request No. 8 – Second Response Set, question 12, February 23, 2026 (Docket No. ACR2025, Response to CHIR No. 8), Excel file “PRC Updated Data.xlsx” (Transportation Cost Analysis).

In the DFA Plan and subsequent annual reports, the Postal Service specifically discussed modernization and optimization of its mail processing and transportation networks. In 2023, it provided a relatively detailed description of the new postal facilities: Regional Processing and Distribution Centers (RPDCs), Local Processing Centers (LPCs), and Sorting and Delivery Centers (S&DCs).¹⁴

While the Postal Service stated that the redesigned network should improve service performance, it did not analyze the extent to which it would improve, although the long-term goal remains to achieve on-time delivery 95 percent of the time across all product lines.¹⁵ The Postal Service continues to struggle with maintaining high levels of service performance and processing efficiency since launching the new facilities. The USPS OIG provided a number of specific examples in recent reports. South Houston LPC faced a severe decline in processing efficiency and delayed mail during peak season only a few months after opening.¹⁶ In the Indianapolis RPDC region mail processing workhours increased by 52 percent or 1.4 million post RPDC activation, the number of employees increased by 27 percent, and maintenance workhours increased

¹⁴ DFA Plan at 28-30; Second-Year Progress Report at 15-19.

¹⁵ Docket No. PI2023-4, Responses of the United States Postal Service to Questions 1-6 of Chairman’s Information Request No. 2, August 22, 2023, question 5.

¹⁶ United States Postal Service, Office of Inspector General, Report No. 24-050-1-R24, *Mail Conditions at South Houston Local Processing Center*, April 10, 2024, <https://www.uspsoig.gov/sites/default/files/reports/2024-04/24-050-1-r24.pdf>.

by 58 percent or 280,000 additional hours. Many of you as Members of Congress have heard from your constituents who are alarmed about the failure of mail delivery service in their areas. In FY 2025, the Commission responded to more than 6,400 questions, suggestions, comments, and requests for information regarding Postal Service activities. The leading complaint types included delayed packages and undelivered and misdelivered mail. The Commission received more than 1,300 specific comments from the public voicing objections to specific elements of the Postal Service's DFA Plan.

The Postal Service insourced Surface Transfer Centers by creating Regional Transfer Hubs (RTHs) housed inside RPDCs. RTHs are intended to decrease the number of mail separations and trips needed to move mail across the country and to maximize utilization. However, as the USPS OIG found, the Postal Service did not establish metrics to monitor and evaluate whether RTH performance contributed to transportation cost savings or if the impacts to service outweighed the cost.¹⁷

In October 2024, the Postal Service requested an Advisory Opinion from the Commission regarding two DFA-related initiatives: first, to create a nationwide network of RPDCs and LPCs that would consolidate and reduce transportation lanes between facilities, and, second, to implement Regional Transportation Optimization (RTO) on a nationwide basis to “improve the efficiency and velocity of the processing network.”¹⁸ The Postal Service claimed that these two initiatives would allow for improvements in mail processing productivity and network efficiency, and it also estimated cost savings ranging from \$3.6 to \$3.7 billion (once the initiatives are fully implemented).¹⁹

In its Docket No. N2024-1 Advisory Opinion, the Commission evaluated the projected cost savings estimates and found that they were not supported by sufficiently

¹⁷ United States Postal Service, Office of Inspector General, Report No. 25-061-R25, *Network Changes: Regional Transfer Hubs*, September 24, 2025, <https://www.uspsoig.gov/sites/default/files/reports/2025-09/25-061-r25.pdf>.

¹⁸ Docket No. N2024-1, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, October 4, 2024 (Docket No. N2024-1, Request). See also Docket No. N2024-1, Advisory Opinion on the Operational and Service Standard Changes Related to the Delivering for America Plan, January 31, 2025, at 15 (Docket No. N2024-1, Advisory Opinion).

¹⁹ Docket No. N2024-1, Advisory Opinion at 5, 16.

reliable evidence.²⁰ Specifically, the Commission determined that the Postal Service estimates relied on unvalidated, judgment-based assumptions, including assumed productivity gains and capture rates that were not empirically validated. The Commission also found that the Postal Service had not conducted any RTO pilot testing to demonstrate that the projected savings would be achievable. Furthermore, the Commission found that not all implementation costs were incorporated in the estimates and that some key assumptions, such as the application of observed workhours reduction on broader operations, were not supported by sufficient data.

In addition, the Commission pointed out that the Postal Service did not provide a clear timeline for realizing the projected savings, limiting the transparency and the ability to assess the impact. The Commission further noted that the projected cost savings, if realized, represented a modest share, approximately 4.4 percent of the Postal Service's total operating expenses in FY 2024.²¹ The Commission's findings are discussed further in section C.4.d.

The Commission concluded that the projected savings were subject to significant uncertainty and did not provide a reliable basis to support the claimed financial benefits of the DFA Plan.

The Postal Service projected the following breakdown of cost savings:²²

- RTO ("Leg 1"): \$651 million
- Network Transportation ("Leg 2"): \$1.8 billion (\$1.1 billion in surface transportation, \$701 million in air transportation)
- Mail and Package Processing: \$1.1-\$1.2 billion
- Facilities and Real Estate: \$81 million.

²⁰ *Id.* at 254-63.

²¹ *Id.* at 261-62.

²² Docket No. N2024-1, Request at 24-25.

While the Postal Service projected overall transportation cost savings of 2.4 billion,²³ the realized transportation cost savings were less than half that amount. Table 11 compares transportation cost savings projected by the Postal Service in Docket No. N2024-1 with the actual cost savings after beginning of the implementation of the RTO and network transportation initiatives.

Table 11
Projected Cost Savings vs. Actual Cost Savings in FY 2025

Transportation Category	Projected (\$ in Millions)	Actual (\$ in Millions)
RTO (Leg 1)	\$651	\$117
Surface (Leg 2)	\$1,062	-\$18
Air (Leg 2)	\$701	\$1,049
Total	\$2,414	\$1,148

Note: Projected and actual cost savings are in relation to the base year of FY 2023.

Source: Docket No. N2024-1, Library Reference USPS-LR-N2024-1-27, November 12, 2024, Excel file “Transportation Analysis – Network vs. Local – FY 2023 (POIR3 Q43),” tab “Analysis;” Docket No. ACR2025, Response to CHIR No. 8, Transportation Cost Analysis.

Most of the \$1.148 billion in reported transportation savings came from savings in network transportation which stemmed largely from a new air contract with a more favorable air cube unit rate, rather than any operational improvement facilitated through the DFA Plan. Instead of projected savings of \$1.062 billion for surface transportation, the Postal Service incurred losses of \$18 million.²⁴

²³ This \$2.4 billion is the sum of projected savings from RTO (Leg 1) and Network Transportation (Leg 2). See Docket No. N2024-1, Request at 24-25.

²⁴ Docket No. N2024-1, Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service, October 4, 2024, at 32.

The Postal Service's projected mail processing cost savings relied in large part on anticipated reductions in workhours.²⁵ Yet an analysis performed by the Postal Service's Office of Inspector General using data through FY 2024 indicates that such reduction has not yet been realized to the extent projected.²⁶ The USPS OIG reports highlighted that planned 28 million reductions of workhours from FY 2022 through FY 2024 were not fully achieved, with a gap of 10.28 million hours, which amounted to a savings shortfall of at least \$174 million.²⁷

Table 12 summarizes the results of the updated analysis of productivity data of selected Labor Distribution Codes (LDCs). It shows that between FY 2023 and FY 2025, productivity in specific mail processing operations did not increase as much as the Postal Service projected in Docket No. N2024-1, resulting in cost savings shortfalls for Allied Operations and Letter Cancellations, Automation Flats, Automation Letters, and Mechanized Operations.²⁸

²⁵ Docket No. N2024-1, Advisory Opinion at 257-58.

²⁶ See United States Postal Service, Office of Inspector General, Report No. 25-107-R26, *The OIG's Oversight of the U.S. Postal Service's Delivering for America Plan* – Volume 3, January 20, 2026, at 7-8 (OIG Report No. 25-107-R26), <https://www.uspsoig.gov/sites/default/files/reports/2026-01/25-107-r26.pdf>. See also United States Postal Service, Office of Inspector General, Report No. 24-114-R25, *Efforts to Reduce Workhours in Mail Processing*, April 10, 2025, at 1, 6-7 (OIG Report No. 24-114-R25), <https://www.uspsoig.gov/sites/default/files/reports/2025-04/24-114-r25.pdf>.

²⁷ OIG Report No. 25-107-R26 at 7-8; see also OIG Report No. 24-114-R25 at 1, 7.

²⁸ LDCs categorize Postal Service work assignments by type and are organized into higher-order groupings (or "functions") indicating the organizational segments into which those assignments fall. Docket No. N2024-1, Advisory Opinion at 164. The Commission selected six LDCs from seven LDCs used to calculate mail processing cost savings in Docket No. N2024-1 (leaving one LDC out because the underlying volume data are not available) in the Management Operating Data System dataset in Docket Nos. ACR2023 and ACR2025 used for an updated analysis.

Table 12
Difference Between Projected and Actual Cost Savings in FY 2025
for Specific Mail Processing Categories

Processing Category	\$ Millions	%
Allied Operations and Letter Cancellations	-\$275.3	-2823%
Automation Flats	-\$5.4	-87%
Automation Letters	-\$21.5	-21%
Mechanized Operations	-\$4.0	-6%
Manual Letters, Flats, and Packages	\$1.9	1%
Automation and Mechanized Packages and Bundles	\$43.4	9%

Source: Commission’s calculations using data from Docket No. ACR2023, Library Reference USPS-FY23-NP18, December 29, 2023 and Docket No. ACR2025, Library Reference USPS-FY25-NP18, December 29, 2025. The Commission followed the Postal Service’s workhour reduction calculation methodology in Docket No. N2024-1, Library Reference USPS-LR-N2024-1-NP8, October 4, 2024. The calculated differences are between the projected cost savings and the cost savings estimated for FY 2025.

The Postal Service originally projected \$81.4 million in cost savings from real estate insourcing and lease terminations.²⁹ As of FY 2025, 24 leases were expected to end, with real estate cost savings of \$28.1 million. Another 25 leases are expected to end in FY 2026, with real estate cost savings of \$29.3 million.³⁰ Even if these cost savings are fully realized, the FY 2025 expected savings of \$28.1 million are relatively small: they constitute approximately 0.8 percent of the total projected cost savings and approximately 0.03 percent of the Postal Service’s total operating expenses in FY 2025.³¹

²⁹ Docket No. N2024-1, Direct Testimony of Curtis Whiteman on Behalf of the United States Postal Service, October 4, 2024, at 14.

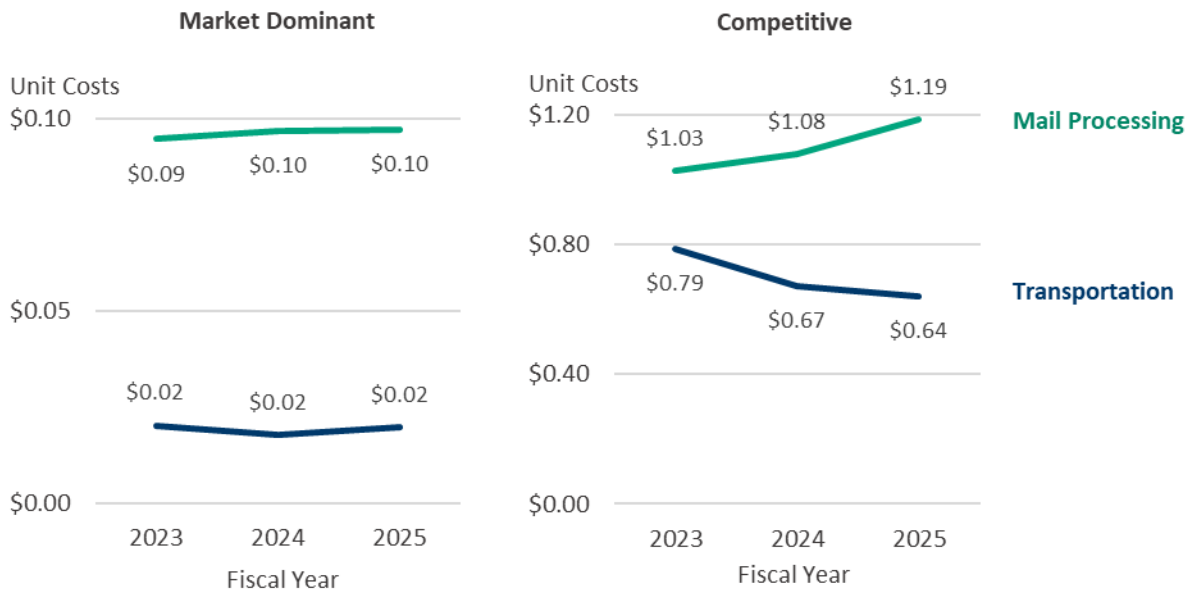
³⁰ Docket No. N2024-1, Library Reference USPS-LR-N2024-1-NP20, November 1, 2024, Excel file “PROTECTED_Plant-Annex Disposition List POIR 2, Q 23.xlsx.”

³¹ Commission’s calculations using expected FY 2025 real estate cost savings of \$28.1 million, total projected cost savings of approximately 3.6 billion, and the FY 2025 total operating expenses of \$84.1 billion. See Docket No. N2024-1, Advisory Opinion at 251; FY 2025 Annual Report to Congress at 53.

The provided analysis shows that cost reductions observed in specific areas, such as transportation, and mail processing workhours are substantially lower than the Postal Service anticipated under the DFA Plan and submitted for the Commission Advisory Opinion in Docket No. N2024-1.

In addition, as Figure 4 shows, transportation cost savings in FY 2023–FY 2025 likely came from Competitive mail. As to mail processing unit costs, they increased for both Market Dominant and Competitive mail (by 2.6 percent and 15.2 percent, respectively). This further suggests that either the Postal Service’s expected mail processing cost savings have not been fully realized or there have been other factors that negatively affected costs in FY 2023–FY 2025.

Figure 4
Mail Processing and Transportation Unit Costs:
Market Dominant vs. Competitive Mail, FY 2023–FY 2025



Source: Commission’s calculations using data from Docket No. ACR2021, Library Reference USPS-FY21-24, December 29, 2021; Docket No. ACR2022, Library Reference USPS-FY22-24, December 29, 2022; Docket No. ACR2023, Library Reference USPS-FY23-24, December 29, 2023; Docket No. ACR2024, Library Reference USPS-FY24-24, December 30, 2024; Docket No. ACR2025, Library Reference USPS-FY25-24, December 29, 2025; Docket No. ACR2021, Library Reference PRC-LR-ACR2021-1, March 29, 2022; Docket No. ACR2022, Library Reference PRC-LR-ACR2022-1, March 29, 2023; Docket No. ACR2023, Library Reference PRC-LR-ACR2023-1, March 28, 2024; Docket No. ACR2024, Library Reference PRC-LR-ACR2024-1, March 28, 2025; Docket No. ACR2025, Library Reference PRC-LR-ACR2025-1, March 27, 2026.

The Postal Service has continued to rely on management decision-making while designing and implementing DFA, despite the Commission's guidance to use rigorous data analysis and pilots as part of the decision-making process. As a result, the USPS OIG found that in route consolidations for S&DCs, the Postal Service used incomplete or inaccurate route data to underpin management decisions on S&DC investments. Management-adjusted routes led to a net increase in routes that were not identified prior to the investment decision calculation to support S&DCs.³²

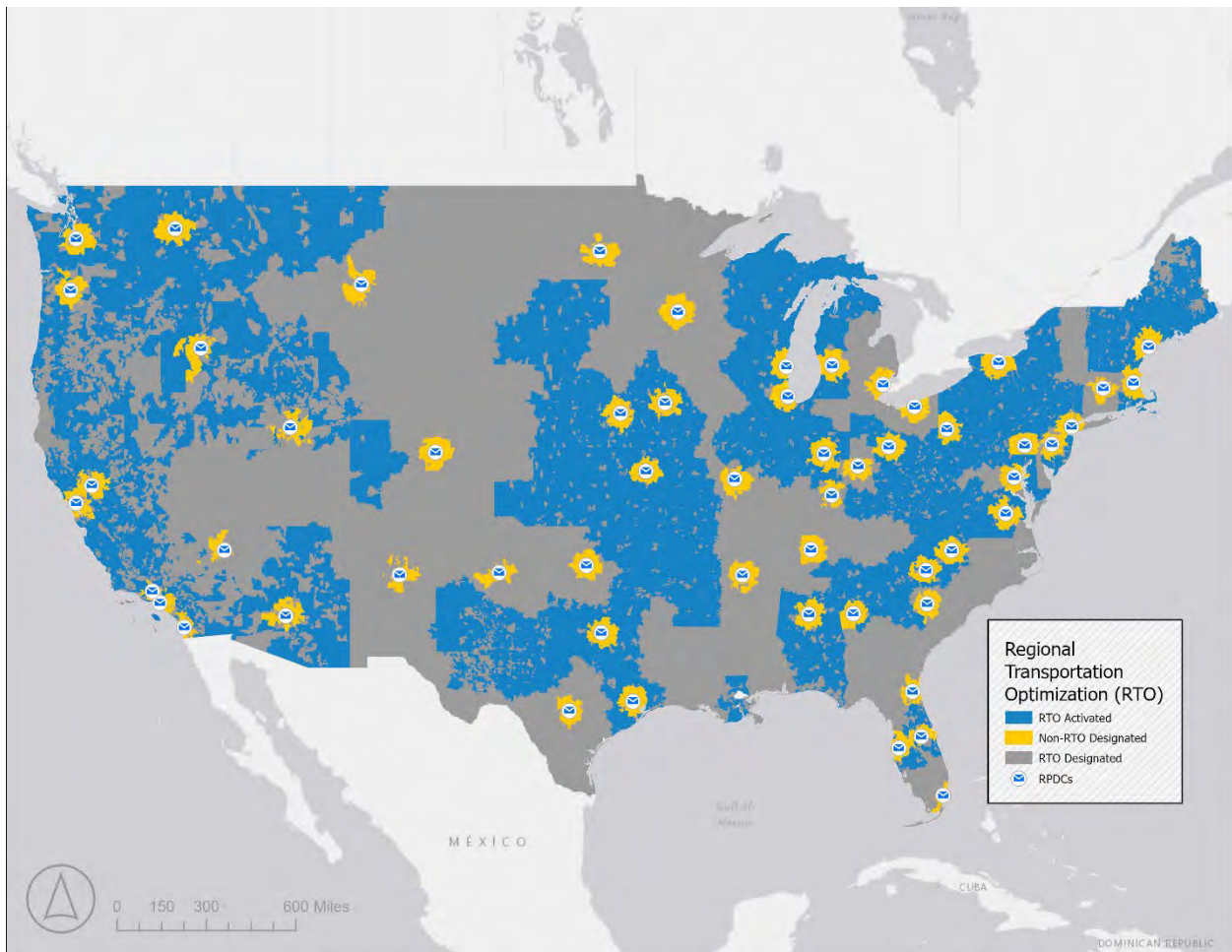
The Commission also recommended the Postal Service develop a model that accurately reflected transportation under RTO to include cost and service impact data from RTO pilots in which RPDC activations and other network changes are introduced along with RTO.³³ The Postal Service did not follow the Commission's recommendation when implementing the RTO. As of April 2026, the Postal Service has activated RTO in 13,702 5-Digit ZIP Codes or 48.0 percent of the total 28,540 5-Digit ZIP Codes.³⁴ Figure 5 shows the progress of RTO activation from FY 2024 to April 2026, and locations of RPDCs.

³² United States Postal Service, Office of Inspector General, Report No. 25-040-R25, *Route Scheduling at Sorting and Delivery Centers*, February 5, 2026, at 1, 6, https://www.uspsoig.gov/sites/default/files/reports/2026-02/25-040-r26_0.pdf.

³³ See Docket No. N2024-1, Advisory Opinion at 130.

³⁴ Docket No. RM2024-9 and PI2025-2, United States Postal Service Notice of Filing Twelfth Report in Compliance with Order No. 8761, April 1, 2026, Excel file "USPS_Twelfth_Report_Part 2.xlsx" (Docket No. RM2024-9, April 2026 Monthly Reporting).

Figure 5
5-Digit ZIP Codes Affected by RTO Implementation



Note: ZIP Codes labeled as RTO Designated are awaiting activation; Non-RTO Designated ZIP Codes are located within 50 miles of an RPDC.

Source: Docket No. RM2024-9, April 2026 Monthly Reporting; Docket No. ACR2025, Notice of the United States Postal Service of Filing its Responses to Questions 8-9 of Chairman’s Information Request No. 5 -- Second Response Set, February 6, 2026, Excel file “FY25 ChIR 5 Q8 RTO PO Total Routes_Revised.xlsx.”

Figure 5 illustrates that RTO disproportionately affects rural areas over urban areas: 67.9 percent of RTO-activated ZIP Codes are rural.³⁵ In addition, as the USPS OIG found, during the RTO implementation, the Postal Service experienced multiple challenges in the affected areas, including unfeasible transportation schedules and transportation trips that did not align with the schedule.³⁶

2. Postal Service Efforts at Matching Resources to Actual Need Have Faltered

Total Factor Productivity (TFP) has been used to measure Postal Service efficiency for more than 50 years, and reflects how effectively the Postal Service adjusts its resource levels in response to changes in workload. The persistent volume decline has led to a lower workload. However, over the past decade the Postal Service has been unable to adjust resource levels quickly enough to match this change in workload, TFP has steadily deteriorated. Output has declined sharply, while labor input has remained comparatively rigid, and the cost per unit of labor has risen substantially. This has led to an increase in unit costs.

Between FY 2016 and FY 2025, mail volume fell by 30 percent but total workhours only declined by 2 percent. At the same time the number of delivery points increased by 11 percent. As a result, pieces delivered per workhour declined by 28 percent. Over the same period, compensation per workhour increased by more than 39 percent. Taken together, these trends have led to a sharp increase in the cost of labor per unit of output.

³⁵ The Commission identifies rural 5-Digit ZIP Codes using data from Docket No. N2024-1, Library Reference USPS-LR-N2024-1-24 – Response to Steve Hutkins Interrogatory Question 11, November 12, 2024, Excel file “USPS-LR-N2024-1-24.xlsb;” Docket No. RM2024-9, April 2026 Monthly Reporting.

³⁶ United States Postal Service, Office of Inspector General, Report No. 25-057-R25, *Network Changes: Local Transportation Optimization in the New Orleans Region*, September 9, 2025, <https://www.uspsoig.gov/sites/default/files/reports/2025-09/25-057-r25.pdf>.

3. Postal Service Self-help Efforts Have Degraded Service Performance

I would now like to discuss the Postal Service's persistent failure in service performance over several years, which illustrates the existence of structural challenges that warrant Congressional examination of the Postal Service's USO, as well as serves as a cautionary tale for future Postal Service self-help initiatives.

For more than a decade, the Postal Service has struggled to meet its service performance targets. Beginning in 2021, the Postal Service implemented several significant service standard changes under its DFA Plan, including lengthening delivery windows for long-distance First-Class Mail, shifting transportation from air to ground, and later moving to a more complex, ZIP Code-based end-to-end standard framework. While these changes effectively loosened service expectations, performance against the applicable standards has nonetheless deteriorated. In particular, the Postal Service's on-time delivery rates for most categories of mail have generally declined relative to prior years, indicating that even with more flexible standards, the Postal Service struggles to meet those standards consistently.

Performance results reported in the Commission's *Annual Compliance Determinations*, which are issued each year as part of its statutory review of the Postal Service's rates, costs, and service performance, show that a meaningful share of products and categories have consistently failed to meet applicable service standards. This trend has culminated in 20 out of 27 categories failing to meet service performance targets in FY 2025. These outcomes reflect both declining on-time service performance rates and increasing difficulty meeting service standards across the board.

Over time, the Postal Service has offered a range of explanations for these ongoing performance shortfalls, including network restructuring under its DFA Plan, transportation disruptions, staffing shortages, increased delivery points, and the complexities associated with transitioning to new processing and logistics systems. In earlier years, it also cited pandemic-related disruptions, labor availability constraints, and surging package volumes as key drivers. However, the persistence of underperformance across multiple years and operating environments points to broader

structural challenges. In a period of declining mail volumes and increasing cost pressures, it is especially important that the Commission continue to provide transparency and oversight, as cost-cutting and operational changes should not come at the expense of service quality and the Postal Service's USO.

4. The Postmaster General's Comparison of U.S. Postal Rates and Revenues to Foreign Postal Rates and Revenues is Comparing Apples to Oranges

While the comparison to foreign postal systems may appear compelling at first glance, it overlooks critical legal, economic, and operational factors unique to the U.S. Postal Service. The U.S. Postal Service is the largest in the world, delivering 44 percent of all global mail in 2025.³⁷ It significantly benefits from large economies of scale and scope that help keep costs per piece down. Relative to other countries, Americans receive a high number of letters per capita annually, the low cost per piece allows the Postal Service to extract high cost coverage from relatively low rates. The First-Class Single-Piece letter is currently priced 247 percent above its attributable costs.

In addition, the U.S. Postal Service uses costing methodologies set in statute for the basis of setting regulated postage rates that differ from other countries. By law, European Union countries are required to apply a fully allocated costing methodology that allocates both direct and indirect costs to each regulated product, which may include the cost of services not related to the product. The Postal Service sets its Market Dominant rates using a marginal, or incremental, costing methodology in which only costs with a causal relationship to each product are attributed. Worksharing, in which the private sector performs some of the work of the Postal Service, removing significant costs from the Postal Service, is much more developed in the United States. The increased prevalence of worksharing also reduces the cost of sorting and transporting mail for the Postal Service compared to other countries.

³⁷ See United States Postal Service, Postal Facts: Size and Scope, <https://facts.usps.com/size-and-scope/>.

When comparing U.S. postage rates to international rates, it is also important to ensure that the product features and service standards are the same. As an initial matter, rate comparisons between countries cannot be done with any authority until Congress implements the recommendation by the GAO³⁸ and the Commission that the Postal Service's USO be reassessed in light of society's current needs. Simply raising stamp prices may not address the structural challenges faced by the Postal Service and could instead accelerate the decline in mail volumes. This outcome could undermine the Postal Service's financial position rather than improve it.

Moreover, the comparison to foreign postal systems is not necessarily relevant. The Postmaster General's comparison fails to account for the unique operational and market conditions the Postal Service faces. There are also public policy concerns given the Postal Service's current structure as a government monopoly operating in commercial markets with significant swaths of captive American consumers and businesses who have no other hard copy alternative. The Postal Service is a 100 percent government entity that enjoys two monopolies, letter and mailbox, with the latter one being particularly unique for its implications on competition. It is neither privatized nor commercialized, unlike many foreign posts. The Postal Service enjoys a market dominant position in the mail market, secured largely by these two legally mandated monopolies. Moreover, a substantial increase in stamp prices would be borne by captive ratepayers. This could disproportionately impact low-income individuals, small businesses, and rural customers that rely on affordable mail services. The Postal Service's statutory mandate is to provide prompt, reliable, and efficient services to *all communities* without impairing the overall value of the service under 39 U.S.C. § 101. Furthermore, the Postal Service's role in binding the nation together through personal, educational, literary, and business correspondence is a fundamental public service, as recognized by Congress.³⁹ Any rate increase must balance financial sustainability with the broader public interest. Overall, after Congress determines what level of service is

³⁸ United States Government Accountability Office, Report No. GAO-26-107336, *U.S. Postal Service: Action Needed to Fix Unsustainable Business Model*, December 16, 2025, at 1, <https://www.gao.gov/products/gao-26-107336> (Report No. GAO-26-107336).

³⁹ 39 U.S.C. § 101.

needed under the USO, the Postal Service will be in a better position to determine its costs and, by extension, its rates.

Rather than relying predominantly on rate increases, the Postal Service should explore multifaceted strategies to address its financial challenges. These could include disciplined and transparent cost optimization measures and a targeted strategic expansion of public-private partnerships to improve operational efficiency and long-term financial sustainability. Public-private collaboration is a uniquely American approach to delivering public value, blending government oversight with private sector innovation. By leveraging private-sector capabilities where appropriate, the Postal Service could better concentrate resources on its core mission while enhancing service quality and reducing operational strain.

C. The Commission has reacted responsibly and effectively to the Postal Service's cash crisis claims over the years.

1. Waiver

Most immediately, on April 9, 2026, the Commission stepped up and granted the Postal Service flexibility and breathing room (specifically a multi-year waiver) to address its deteriorating financial condition.⁴⁰ To use the waiver, the Postal Service must simply provide advance notice to the Secretary of the Treasury and the Commission.

The financial impact of the waiver lifts Commission restrictions on how the Postal Service may use approximately \$2.4 billion of revenue in FY 2026, and potentially a total of \$15 billion or more by the end of FY 2030, which the Commission has already provided through the Retirement Obligation Rate Authority it granted the Postal Service in 2021.

⁴⁰ See *generally* Docket No. RM2024-4, *et al.*, Order Granting Temporary Conditional Waiver Regarding Required Minimum Remittance, April 9, 2026 (Order No. 9504), <https://prc.arkcase.com/portal/filings/139658>.

The Commission's Order follows a Postal Service request that the Commission repeal regulations mandating it to contribute minimum amounts toward certain retiree benefits. The Postal Service asserts that it is running out of cash, and it would be able to utilize revenue meant for certain retiree benefits for other purposes, such as covering operating expenditures and funding capital investments, if the Commission grants its petition to repeal the rules requiring it to make these payments.

Due to the seriousness of the Postal Service's financial condition, the Commission expeditiously granted the waiver in the interest of the public and to provide the Postal Service some breathing room and flexibility to repurpose revenues that it would have used for retiree benefits to execute its contingency plans to avoid running out of cash.

In fact, for more than a decade, the Postal Service has defaulted on its retiree amortization payments and only began making partial payments over the past few years as a result of the additional revenue that comes directly from the Retirement Obligation Rate Authority that the Commission has authorized the Postal Service to generate since 2021. This Order waives the Commission's rules only on how that revenue is used and does not alter the statutory payment obligations of the Postal Service. The Waiver does not raise rates or impose a rate increase. It only temporarily changes how the Postal Service can use certain revenues it is already generating.

The Commission urges all to treat the breathing room provided by the Temporary Conditional Waiver as an opportunity to work toward meaningful and lasting change. Let us not squander this short-lived opportunity—it will not last forever. In particular, the Commission urges Congress to use this time to address the underlying issue highlighted by the Commission and the GAO to reassess and determine the level of universal postal service the nation requires and how that can best be funded.

2. The Commission has provided the Postal Service additional rate authority over the CPI.

In 2006, Congress enacted the Postal Accountability and Enhancement Act (PAEA).⁴¹ The PAEA required the Commission to promulgate regulations establishing a ratemaking system for Market Dominant products within 18 months after the law's enactment. The Commission promulgated regulations establishing the ratemaking system in 2007.⁴² The PAEA mandated certain features that the ratemaking system in its initial form had to include, most prominently a price cap limiting rate increases to annual changes in the Consumer Price Index for All Urban Consumers (CPI-U).⁴³

On December 20, 2016, the Commission initiated its required review of the ratemaking system by establishing Docket No. RM2017-3 for the review and providing an opportunity for interested persons to file comments.⁴⁴ On December 1, 2017, the Commission published its findings. In short, the Commission found that the ratemaking system was not achieving the statutory objectives, taking into account the statutory factors.⁴⁵ Therefore, the Commission began the task of “mak[ing] such modification or adopt[ing] such alternative system . . . as necessary to achieve the objectives” that 39 U.S.C. § 3622(d)(3) requires.

In addition to the prior CPI-U rate authority, the Commission added two additional forms of rate authority available to the Postal Service to address two underlying drivers of the Postal Service's net losses largely outside of its direct and near-term control. These were: (1) density rate authority to address the increase in per-unit cost resulting from declines in mail density and (2) retirement rate authority to address the statutorily mandated amortization payments for retirement costs. In addition, the Commission

⁴¹ Postal Accountability and Enhancement Act, Pub. L. 109-435, 120 Stat. 3198 (2006).

⁴² See Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007 (Order No. 43), <https://prc.arkcase.com/portal/filings/83851>.

⁴³ See 39 U.S.C. § 3622(d)(1)(A).

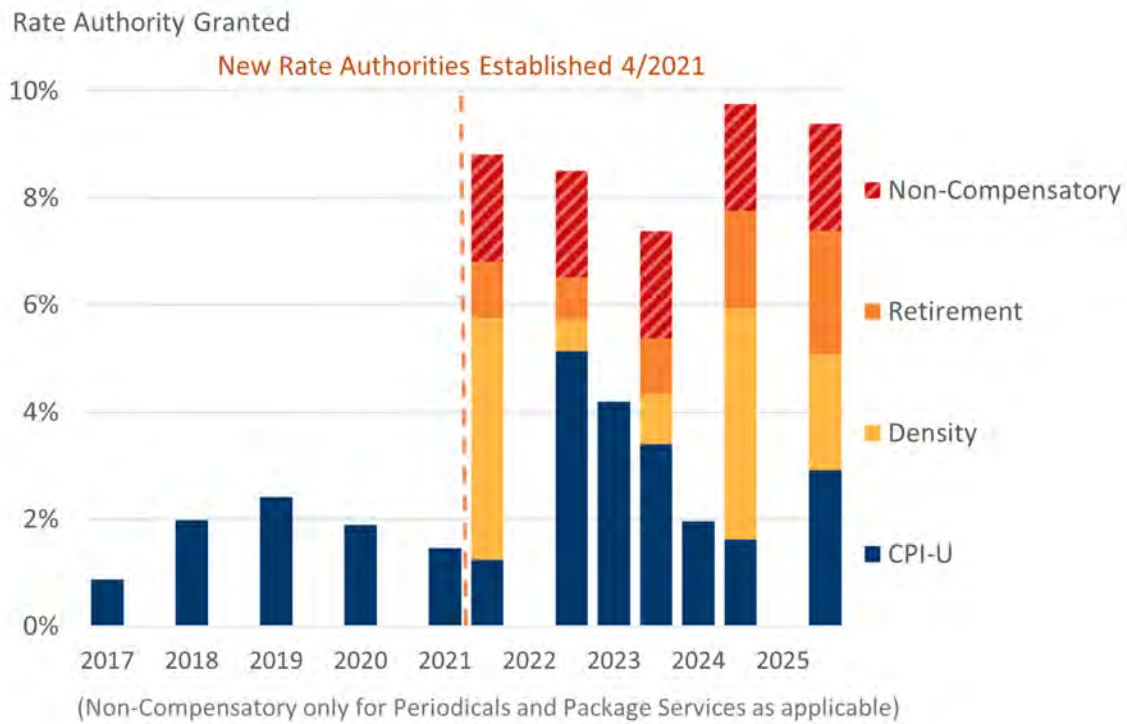
⁴⁴ See *generally* Docket No. RM2017-3, Advance Notice of Proposed Rulemaking on the Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products, December 20, 2016 (Order No. 3673), <https://prc.arkcase.com/portal/filings/61765>.

⁴⁵ Docket No. RM2017-3, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, December 1, 2017, at 275 (Order No. 4257), <https://prc.arkcase.com/portal/filings/42933>.

granted an additional 2 percentage points of rate authority for classes where costs for the class are greater than revenue, called “non-compensatory classes,” which has predominantly applied to the Periodicals class.

Since the effective date of the rules issued in Commission Order No. 5763, the Commission has granted rate authority to the Postal Service for it to raise rates by 44.8 percent for most classes. Rate authority due to CPI-U granted during that time totals 23.1 percent, which means the Commission provided additional revenue-raising authority to the Postal Service of 21.7 percent, as displayed in the figure.⁴⁶ The Postal Service has used *all* of this authority.

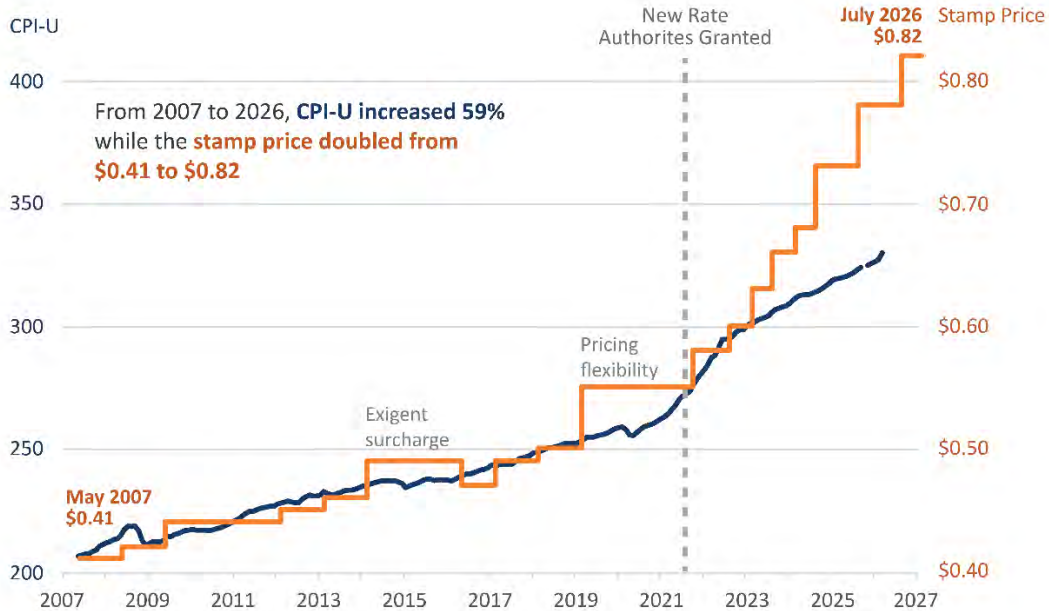
Figure 6
Rate Authority Granted by the Commission



⁴⁶ For non-compensatory classes, which is predominantly Periodicals, the total amount of rate authority provided was 56.8 percent, 33.7 percent of rate authority in addition to CPI.

Looking at the stamp price in particular, we can see in the figure below how the Postal Service was able to raise its price above CPI-U. This has helped the Postal Service offset costs related to inflation as well as two sources of costs that the Postal Service argued, and continues to argue, are outside of its control.⁴⁷ The Commission agreed, finding mail density and retirement obligations to be largely outside the control of the Postal Service, and created additional rate authorities targeted at offsetting those costs.

Figure 7
Stamp Prices and the CPI-U,
2007–2026



⁴⁷ See, e.g., Docket No. RM2017-3, Comments of the United States Postal Service, March 20, 2017, at 57, and Docket No. RM2017-3, Initial Comments of the United States Postal Service in Response to Order No. 4258, March 1, 2018, at 74-75. See also Statement of Postmaster General and Chief Executive Officer David Steiner Before the House Committee on Oversight and Government Reform, Subcommittee on Government Operations, “Oversight of the Postal Service: The Financial Future under Postmaster General Steiner,” United States House of Representatives, March 17, 2026, at 8-9 (PMG Steiner March 2026 Statement), <https://about.usps.com/newsroom/testimony-speeches/pdf/031726-statement-of-postmaster-general-and-ceo-david-steiner-before-house-committee.pdf>.

3. The Commission has provided the Postal Service pricing flexibility.

Despite the limits put on the Postal Service by statute and Commission regulation, the Postal Service enjoys a high degree of pricing flexibility within both the Market Dominant and Competitive product lists.

For Market Dominant products, the Postal Service runs a wide range of promotions, incentives, and other discounts. These include, for example, incentives for using Full-Service Intelligent Mail barcodes, providing promotional discounts to pieces that include tactile, sensory, or interactive elements (such as texture, sound, and scent), and worksharing discounts that incentivize mailers to presort their mail or enter it deeper into the postal network. The Postal Service is also allowed to modify its list of products and services, including adding new services and experimenting with prototypical services through what are called “market tests.”⁴⁸ All of the different classes, products, services, rate cells, and discounts provide multiple different services and entry points to mailers, and add up to a huge array of prices any given mailer could pay for different types of mail pieces. All of this pricing flexibility is available to the Postal Service to use at its discretion, subject to Commission review that it meets certain thresholds for inclusion on the Mail Classification Schedule or within the cap compliance calculations for Market Dominant products.

Furthermore, promotional, incentive, and discount rates are generally treated as price decreases and allow the Postal Service to “generate cap space” within each class of Market Dominant mail because the cap functions as an average for the class. Functionally, how this works is when the Postal Service discounts rates by a certain amount, it is able to raise other rates by the same amount and keep the same average. Historically, the Commission only allowed this if the discount was available equally to all mailers and considered a “rate of general applicability.” Recently, at the Postal Service’s request, the Commission re-evaluated this historical practice and finalized a

⁴⁸ The addition of new products is governed by statute at 39 U.S.C. § 3642 and regulations at 39 C.F.R. part 3040. Market tests for experimental products are governed by 39 U.S.C. § 3641 and regulations at 39 C.F.R. part 3045. For a recent example of a market test, please refer to the introduction of Connect Local Mail, a same-day or next-day delivery service which has since become a service offering as part of First-Class Mail Flats. This market test was the subject of Docket No. MT2022-1.

set of rules that allows promotions and incentives that are not rates of general applicability to be included in this cap calculation, subject to certain other conditions.⁴⁹ This allowed the Postal Service to include its recent Mail Growth Incentives as part of the calculation.⁵⁰

For Competitive products, the Postal Service enjoys substantial ability to price its products in line with competitors, both to respond to sudden cost increases and to compete on price through what are called negotiated service agreements (NSAs). These contracts provide shippers with customized rates and service arrangements. With regard to the first point, the Postal Service recently requested and the Commission quickly approved a temporary 8-percent across-the-board rate increase to account for changing market conditions concerning transportation costs, including the increasing price of fuel and contracted transportation.⁵¹

Regarding the second point, the Postal Service's use of NSAs increased substantially and the Commission reviewed and approved such agreements at a rapid pace last year. Five years ago, there were only 136 NSAs submitted to the Commission for approval. Last year, the Commission reviewed and approved 1,719 NSAs: a more than 1,100 percent increase. This portfolio represents a substantial amount of business revenue and pricing flexibility to the Postal Service, more than \$25 billion in revenue across 4,572 active agreements in FY 2025. And despite the surge in the number of agreements, the average number of days of review to receive Commission approval

⁴⁹ See *generally* Docket No. RM2020-5, <https://prc.arkcase.com/portal/dockets/5189>; Docket No. RM2020-5, Final Order Amending Rules Regarding Rate Incentives for Market Dominant Products, February 19, 2025 (Order No. 8708), <https://prc.arkcase.com/portal/filings/135399>. These regulations were codified at 39 C.F.R. part 3041.

⁵⁰ These Mail Growth Incentives, for First-Class Mail and Marketing Mail, were introduced in Docket No. R2023-3. At the time, it was not clear whether the then current and enforced regulations would permit inclusion of these incentives into the cap compliance calculation. At the Postal Service's request, and upon receiving comments from the mailing community, the Commission wrote new rules to help the Postal Service achieve their goals of incentivizing mail growth through rates.

⁵¹ See *generally* Docket No. CP2026-4, Order Approving Price Adjustments for Domestic Competitive Products (Order No. 9502), <https://prc.arkcase.com/portal/filings/139638>.

increased by less than one day during that time frame.⁵² Seeing the growing financial impact of the NSA portfolio to the Postal Service, the Commission on its own initiative wrote new regulations that established new methods or codified existing methods of streamlined review for NSAs.⁵³ This included methods that allow the Postal Service to submit agreements that require no further review from the Commission because they conform to template language and financial models that have already been reviewed and approved, or that require only summary review in expedited proceedings pursuant to certain rules and conditions.⁵⁴

Figure 8
Negotiated Service Agreements Approved by the Commission, FY 2021–FY 2025
and Active Negotiated Service Agreements in FY 2025



⁵² The number of agreements and information about the time to review is based on internal Commission records. NSA revenue information is provided, more granularly, in non-public library references filed each year with the *Annual Compliance Report*. The 2025 figure is based on documents filed in Docket No. ACR2025.

⁵³ See generally Docket No. RM2023-5, Final Order Amending Rules Regarding Competitive Negotiated Service Agreements, August 9, 2024 (Order No. 7353), <https://prc.arkcase.com/portal/filings/130022>.

⁵⁴ See generally Order No. 7353.

4. The Commission has protected captive consumers by limiting annual rate increases.

The Commission expanded the Postal Service's pricing flexibility significantly in 2021, in response to specific drivers of the Postal Service's net losses that were largely outside its control. In the wake of that expansion, the Commission expected that the Postal Service would carefully exercise the newfound pricing flexibility. The DFA Plan promised "judicious and appropriate use of the rate authorities provided by the PRC"⁵⁵ However, the Postal Service proceeded with a maximalist approach to rate increases across the board. The Postal Service also signaled its intention to raise rates twice in each calendar year. The Postal Service pursued this strategy despite the Commission's exhortations that its order (consistent with the policies of Title 39) was set up with the expectation that the rate-setting flexibilities afforded to the Postal Service would be only a part of the solution.

As a safeguard against potential abuses of the Postal Service's new authority, the Commission committed to review the system again after 5 years (or sooner as circumstances warranted). Partly in response to the Postal Service's maximalist approach of raising prices twice a year, the Commission reopened its review of the system early, in 2024, before its scheduled 5-year review. The Commission took a phased approach and heard from stakeholders about their views of how the system of ratemaking was working. In Order No. 9426 (2026), the Commission recognized that the system was not achieving several objectives including predictable and stable rates, and, among other changes, limited the Postal Service to one rate increase per calendar year.⁵⁶ This change was made in direct response to many stakeholder concerns and served to improve the system's achievement of predictable and stable rates for ratepayers. Only the frequency is limited; the Postal Service retains significant pricing flexibility of its Market Dominant products, including the numerous above-CPI rate

⁵⁵ DFA Plan at 46.

⁵⁶ Docket No. RM2024-4, *et al.*, Order Adopting Rules Limiting Frequency of Rate Increases Above the De Minimis Threshold and Adding Criteria for Workshare Discounts for Market Dominant Products (Phase 2A Completion), January 13, 2026 (Order No. 9426), <https://prc.arkcase.com/portal/filings/139064>.

authorities provided by the Commission as detailed in Figure 6 above. The Commission proactively made responsive changes when circumstances warranted, and it fulfilled its role in protecting captive taxpaying households and businesses when necessary.

5. The Commission has provided the public and consumers transparency regarding service delays and degradation, and a voice at public hearings reviewing Postal Service changes.

The Commission has played a pivotal role in increasing the transparency of the Postal Service's service performance, ensuring accountability and providing critical oversight in a challenging operational environment. Within its statutory authority, the Commission has consistently worked to safeguard the public interest and promote transparency via its *Annual Compliance Determinations*, oversight of service performance measurement, Advisory Opinions, and reporting requirements. Our work has provided stakeholders and policymakers with critical insights into the Postal Service's operations, ensuring that service performance related issues are thoroughly examined and addressed. The Commission's work via its *Annual Compliance Determinations*, ongoing evaluation of Service Performance Measurement (SPM), Advisory Opinions, and rulemakings has demonstrated the importance of robust oversight in maintaining the integrity and transparency of the Postal Service's service performance, ultimately benefiting the public and promoting accountability.

- a. ACDs

First, each year the Commission actively monitors and reviews the Postal Service's compliance with its service standards, as required under 39 U.S.C. § 3653. The Commission evaluates whether the Postal Service has met its service performance targets, which the Postal Service sets under 39 U.S.C. § 3692. To engage in this annual compliance process, the Commission seeks necessary data and information from the Postal Service. Our most recent *Annual Compliance Determination* found that 20 of the 27 Market Dominant products/categories measured failed to meet their targets

in FY 2025.⁵⁷ This occurred despite the Postal Service lowering its targets for 19 products/categories in FY 2025.

b. SPM

Second, the Commission's oversight has been particularly impactful in scrutinizing the Postal Service's internal Service Performance Measurement (SPM) system. For example, in pending Docket No. RM2024-9, the Commission is reviewing to ensure that the SPM system continues to produce accurate, reliable, and representative data.⁵⁸ The Commission has also required parallel reporting to evaluate the effects of changes that the Postal Service has made to its service performance metrics.⁵⁹

For instance, beginning in FY 2025 Quarters 3 and 4, the Postal Service revised how it calculates on-time performance to exclude Sundays and Federal holidays as transit days for mail that is entered into the Postal Service's network on Saturday or the day before a Federal holiday (Sunday/Holiday Exclusion). The Commission expressed concern that these changes could render reported service performance data misleading and/or confusing by making it difficult for the public and the Commission to understand how Sundays and Holidays are reflected in the Postal Service's service performance measurement. The Commission ordered the Postal Service to provide parallel service performance results both with and without the Sunday/Holiday Exclusion. This parallel

⁵⁷ Postal Regulatory Commission, Docket No. ACR2025, *Annual Compliance Determination Report*, Fiscal Year 2025, at 2 (FY 2025 ACD), <https://prc.arkcase.com/portal/filings/139555>.

⁵⁸ See *generally* Docket No. RM2024-9, Advance Notice of Proposed Rulemaking and Order Initiating Proceeding to Evaluate Internal Service Performance Measurement System, July 2, 2024 (Order No. 7247), <https://prc.arkcase.com/portal/filings/129516>.

⁵⁹ See, e.g., Docket Nos. RM2024-9 and PI2025-2, Interim Order Regarding Proposed Service Performance Measurement Changes, March 28, 2025, at 22-23, 37-39, 40-41 (Order No. 8761), <https://prc.arkcase.com/portal/filings/135765>. Subsequent orders partially modified and amplified these reporting requirements. See Docket Nos. RM2024-9 and PI2025-2, Order Conditionally Granting Motion for Reconsideration of Order No. 8761, April 30, 2025 (Order No. 8823), <https://prc.arkcase.com/portal/filings/136111>; Docket Nos. RM2024-9, PI2025-2, and PI2025-5, Interim Order Regarding Further Proceedings on Planned Service Performance Measurement Changes, June 27, 2025, at 23-24 (Order No. 8942), <https://prc.arkcase.com/portal/filings/136929>; Docket Nos. RM2024-9, PI2025-2, and PI2025-5, Order Deferring Reporting Requirements from Order No. 8942, July 16, 2025 (Order No. 9015), <https://prc.arkcase.com/portal/filings/137200>.

reporting has enabled the Commission to quantify the effect of the Sunday/Holiday Exclusion on performance scores. This example highlights the Commission's commitment to ensuring transparency in service performance reporting. This parallel reporting required by the Commission revealed that excluding Sundays and Holidays from transit days increased reported on-time performance scores by 1 to 5 percentage points, making on-time performance appear higher with the Sunday/Holiday exclusion than it would have been if those days were included. If the Postal Service had not excluded Sundays and Holidays from Quarters 3 and 4 on-time performance calculations, the only First-Class Mail categories meeting FY 2025 targets (2-Day and 3-to-5-Day Presorted Letters/Postcards) would not have achieved those targets. See FY 2025 ACD at 72, 81. These types of insights provide stakeholders with a clearer understanding of the Postal Service's actual performance.

In 2025, the Postal Service planned to change SPM again "to exclude from measurement certain mailpieces affected by extraordinary events that materially disrupt the timely collection, processing, transportation, and/or delivery of mail" ⁶⁰ The Commission received comments from stakeholders expressing widespread opposition and concern. The Commission expressed serious concerns about the consistency of the planned changes with multiple statutory provisions relevant to service performance reporting. Ultimately, however, the Commission found that it was unable to resolve those issues because the Postal Service's proposal was vague and ambiguous regarding the scope of mail volume that might be impacted, and the Postal Service hadn't provided the information necessary to clarify this issue or enable the Commission to analyze it. Therefore, the Commission dismissed the Postal Service's Notice without prejudice and provided instructions to the Postal Service should it elect to re-file as to what information the Commission would expect to see.

Furthermore, the Commission has required detailed monthly reporting on significant changes that the Postal Service has made to its SPM system, such as the

⁶⁰ Docket Nos. PI2025-6 and RM2024-9, Order Dismissing Without Prejudice Notice of Planned Service Performance Measurement Changes, at 1 (Order No. 9241) (quoting Docket No. PI2025-6, United States Postal Service Notice of Filing Changes to Service Performance Measurement Plan Document, September 9, 2025, at 5), <https://prc.arkcase.com/portal/filings/138215>.

transition from District-level reporting to 5-Digit level reporting. This enhanced reporting framework has enabled the Commission to better understand the Postal Service's data collection processes and evaluate the impact of these changes on service performance results transparency.

c. Rulemaking

Third, to ensure public, independent transparency regarding the Postal Service's service performance for American businesses and households who are expecting a level of service for the rates they must pay to this government establishment, the Commission strengthened the reporting rules across multiple fronts, most recently in May 2026.⁶¹ These include: requiring advance Commission approval for the Postal Service's changes to its internal SPM systems, setting evidentiary burdens and review timelines for review of such changes, requiring the Postal Service to provide advance comprehensive notice of service standard changes affecting customer-facing expectations, and requiring the Postal Service to provide a contemporaneous explanation of the reasonableness of the service performance targets that the Postal Service sets for itself and files with the Commission. These rule revisions, which the Postal Service opposed summarily and offered no alternative rules, increase transparency into service performance and achieve the independent oversight that Congress mandated the Commission to perform.

In 2023, the Commission adopted several reporting requirements to increase transparency into service performance via Order No. 6439.⁶² These include: robust staged parameters for the Postal Service's Service Performance Dashboard, detailed requirements for reporting of mail excluded from measurement, reporting of average days to deliver, reporting of top root cause point impacts, and Site-Specific Operating Plan (SSOP) performance disclosure.

⁶¹ See *generally* Docket No. RM2026-1, Final Order Amending Rules Regarding Service Performance Reporting, May 11, 2026 (Order No. 9566), <https://prc.arkcase.com/portal/filings/139954>.

⁶² See *generally* Docket No. RM2022-7, Order Revising Rules for Periodic Reporting of Service Performance, February 9, 2023 (Order No. 6439), <https://prc.arkcase.com/portal/filings/84170>.

Despite the headwinds facing the Postal Service, the Commission has achieved significant positive results in increasing the transparency of the Postal Service's performance. Through its statutory authority, rigorous oversight, and commitment to public accountability, the Commission has ensured that the American public has access to accurate and reliable information about the Postal Service's operations, enabling informed decision-making and fostering trust in the government-run postal system.

- d. Advisory Opinions: Commission has predicted the negative results from ill-considered or un-informed Postal Service changes to its network and operations—and the Postal Service ignored these warnings.

Fourth, the Commission plays a significant role in providing transparency, unbiased analysis, and policy evaluation when the Postal Service seeks to make significant changes to the way it provides service to the American public. The mechanism by which the Commission provides this invaluable work is the advisory opinion process, in which the Commission undertakes a hearing on the record and seeks public comment and participation on Postal Service proposed service changes that are at least substantially nationwide in scope.

As discussed in further detail below, the Commission has completed multiple advisory opinions on various aspects of the DFA Plan in the time since it was announced in 2021. Each of these recent advisory opinions follows a consistent theme: the Commission and public stakeholders raise concerns about the Postal Service overstating the benefits and savings that would result from its proposed changes while minimizing the service impacts, especially to the populations in America that rely on the Postal Service the most. Invariably, the Postal Service criticizes the advisory opinions and ignores the advice given. Unfortunately, based on the results observed as the Postal Service has pressed forward with large-scale network changes, the Commission has been proved correct as savings have been significantly lower than hoped, and service impacts have been greater and more pervasive than bargained for.

The experience with the DFA Plan has demonstrated that the advisory nature of these undertakings (by law the Postal Service is not required to do anything with the advisory opinions) are no longer an effective check on the Postal Service implementing drastic and permanent network changes based on cost-saving estimates that the Commission found to rely on unvalidated assumptions and incomplete data, coupled with pervasive and significant service impacts to vulnerable Americans. Unlike most other Commission authorities, this role is advisory in nature and requires the Commission to expend significant resources because it requires a formal adjudication that requires a hearing on-the-record under the Administrative Procedure Act.

There are legislative proposals pending before Congress right now, that if adopted, would reduce the Postal Service's ability to unilaterally change its service standards at any time and increase the Commission's ability via the advisory opinion process to provide input. Such proposals could prevent (or delay) the Postal Service from implementing changes that the Commission advised against implementing. Several of these bills are rooted in the concern that the Postal Service began implementing significant changes to services before requesting an advisory opinion from the Commission because the current statutory language appears to allow the Postal Service to determine the timing of when to begin that process. The Commission itself has recommended to Congress in the past that it may want to modify the law to require "the Postal Service [to] provide a written response to Congress, prior to implementation, addressing the Commission's recommendations."⁶³

The following is a brief summary of the Commission's advisory opinions in the wake of the Postal Service's DFA Plan announcement and implementation, and a review of the outcomes following those advisory opinions. Appendix A includes more in-depth discussions about the Postal Service's proposals and more analysis of the Commission's positions.

⁶³ Postal Regulatory Commission, *Section 701 Report, Analysis of the Postal Accountability and Enhancement Act of 2006*, November 14, 2016, at 30, <https://prc.arkcase.com/portal/filings/60189>; see Postal Regulatory Commission, *Section 701 Report Analysis of the Postal Accountability and Enhancement Act of 2006*, September 22, 2011, at 79, 84-85 (2011 Section 701 Report), <https://prc.arkcase.com/portal/filings/27346>.

Docket No. N2021-1 Advisory Opinion

- The Postal Service proposed longer First-Class Mail and Periodicals service standards, with 70 percent of First-Class Mail at 1-3 days, 21 percent at 4 days, and 10 percent at 5 days.
- The Postal Service projected \$169.5 million in net financial gain from shifting volume to optimized surface and more cost-effective air transport.
- The Commission found up to 2 additional days for 38.5 percent of First-Class Mail and 7 percent of Periodicals, targeting chronically underperforming lanes.
- The Commission questioned savings methodology, FY 2020 baselines, omission of mail processing costs, and overall viability impacts.
- Success required reconfiguring surface trips, and the Postal Service lacked evidence that customer satisfaction or volumes would hold or grow.
- Commission recommendations included setting realistic targets, monitoring savings and service, transportation efficiency, customer satisfaction tracking, transparency, and limiting econometric demand analyses.

Docket No. N2021-2 Advisory Opinion

- The Postal Service proposed lengthening service by 1-2 days for 31.2 percent of First-Class Package Service and shortening by 1 day for 4.8 percent, estimating \$42 million annual savings.
- The Commission found that the Postal Service assumed undemonstrated success in operations, reliability, demand, and modeled efficiencies, and FY 2020 data could be unreliable.
- Savings estimates appeared inflated, with inadequate development of charter carrier and NDC optimization costs and dependence on Docket No. N2021-1 savings.
- Transportation modeling flaws, oversimplified assumptions, and an over-optimized baseline reduced projected benefits and made savings uncertain.

- Commission recommendations included establishing realistic interim targets, rigorous cost methodologies, customer satisfaction measurement, and ongoing stakeholder engagement.

Docket No. N2022-1 Advisory Opinion

- The Postal Service sought to change Retail Ground and Parcel Select Ground standards from 2-8 days to 2-5 days, excluding non-contiguous, hazmat, and live animal shipments.
- The Commission, with limited oversight, found fewer handling events but risks of increased manual processing, staffing strains, delays, and cost increases.
- The Postal Service could not show when transportation efficiencies would materialize, undermining savings based on unrealistic assumptions.
- Potential market demand benefits lacked Postal Service research targeted at current customers of the two products.
- Commission recommendations included a timeline for incremental network changes, monitoring plans, robust market research, impact monitoring on users, and diversion tracking from Priority Mail.

Docket No. N2024-1 Advisory Opinion

- The Postal Service proposed a nationwide RPDC/LPC network, nationwide RTO eliminating same-day collection beyond 50 miles, and revised standards excluding Sundays and Holidays.
- The Postal Service projected \$3.6–\$3.7 billion in annual savings after full implementation.
- The Commission found defective modeling, unfounded cost savings estimates that relied on unvalidated assumptions, unclear timelines, and significant service declines where changes were implemented.
- For Single-Piece First-Class Mail, 49.5 percent of ZIP Code pairs would be downgraded, with some deliveries extending to 6 or more days.

- Projected cost savings, while being unfounded, represented just a small share (about 4.4 percent) of operating expenses and did not justify widespread downgrades, especially harming rural communities.
- The Commission urged reconsideration of speculative gains versus certain service downgrades.
- Commission recommendations stressed using data-driven models, productivity feasibility analyses, implementation metrics, close customer impact monitoring, and immediate mitigation if impacts exceeded expectations.
- The Postal Service dismissed the opinion as one-sided and began implementation in 2025.

Since the start of the DFA initiatives in 2021, the Postal Service and Commission have received service complaints from around the country. Many of those service complaints continue today. In each Advisory Opinion, the Commission strongly encouraged the Postal Service to consider the Commission's concerns and recommendations as it continues to develop and implement the proposed changes. The Commission also advised the Postal Service to closely monitor the impact of its changes on mail products and rural communities.

Since the Advisory Opinions were issued and these proposed changes were implemented, the Commission's concerns have materialized:

- The original DFA Plan (2021) projected that the Postal Service would reach break-even net income by FY 2023.⁶⁴ However, the Postal Service did not meet this goal and experienced net losses of \$6.5 billion, \$9.5 billion, and \$9.0 billion in FY 2023, FY 2024, and FY 2025, respectively.⁶⁵ Even when just considering controllable losses, the Postal Service had a \$2.7 billion

⁶⁴ DFA Plan at 7, 50-51.

⁶⁵ United States Postal Service, Office of Inspector General, Report No. 25-107-R26, *The OIG's Oversight of the U.S. Postal Service's Delivering for America Plan – Volume 3*, January 20, 2026, at 10 (OIG Report No. 25-107-R26), <https://www.uspsoig.gov/sites/default/files/reports/2026-01/25-107-r26.pdf>.

controllable loss in FY 2025, the highest controllable loss since implementing the DFA Plan.⁶⁶

- The Postal Service continues to fail to meet service performance targets despite changes in service standards that have lengthened days-to-delivery for several products/categories over the past several years.⁶⁷
- The Postal Service has consistently failed to meet the DFA Plan's goal of 95 percent on-time delivery and failed to meet its own service performance targets despite the modifications to service standards.⁶⁸ Specifically, even though First-Class Mail was subject to slower service standards in Docket No. N2021-1 and subjected to additional changes in Docket No. N2024-1, the Postal Service is still unable to meet its 95 percent target for First-Class Mail 2-Day Single-Piece Letters/Postcards.⁶⁹
- In the FY 2025 ACD, the Commission noted that the Postal Service measured the success of RTO using reduction of miles, trips, and driver hours, but the Postal Service did not track actual cost savings.⁷⁰

⁶⁶ OIG Report No. 25-107-R26 at 10.

⁶⁷ FY 2025 ACD at 72. See also Postal Regulatory Commission, Docket No. ACR2022, *Annual Compliance Determination Report*, March 29, 2023, at 105 (FY 2022 ACD), <https://prc.arkcase.com/portal/filings/84025>; Postal Regulatory Commission, Docket No. ACR2023, *Annual Compliance Determination Report*, March 28, 2024, at 126 (FY 2023 ACD), <https://prc.arkcase.com/portal/filings/128338>. The Postal Service confirmed that it could not calculate the service performance scores for affected First-Class Mail pieces using the service standards in place for those pieces prior to the proposed changes in Docket No. N2021-1 because such granular piece-level detail did not exist. FY 2022 ACD at 135. Therefore, it is difficult to determine whether the service standard changes masked whether service actually improved year over year during this period.

⁶⁸ United States Postal Service, Office of Inspector General, Report No. 24-102-R24, *The OIG's Oversight of the U.S. Postal Service's Delivering for America Plan*, September 30, 2024, at 5, <https://www.uspsoug.gov/sites/default/files/reports/2024-10/24-102-r24.pdf>; see also FY 2025 ACD at 72.

⁶⁹ FY 2025 ACD at 71. As the Commission explained, "[t]his category of mail is exemplary since it is subject to the direct control of Postal Service transportation, processing, and delivery operations." *Id.*

⁷⁰ *Id.* at 142.

- Commission analysis found that excluding Sunday and Holidays from measurement inflates the performance scores, moving the goal posts for service performance scores.⁷¹
- Commission analysis found that, despite touting cost savings that would result by diverting First-Class Mail volume from air transportation to ground transportation in Docket No. N2021-1, air transportation costs for domestic Market Dominant products as a whole rose by 46.7 percent between FY 2024 and FY 2025.⁷²

Five years since the announcement of the DFA Plan, the Postal Service's financial and service issues have reached a critical point. Instead of reversing its projected \$160 billion loss and improving on-time delivery rates to 95 percent as planned, PMG Steiner testified that the Postal Service expects to run out of cash in less than a year and will be unable to deliver the mail. It does not seem that the "Postal Service is in a better place today than it would have been without these transformation initiatives" as the Postmaster General stated.

IV. WHAT DO WE DO NOW? WE MUST DEFINE THE USO.

The Commission's action on the waiver frees up \$15 billion in the next 4 years and renders the Postal Service's claims of having to stop mail delivery in February highly unlikely. Due to the Commission's responsive and responsible action, Congress now has a little more breathing room to focus on a sustainable fix: defining the USO and how to pay for it.

As we all consider the Postal Service's current claims related to its financial situation, there is one thing we all agree upon: the Postal Service's current financial trajectory is not sustainable. The GAO concurs.⁷³ Given the Postal Service's inability to cut costs or maintain efficiency within its current network it is time to revisit the contours

⁷¹ *Id.* at 72, 81.

⁷² *Id.* at 138.

⁷³ See *generally* Report No. GAO-26-107336.

of that network. One way to do that is to define the USO for the current postal market. The Commission has significant experience exploring the question of the USO. In 2006, the PAEA directed the Commission to annually estimate the costs of universal service⁷⁴ and to submit to the President and Congress a comprehensive report⁷⁵ on universal postal service and the postal monopoly in the United States. The Commission found that seven basic attributes of universal service frame the needed definition. These attributes are geographic scope, range of products, access, delivery, prices and affordability, quality of service, and enforcement. Clear standards across these attributes would provide guidance on infrastructure changes, labor refinements, transportation networks, and other cost control measures. It will also provide a revenue strategy, and service performance expectations. The Commission recommended in its 2008 report “that Congress consider and balance all the features of universal service as part of any review of changes necessary to preserve a financially viable Postal Service.”⁷⁶ The Commission reiterates its call but recommends an expedited approach due to the severe financial and service challenges at the Postal Service.

A. Geographic Scope

Geographic scope defines where universal postal services must be provided across the nation. The Commission identifies geographic scope as a core cost driver of universal service. Rising delivery points have expanded the geographic footprint and increased delivery costs. Delivery points grew 5.2 percent in 5 years, while overall delivery costs rose 11 percent or approximately \$3 billion dollars. More than half of all delivery costs are institutional and not attributable to specific products. A statutory definition would set clear coverage expectations and align network design with national needs. Most industrialized nations define the geographic scope of their postal USO in law. The United States largely relies on broad directives and 6-day delivery without comprehensive scope standards. This gap allows unilateral Postal Service decisions to

⁷⁴ 39 U.S.C. § 3651(b)(1)(A).

⁷⁵ Postal Accountability and Enhancement Act, Pub. L. 109-435, § 702, 120 Stat. 3198 (2006).

⁷⁶ Postal Regulatory Commission, *Report on Universal Service and the Postal Monopoly*, December 19, 2008, at 6, 192, <https://prc.gov/sites/default/files/reports/USO%20Report.pdf>.

determine where and how service is delivered without specific guidance on cost containment.

B. Range of Products

Range of products specifies which mail and package services are covered by the USO. Currently, the Postal Service offers 46 products not including NSAs, all within the scope of the USO. The number of products offered directly impacts Postal Service finances, both positively and negatively. How these products are funded depends largely on whether they are part of the USO.

Most other countries have already specifically defined the USO to ensure their citizens receive the agreed upon minimal level of acceptable service. Many of these countries limit universal service to a subset such as single piece letters and single piece packages. The United States has not set a specific statutory list beyond general mission language, the result being a lack of clarity and cost of mission and how best to fund this mission. Absent guidance, the Postal Service has shifted focus toward Competitive parcels to pursue market share. If Competitive parcels fall within an undefined USO, taxpayers could be tied to sustaining commercial parcel ambitions. A defined product scope would reconcile public obligations with competitive activities and legal privileges. Clear scope would prevent misalignment between universal service duties and marketplace strategies.

C. Access

Access covers how the public enters the postal network through points like Post Offices and collection boxes. Access is a principal cost element of universal service. Recent postal operational changes have altered entry and access conditions without a statutory access baseline. An access standard would protect predictable public entry to mail services nationwide. Other countries have codified access obligations to ensure minimum presence and convenience. The Commission's framework treats access as integral to balancing service equity and system costs.

D. Delivery

Delivery defines frequency, mode, and timeliness of bringing mail to addresses. Delivery requirements are a key driver of institutional costs, and as such significantly impact the Postal Service's financial situation. Although the United States has a statutory 6-day delivery requirement, it lacks detailed delivery standards geared towards the current needs of American citizens. In recent years, delivery issues have arisen that strain Postal Service resources and negatively impact service performance. The Postal Service has lowered service standards and failed to meet them, indicating systemic strain. Productivity has been at its lowest levels in decades, increasing delivery costs. A defined delivery standard would set minimum acceptable service for households and businesses. Clear delivery benchmarks would guide network design and performance oversight.

E. Prices and Affordability

Prices and affordability determine how universal service remains accessible to all users. Pricing standards directly affect Postal Service revenue. Regular and significant rate increases have not measurably improved finances, highlighting model weaknesses. Total costs increased 10 percent over 5 years as total volume declined 16 percent. Institutional costs grew from 41 percent to 49 percent of total costs in the same period. Affordability guardrails could balance public access with sustainable revenue strategies. Other nations define price-related USO features to ensure equitable access independent of market demand.

F. Quality of Service

Quality of service sets measurable performance standards around speed and reliability of delivery. Meeting quality of service standards involves all aspects of operations including processing, transportation, and formulation of delivery routes. In recent years, quality has eroded as service performance standards were reduced and then missed. Operational reforms, such as the DFA Plan, have produced systemwide consequences for timely and predictable service. A statutory quality framework would

anchor accountability for performance recovery. Quality metrics would enable transparent oversight and public input through regulation.

G. Enforcement Mechanism

An enforcement mechanism ensures the minimum level of universal service is provided. The Commission proposes a regulatory model where it can define and update USO under congressional criteria. Such a model would use transparent notice and comment with opportunities for appeal. Congress has precedent in directing the Federal Communications Commission (FCC) to define universal service by regulation. A comparable postal framework would allow timely adjustments as needs and technology evolve. Congress could give the Commission authority to ensure compliance with minimum service if necessary.

The Commission urges Congress to define the USO now to stabilize postal finances and protect essential public services. The Postal Service faces unrelenting mail volume decline, challenges controlling costs, and a declared liquidity crisis. Productivity weakness and service degradation compound financial stress. Institutional costs are rising as a share of total costs while delivery points expand. The cost of the USO is approximately \$7 billion annually and growing, according to Commission assessments. Without a defined USO, unilateral operational changes can shift public obligations without legislative direction. This governance gap jeopardizes predictable access and reliable delivery for households and businesses.

The Commission's ongoing call since 2008 to define the USO is shared by others. In 2018, President Donald J. Trump signed Executive Order 13,829, which established the Task Force on the United States Postal System to evaluate the operations and finances of the United States Postal Service and develop recommendations for administrative and legislative reforms for the U.S. postal system.⁷⁷ The goal of the Task Force was to identify a path for the Postal Service to operate under a sustainable business model, providing necessary mail services to citizens and

⁷⁷ Exec. Order No. 13,829, 83 Fed. Reg. 17,281 (Apr. 18, 2018).

businesses, while competing fairly in commercial markets. The December 2018 Treasury Department Task Force report made several recommendations for consideration, and the majority of recommendations were directly focused on needing to define the USO.

The GAO also recommends that Congress reassess and determine the nation's required universal postal service level. The Commission endorses the GAO's findings and urges immediate congressional attention. The Postal Service's Office of Inspector General also calls for a better defined USO to meet financial challenges. Other nations updated laws to set minimally acceptable postal service levels and manage tradeoffs transparently.

The Postal Service is a government entity with statutory monopolies over letter delivery and mailbox access. These privileges carry public responsibilities and constraints distinct from private competitors. Debts are backed by taxpayers, and non-postal offerings are restricted by law. Universal service operates outside typical market dynamics and requires political definition of its features. The current model expects self-funding while upholding a broad public mission, creating structural tension.

Congress could task the Commission with defining and periodically revising the USO by regulation under statutory criteria. This approach mirrors the Telecommunications Act model used with the FCC. Notice and comment rulemaking would ensure transparency and robust public input. Regulatory definitions can adjust over time more efficiently than infrequent statutory amendments. Congress would set overarching guidelines and objectives for the USO in law.

A clear, enforceable USO across the seven attributes will protect access, affordability, quality, and nationwide coverage. Regulatory implementation by the Commission offers transparency, accountability, and flexibility grounded in precedent. This partnership will align public obligations with sustainable operations and restore trust and confidence in the Postal Service for the next 250 years. The current approach of an undefined USO has proven unsustainable. It provides ambiguous and ill-defined expectations to the Postal Service and also allows it to "self-define" the USO by making unilateral changes to its delivery model which has degraded service to large swaths of

rural America. Almost every other major country around the planet has already long ago more specifically defined the USO for their citizens for this very reason.

V. CONCLUSION

Given the Postal Service's severe and worsening financial situation, we as a nation must respond. I do not believe that we can leave it up to the Postal Service to save itself. Prior actions taken by the Postal Service have confirmed this caution. As former Commission Chairman Gleiman [told Congress](#) in 1995, "We are dealing here with a government-granted monopoly -- a \$54 billion dollar gorilla whose activities if not monitored closely and controlled in a reasonable manner could cause serious economic consequences for friend and foe alike."⁷⁸ While the numbers have certainly changed—now an \$80 billion gorilla—the Postal Service's grim financial situation and doubt about its ability to right the ship have not.

Today, the Postal Service is asking Congress for a large infusion of taxpayer money by authorizing an increase in its borrowing limit, just a few years after receiving and spending \$10 billion, while also securing \$3 billion in funding for electric vehicles and approximately \$57 billion in balance sheet relief through the elimination of its RHB prefunding liability. On top of that, the Postal Service elected not to pay \$30 billion in required pension amortization payments, effectively unilaterally increasing its borrowing well beyond its debt limit. In addition, the Postmaster General asked lawmakers to let it operate "like a truly independent entity, free from the statutory requirements and regulations that weigh [it] down."⁷⁹ Again, based on its proven track record of analyzing and evaluating prior Postal Service "Goldilocks" solutions, the Commission has offered cautionary warnings against allowing the Postal Service to run untethered.

Universal service is essential to the fabric of our society, weaving us together in communication and commerce. The American taxpayers deserve a Postal Service that

⁷⁸ Testimony of Chairman Edward J. Gleiman, Before the House Subcommittee on the Postal Service, Committee on Government Reform and Oversight, March 2, 1995, at 4, <https://prc.arkcase.com/portal/filings/16865>.

⁷⁹ PMG Steiner March 2026 Statement at 7.

is affordable and reliable, but what else do they require? We are at a critical inflection point. With modern expectations the way they are, it is imperative that we as a nation define the scope of the USO to set the level of postal services we need and the actual cost of sustaining them. And I commit to you today that the Commission stands ready to be a partner with you in that effort.

APPENDIX A

RECENT COMMISSION ADVISORY OPINIONS

Docket No. N2021-1 Advisory Opinion

In Docket No. N2021-1, the Postal Service requested an advisory opinion on its proposal to revise the service standards for First-Class Mail and end-to-end Periodicals. For First-Class Mail within the contiguous United States, the Postal Service proposed to apply the 4-day and 5-day service standards to certain First-Class Mail that travelled longer distances between origin and destination. It projected that 70 percent of First-Class Mail volume would be subject to the proposed 1-day, 2-day, or 3-day service standards; approximately 21 percent of First-Class Mail volume would be subject to the proposed 4-day service standard; and approximately 10 percent of First-Class Mail volume would be subject to the proposed 5-day service standard. The Postal Service proposed to apply a 3-to-6-day service standard to certain end-to-end Periodicals merged with First-Class Mail for surface transportation, specifying that the Periodicals standard would equal the sum of 1 day plus the applicable First-Class Mail service standard.

The Postal Service stated that the changes were necessary because the existing service standards did not reflect declining mail volumes and attempting to meet those standards led to high costs, transportation inefficiencies, and difficulties in providing reliable and consistent service performance. The changes would enable the Postal Service to achieve cost savings through its creation of a more efficient transportation network that relied on an optimized surface transportation network and the use of more cost-effective air carriers. The Postal Service estimated its proposed changes to the service standards would generate approximately \$169.5 million in net financial gain.

The Commission found that the service standard changes would increase the service standard by up to 2 additional days for 38.5 percent of First-Class Mail and 7 percent of Periodicals mail. It also found that the proposal targeted the mail that consistently failed to meet the service performance goals and had the most opportunity

for improvement, creating the opportunity for the Postal Service to make it easier to meet its service performance targets. Further, the Commission concluded that moving mail from air to surface transportation could potentially lead to more efficient transportation. But the Commission also concluded that the proposed on-time target results might not be achievable unless the Postal Service also focused on underperforming Districts and Areas, processing “handoffs” training, and rectifying staffing issues.

The Commission concluded that although the methodology the Postal Service relied on when calculating cost savings might appear theoretically sound, its practical application raised significant concerns. Importantly, the Commission found that the estimated cost savings, even if fully realized, did not stand to improve the Postal Service’s financial position and any cost savings from extending the service standards would be eliminated by the additional costs associated with the growth in package volume.

The Commission concluded that for the proposed service standard changes to be successful, the Postal Service would need to reconfigure its surface transportation network to ensure its trips between multiple stops and hubs are efficient. Further, the Commission found that the Postal Service’s claims that customer satisfaction will not be materially affected by the proposed changes lacked demonstrable evidence. Critically, the Commission also stated that it could not conclude that the Postal Service would see an increase in volumes for First-Class Mail and Periodicals. Finally, the Commission questioned whether the Postal Service’s implementation of the proposed changes would comport with the requirements of Title 39 because it relied on assumptions that might not be well-founded and, where reliability and efficiency are required, it might not be able to successfully implement the proposed changes.

The Commission made several recommendations to the Postal Service:

- (1) communicate realistic performance targets,
- (2) monitor implementation to balance savings and service,
- (3) monitor implementation to drive transportation efficiency,
- (4) gauge customer satisfaction specifically for its proposed changes,
- (5) allow transparency into ongoing feedback and consider changes due to that feedback, and

(6) limit the use of econometric demand analyses for purposes in which it does not provide meaningful results.

Docket No. N2021-2 Advisory Opinion

In Docket No. N2021-2, the Postal Service sought an advisory opinion on its proposal to lengthen the service standards by 1 to 2 additional days for approximately 31.2 percent of First-Class Package Service volume and shorten the service standards by 1 day for approximately 4.8 percent of First-Class Package Service volume. The Postal Service estimated the proposed change, in conjunction with the changes to the First-Class Mail standards proposed in Docket No. N2021-1, would produce a net cost savings of \$42 million on an annual basis. Because First-Class Package Service is a Competitive product, the Commission recognized that its oversight role in this docket was far more limited.

The Commission found that the Postal Service assumed a number of factors necessary for successful implementation that it could not demonstrate, such as a successful operational implementation, achieving consistent and reliable service over time, reasonable assumptions about customer demand, and its ability to actually achieve modeled efficiencies. Further, the Commission concluded that while the Postal Service would be better able to meet its service performance targets after the proposed changes, its use of FY 2020 data to estimate service performance impacts might prove to be unreliable.

The Commission further found that the Postal Service's estimates of the savings it would achieve as a result of the proposed changes might be inflated. The Commission expressed its concern that the Postal Service failed to adequately develop the charter carrier and network distribution center optimization cost estimates supporting several of the underlying cost assumptions. The Commission observed that the Postal Service's ability to achieve these cost savings as heavily reliant on its ability to achieve the cost savings related to the changes to Market Dominant First-Class Mail letters and flats proposed in Docket No. N2021-1. And even if the estimates are

accurate, the Commission concluded that the proposed changes would not substantially affect the Postal Service's overall financial condition.

Additionally, the Commission expressed its concern that flaws in the Postal Service's transportation model could diminish its reliability. Specifically, the Commission concluded that the Postal Service oversimplified assumptions, reduced complexity of business rules, and modeled a baseline trip structure that was more efficient and not representative of the realities of the Postal Service's network. Once the Commission accounted for these flaws, it found that the proposed changes would not likely be as beneficial as projected. Further, the Commission observed that the baseline network used by the Postal Service was more optimized than its current network, resulting in potentially inaccurate or unachievable projected cost savings and network impact projections. The Commission also concluded that the Postal Service's ability to maintain volumes of its First-Class Package Service product might be difficult in the face of increased competition in the package market.

The Commission made several recommendations to the Postal Service: (1) set realistic interim service performance targets, (2) develop a rigorous analytical methodology to identify the changes in costs that will result from implementing its plan, (3) gauge customer satisfaction specific to the implementation of its proposed changes, and (4) engage stakeholders in a continuing dialogue regarding the effect of implementing its proposed changes and potential mitigation measures.

Docket No. N2022-1 Advisory Opinion

In Docket No. N2022-1, the Postal Service requested an advisory opinion on its proposed changes to revise the service standards for its Retail Ground and Parcel Select Ground products from the current 2- to 8-day standard to a 2- to 5-day standard to correspond with the service standard for First-Class Package Service proposed in Docket No. N2021-2. The service standards would apply to all Retail Ground and Parcel Select Ground products except for those that were sent to or from domestic locations outside the contiguous United States, packages containing hazardous materials, and live animals shipped by Retail Ground. Similar to Docket No. N2021-2,

because the request involved Competitive products, the Commission recognized that its oversight role was limited. The Commission made three general findings. First, it concluded that while the proposed changes would result in reducing the number of times Retail Ground and Parcel Select Ground products were handled during processing, the Commission was concerned that it might increase the need for manual processing and staff availability for facilities not meeting standards already, which could lead to delays in processing, transportation operations, and result in cost increases.

Second, the Commission concluded that the Postal Service was unable to demonstrate when the transportation efficiencies it stated it would achieve would actually materialize, which diminished the reliability of the transportation cost savings presented by the Postal Service because they were based on numerous assumptions, several of which seemed unrealistic. Third, the Commission found that while the proposed changes could potentially meet customer market demand and provide enhanced service to those customers shipping larger packages, the Postal Service failed to provide any research it performed targeted at current customers of the two products.

The Commission made the following recommendations: (1) the Postal Service should design a timeline that includes the incremental changes the Postal Service intended to make to the processing network operations and how those changes would contribute to a more efficient shape-based processing network set forth in the DFA Plan, (2) the Postal Service should create a plan to monitor each of the incremental network changes so that it can learn from prior changes when instituting future changes, (3) the Postal Service should conduct more robust market research into the market segments the upgraded Retail Ground and Parcel Select Ground would attract to better understand whether the proposed changes would negatively impact contribution for the products, (4) the Postal Service should design and implement a plan to monitor the impacts on its proposed plan, especially for those who actually use the products, are price-sensitive, and for large-sized business mailers, and (5) the Postal Service should develop a plan to monitor volume diversion, if any, from Priority Mail or other impacts on other products.

Docket No. N2024-1 Advisory Opinion⁸⁰

In Docket No. N2024-1, the Postal Service requested an advisory opinion on several proposed changes, including changes that evolved from prior DFA Plan initiatives. In this iteration, the Postal Service intended to create a nationwide network of regional processing distribution centers (RPDCs) and local processing centers (LPCs) that consolidate and reduce transportation lanes among facilities. The Postal Service also intended to implement a Regional Transportation Optimization (RTO) initiative on a nationwide basis that results in a delay in processing some outgoing mail volume. Specifically, the RTO initiative would eliminate the end-of-day collection at Post Offices more than 50 miles from an RPDC. Instead, mail would be collected the next day. Overall, the goal of RTO was to reduce trips and increase mail volume per trip. Finally, the Postal Service proposed revising its service standards to align with these initiatives, slowing service standards for some locations and excluding Sundays and holidays as transit days. In addition to operating efficiencies, the Postal Service stated that its proposed changes would result in estimated cost savings of between \$3.6 billion and \$3.7 billion annually once these initiatives were fully implemented.

⁸⁰ Prior to the Postal Service's request for an advisory opinion, the Commission initiated a Public Inquiry docket to examine the network changes associated with the DFA Plan. See *generally* Docket No. PI2023-4. Over the course of the proceeding, the Commission inquired about the network realignment, the transportation optimization initiatives, and other developments. Noting that service issues were being reported in areas where DFA Plan initiatives were being implemented, the Commission directed the Postal Service to show cause as to why an advisory opinion was not warranted for the initiatives. See Docket No. PI2023-4, Order Directing Postal Service to Show Cause or File a Nature of Service Proceeding Regarding Certain Delivering for America Initiatives, April 26, 2024 (Order No. 7061), <https://prc.arkcase.com/portal/filings/128606>. With more information about the impact of these changes being found in other proceedings and for more efficient administration of proceedings before the Commission, the Public Inquiry docket was closed in November 2025.

In its advisory opinion, the Commission found that the Postal Service's proposal relied on defective modeling, overly optimistic financial and cost saving projections, and unclear timeframes for rollout of the changes. The Commission found that service performance decreased significantly in areas where the proposed network changes had been implemented. In addition, the Commission found that the proposal was likely to have a significantly negative impact on certain mail products and rural communities across the country. For example, the Commission's analysis showed that, for Single-Piece First-Class Mail (such as individual letters and postcards, the type of mail most likely to be used by a household), 49.5 percent of ZIP Code pairs will experience downgraded service. In some cases, the expected delivery for a portion of Single-Piece First-Class Mail will extend to 6 or more days. The Commission warned that the total projected cost savings, even if fully realized, represented only about 4.4 percent of the Postal Service's operating expenses.

The Commission concluded that it supported the Postal Service's goals of financial stability and service excellence, but it could not support the proposed changes. The Commission urged the Postal Service to reconsider whether the "speculative, meager gains from this proposal outweigh the certain downgrade in service for a significant portion of the nation."⁸¹

Nonetheless, the Commission provided specific recommendations on how the Postal Service could better prepare for the successful implementation of the changes, including developing data-driven models, analyzing certain data to determine if productivity improvements are achievable, and using tracking metrics to determine the success of its initiatives as they are being implemented. The Commission strongly advised the Postal Service to closely monitor the impact of its proposed changes on customers and to modify its plans and take immediate mitigation measures if service impacts were greater than expected.

In response, the Postal Service dismissed the Commission's opinion as "a completely one-sided narrative that unjustifiably ignores or dismisses as unlikely to

⁸¹ Docket No. N2024-1, Advisory Opinion at 10.

occur all of the positive benefits of the proposal; at times misrepresents or misunderstands the Postal Service's plans; and characterizes the service impacts in a way that lacks any sense of context or proportion."⁸² The Postal Service started implementation of its proposed changes in 2025, shortly after the Commission issued its Advisory Opinion.

⁸² Response of the United States Postal Service to Advisory Opinion of the Postal Regulatory Commission in PRC Docket N2024-1, February 20, 2025, <https://about.usps.com/newsroom/global/pdf/2025-02-20-ao-response.pdf>.

APPENDIX B

**WAIVER
PRESS RELEASE**



Postal Regulatory Commission

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Press Release

April 9, 2026

PRC GRANTS USPS MULTI-YEAR WAIVER TO ADDRESS FINANCIAL SHORTFALLS

Lifts restrictions on use of potentially \$15 billion or more through 2030

Washington, DC – The Postal Regulatory Commission today issued [Order No. 9504](#), which grants the Postal Service a multi-year waiver to address its deteriorating financial condition. To use the waiver, the Postal Service simply must provide advance notice to the Secretary of the Treasury and the Commission.

The financial impact of the waiver in its full term lifts Commission restrictions on how the Postal Service may use approximately \$2.4 billion of revenue in FY 2026, and potentially a total of \$15 billion or more by the end of FY 2030, which the Commission has already provided through the Retirement Obligation Rate Authority.

The Commission's Order follows a Postal Service request that the Commission repeal regulations mandating it to contribute minimum amounts toward certain retiree benefits. The Postal Service asserts that it is running out of cash, and it would be able to utilize revenue meant for certain retiree benefits for other purposes, such as covering operating expenditures and funding capital investments, if the Commission grants its petition to repeal the rules requiring it to make these payments.

Due to the seriousness of the Postal Service's reasons for seeking a repeal of Commission regulations, the Commission has expeditiously granted the waiver in the interest of the public and to provide the Postal Service some breathing room and flexibility to repurpose revenues that it would have used for retiree benefits to execute its contingency plans to avoid running out of cash.

In fact, for more than a decade, the Postal Service has defaulted on its retiree amortization payments and only began making partial payments over the past few years as a result of the additional revenue that comes directly from the Retirement Obligation Rate Authority that the Commission has authorized the Postal Service to generate since 2021. This Order waives the Commission's rules only on how that revenue is used and does not alter the statutory payment obligations of the Postal Service.

The Commission urges all stakeholders to treat the breathing room provided by the Temporary Conditional Waiver as an opportunity to work toward meaningful and lasting change. In particular, the Commission urges Congress to use this time to address the underlying issue highlighted by the

Commission and the Government Accountability Office in recommending that Congress should consider reassessing and determining the level of universal postal service the nation requires and how that can best be funded.

Questions and Answers regarding this Temporary Conditional Waiver follow this Press Release.

###

The Postal Regulatory Commission is an independent federal agency that provides regulatory oversight of the Postal Service to ensure transparency and accountability and to foster a vital and efficient universal mail system. The Commission is comprised of five presidentially appointed and Senate-confirmed Commissioners, each serving a six-year term. The current leadership of the Commission includes Vice Chairman Robert Taub and Commissioners Tom Day, Ann Fisher, and Ashley Poling. Follow the PRC on LinkedIn.

APPENDIX C

**WAIVER
FREQUENTLY ASKED QUESTIONS**



FREQUENTLY ASKED QUESTIONS FOR

Order Granting Temporary Conditional Waiver Regarding
Required Minimum Remittance
Docket Nos. RM2024-4, RM2022-5, RM2022-6, RM2021-2

Summary: The Postal Service is expected to be self-sustaining and cover costs – including retiree benefits – out of its revenue. However, nearly six years into the Delivering for America 10-year plan, intended to reduce costs and improve financial stability, the Postal Service asserts that it is running out of cash.

The Postal Service’s claims are serious and troubling because the public relies on the mails.

To provide breathing room and flexibility for the Postal Service to execute its financial contingency plans, the Commission, on its own motion, grants a temporary conditional waiver of its rules allowing the Postal Service to use billions of dollars of additional revenue for operational expenditures that would otherwise be required to pay for statutorily mandated retirement payments. This additional revenue comes directly from the Retirement Obligation Rate Authority that the Commission has authorized the Postal Service to generate since 2021. The Commission is only temporarily waiving its rules, and its actions do not alter the statutory payment obligations.

In the meantime, the Commission continues to consider a petition from the Postal Service seeking a repeal of these same rules requiring that it pay minimum amounts annually toward outstanding retiree benefits. Over the last decade, the Postal Service has frequently failed to make the statutorily required payments for outstanding retiree benefits, and in the last four years, the Postal Service has only made some payments toward the minimum amounts required by the Commission’s rules.

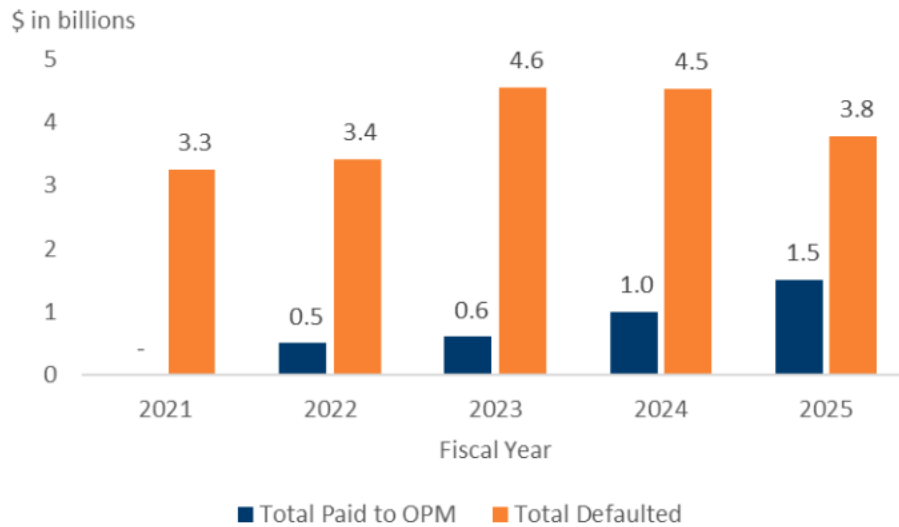
Q. What is the Postal Service’s request?

A. The Postal Service has asked the Commission to repeal Commission rules requiring the Postal Service to use additional revenues that the Commission has authorized the Postal Service to generate since 2021 for statutorily mandated payments related to retiree benefits.

Q. How did we get here?

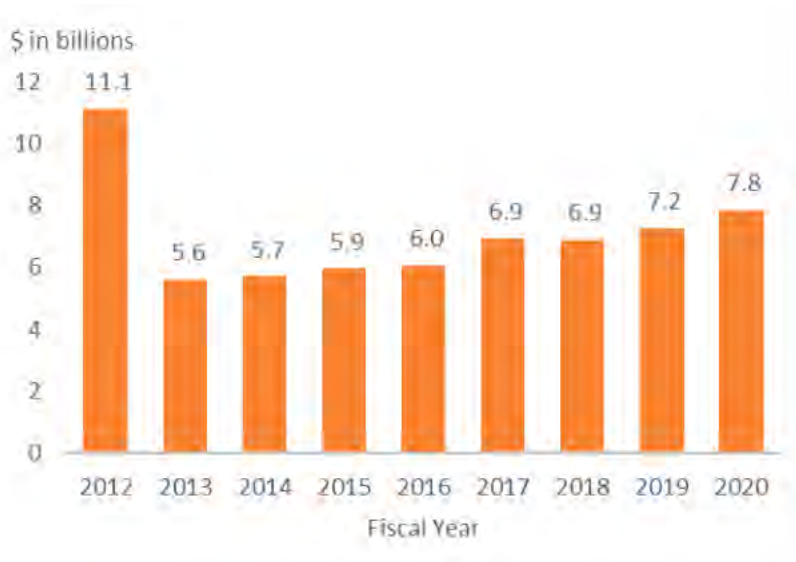
A. The financially troubled Postal Service has long defaulted on required payments for certain retiree benefits.

The chart below displays the total amount the Postal Service paid OPM per fiscal year from 2021 to 2025 for statutorily mandated payments related to retiree benefits (blue) compared to the total amount for which the Postal Service defaulted (orange).



The chart below shows amounts that the Postal Service failed to pay from 2012 through FY 2020. Those amounts include payments to the Retiree Health Benefits Fund, the amortization payments for the supplemental liability for the Postal Service’s portion of the Civil Service Retirement Pension, and the amortization payments for the supplemental liability for the Postal Service’s portion of the Federal Employees Retirement pension.

Postal Service Defaulted Payments to OPM



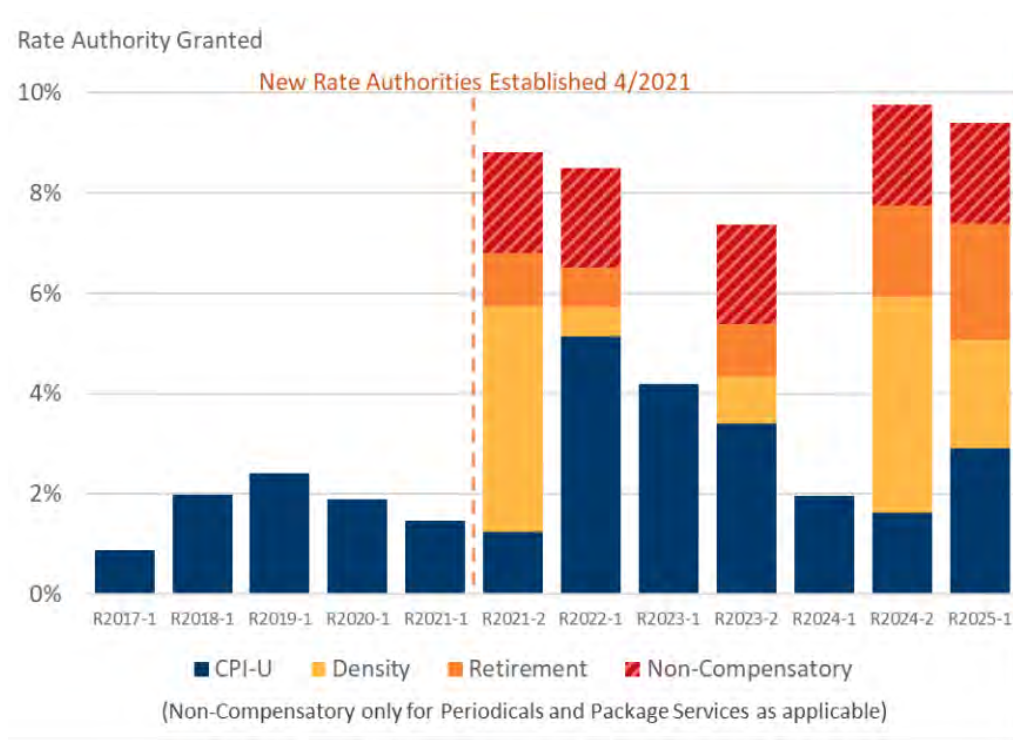
Q. Has the Postal Service received financial relief previously?

A. The Postal Service has received extraordinary financial relief from Congress and the Commission in recent years, including in 2022 when Congress eliminated all of the Postal Service’s past-due obligations for the approximately \$57 billion in missed payments to the Postal Service Retiree Health Benefits Fund.

In 2020, the Commission granted the Postal Service several additional types of authority to raise rates beyond inflation on Market Dominant products (e.g., letters). This included the Retirement Obligation Rate Authority, which was conditioned on the Postal Service using revenues generated by that authority to make minimum payments toward certain retiree benefits.

Starting in 2021, the Postal Service used the maximum amount of its authority to increase its rates and has complied with the Commission’s rules requiring revenues produced by these rates to be used to make minimum payments toward certain retiree benefits, even though the Postal Service has failed to make the full payments required by statute.

The chart below shows all rate authority used by the Postal Service, including the new rate authorities granted above inflation.



Notes: “CPI-U” means the rate authority generated based upon changes in the Consumer Price Index for all Urban Consumers (CPI-U), authorized pursuant to 39 C.F.R. part 3030, subpart C.

“Density” means the density-based rate authority authorized pursuant to 39 C.F.R. part 3030, subpart D.

“Retirement” means the Retirement Obligation Rate Authority authorized pursuant to 39 C.F.R. part 3030, subpart E.

“Non-Compensatory” means the additional 2 percentage points of rate authority per fiscal year for each non-compensatory class of mail, authorized pursuant to 39 C.F.R. part 3030, subpart G. This authority was available to and exhausted by the Postal

Service for Package Services in Docket Nos. R2021-2 and R2022-1 only. This authority was available to and exhausted by the Postal Service for Periodicals in Docket Nos. R2021-2, R2022-1, R2023-2, R2024-2, and R2025-1.

Source: Postal Regulatory Commission, Rate Authority Granted Over Time, Rate Auth. Dashboard.

The chart below displays the changes in price to a one-ounce First-Class Mail stamp over time, an example of the Postal Service's consistent and maximal use of additional rate authority.



Q. What has the Commission decided to do?

A. The waiver follows the Postal Service statement that it is facing a liquidity crisis and seeks repeal of the Commission rules dictating how these revenues may be used. The Commission has granted the Postal Service a temporary partial waiver of Commission rules requiring the Postal Service to use certain revenues for statutorily mandated payments for retiree benefits. However, to use this waiver, the Postal Service must satisfy certain conditions.

Q. What are the conditions of the waiver?

A. The Postal Service must notify the Secretary of the Treasury and the Commission each year it decides to use the waiver.

Q. How long is the waiver in effect?

A. The waiver is scheduled to expire at the end of September 2030 unless the Commission rescinds it earlier or extends it.

Q. Will the Postal Service be allowed to raise its rates as a result of this waiver?

A. No. This waiver does not raise rates or impose a rate increase. It only temporarily changes how the Postal Service can use certain revenues it is already generating.

Q. What is the practical effect of this waiver?

A. While the waiver is in effect, if the Postal Service chooses not to make the minimum payments required by the Commission's rules, the Commission will not revoke the authority that it previously granted to the Postal Service for generating revenue to make the minimum payments. Thus, the Postal Service could use the revenue generated by this authority for other purposes, such as operating expenses and capital investment, without risking adverse Commission action.

Q. How will the waiver affect the Postal Service's finances?

A. Over the full scheduled term of the waiver, the Commission will provide significant financial flexibility for the Postal Service by lifting restrictions on how it may use potentially \$15 billion – approximately \$2.4 billion in FY 2026, and potentially more than \$3 billion per year for the remaining duration of the waiver.

Q. How does the Commission's decision help the Postal Service's financial condition?

A. Waiving restrictions in the Commission's rules gives the Postal Service some breathing room and flexibility to repurpose revenues to execute its financial contingency plans. The Commission urges all stakeholders to treat the breathing room provided by the Temporary Conditional Waiver as an opportunity to work toward meaningful and lasting change. In particular, the Commission urges Congress to use this time to address the underlying issue highlighted by the Commission and the Government Accountability Office (GAO) in recommending that Congress should consider reassessing and determining the level of universal postal service the nation requires and how that can best be funded. See [December 2025 GAO Report](#) at 1.

Q. Can the term of the Commission's waiver be extended?

A. Yes.

Q. What happens if the Postal Service's finances improve or Congress passes significant postal reform before the waiver expires in 2030?

A. The Commission will continue to closely monitor the Postal Service's financial stability and reserves the right to rescind, modify, or extend this waiver based on changing conditions.

Q. Does the waiver affect the Postal Service's statutory obligations to make payments to fund retiree benefits?

A. No. The Commission's order only waives the Commission's rules and does not change the Postal Service's statutory obligations to make payments to the U.S. Treasury Department for the unfunded portion of its retiree benefits. Nothing in this waiver prevents the Postal Service from continuing to make its statutorily required retiree benefit payments in any amount.

APPENDIX D

BLOOMBERG ARTICLE

Regarding Postal Service statements of running out of cash and that it will soon no longer pay its bills, these are not new assertions as this Bloomberg Businessweek article “The End of Mail” from exactly 15 years reads as if it could have been written today. The underlying and fundamental unaddressed problem remains the same: The nation needs to specifically define the Postal Service's basic public service mission: what is the universal service obligation and how can that best be funded?

Opening Remarks

The Most Feared Man In Washington Is...

p6

Crime

Cargo Theft: The New Highway Robbery

p72

Etc.

Christopher Buckley on Reagan's Notes

p94

Plus

Greek Crisis Explained—Again p10

America's Hottest Economist p66

Cutting Pants to Save Pennies p18

Egypt's Real Estate Rebel p41

The \$140 Million Polar Bear p85

May 30 — June 5, 2011 | businessweek.com

Bloomberg Businessweek



The End of Mail

For 44c, a government employee will take an ounce of paper from your house to the farthest reaches of Alaska. It's a noble American tradition—and on the verge of collapse. It doesn't have to be

p60

May 30 — June 5, 2011
Bloomberg Businessweek




THE END OF MAIL

The U.S. Postal Service is as old as the country, delivers 40 percent of the world's mail, and is on the verge of collapse. It doesn't have to be. By Devin Leonard

Phillip Herr looks like many of the men who toil deep within the federal government. He wears blue suits. He keeps his graying hair and mustache neatly trimmed. He has an inoffensively earnest manner. He also has heavy bags under his eyes, which testify to the long hours he spends scrutinizing federal spending for the U.S. Government Accountability Office, the congressional watchdog agency where he is Director of Physical Infrastructure Issues. As his title suggests, Herr devotes much of his time to highway programs. But for the past three years he has been diagnosing what ails the U.S. Postal Service.

It's a lonely calling. "Washington is full of Carnegie and Brookings Institutes with people who can tell you every option we have in Egypt or Pakistan," laments Herr, who has a PhD in anthropology from Columbia University. "Try and find someone who does that on the postal service. There aren't many."

Yet Herr finds the USPS fascinating: ubiquitous, relied on, and headed off a cliff. Its trucks are everywhere; few give it a second thought. "It's one of those things that the public just takes for granted," he says. "The mailman shows up, drops off the mail, and that's it." 



He is struck by how many USPS executives started out as letter carriers or clerks. He finds them so consumed with delivering mail that they have been slow to grasp how swiftly the service's financial condition is deteriorating. "We said, 'What's your 10-year plan?'" Herr recalls. "They didn't have one."

Congress gave him until the end of 2011 to report on the USPS's woes. But Herr and his team concluded that the postal service's business model was so badly broken that collapse was imminent. Abandoning a long tradition of overdue reports, they felt they had to deliver theirs 18 months early in April 2010 to the various House and Senate committees and subcommittees that watch over the USPS. A year later, the situation is even grimmer. With the rise of e-mail and the decline of letters, mail volume is falling at a staggering rate, and the postal service's survival plan isn't reassuring. Elsewhere in the world, postal services are grappling with the same dilemma—only most of them, in humbling contrast, are thriving.

The USPS is a wondrous American creation. Six days a week it delivers an average of 563 million pieces of mail—40 percent of the entire world's volume. For the price of a 44¢ stamp, you can mail a letter anywhere within the nation's borders. The service will carry it by pack mule to the Havasupai Indian reservation at the bottom of the Grand Canyon. Mailmen on snowmobiles take it to the wilds of Alaska. If your recipient can no longer be found, the USPS will return it at no extra charge. It may be the greatest bargain on earth.

It takes an enormous organization to carry out such a mission. The USPS has 571,566 full-time workers, making it the country's second-largest civilian employer after Wal-Mart Stores. It has 31,871 post offices, more than the combined domestic retail outlets of Wal-Mart, Starbucks, and McDonald's. Last year its revenues were \$67 billion, and its expenses were even greater. Postal service executives proudly note that if it were a private company, it would be No. 29 on the Fortune 500.

The problems of the USPS are just as big. It relies on first-class mail to fund most of its operations, but first-class mail volume is steadily declining—in 2005 it fell below junk mail for the first time. This was a significant milestone. The USPS needs three pieces of junk mail to replace the profit of a vanished stamp-bearing letter.

During the real estate boom, a surge in junk mail papered over the unraveling of the postal service's longtime business



Herr advocates closing post offices and creating digital services

plan. Banks flooded mailboxes with subprime mortgage offers and credit-card come-ons. Then came the recession. Total mail volume plunged 20 percent from 2006 to 2010.

Since 2007 the USPS has been unable to cover its annual budget, 80 percent of which goes to salaries and benefits. In contrast, 43 percent of FedEx's budget and 61 percent of United Parcel Service's pay go to employee-related expenses. Perhaps it's not surprising that the postal service's two primary rivals are more nimble. According to SJ Consulting Group, the USPS has more than a 15 percent share of the American express and ground-shipping market. FedEx has 32 percent, UPS 53 percent.

The USPS has stayed afloat by borrowing \$12 billion from the U.S. Treasury. This year it will reach its statutory debt limit. After that, insolvency looms.

On Mar. 2, Postmaster General Patrick R. Donahoe warned Congress that his agency would default on \$5.5 billion of health-care costs set aside for its future retirees scheduled for payment on Sept. 30 unless the government comes to the rescue. "At the end of the year, we are out of cash," Donahoe said. He noted that the unusual requirement was enacted five years ago by Congress before mail started to disappear.

This should be a moment for the country to ask some basic questions about its mail delivery system. Does it make sense for the postal service to charge the same amount to take a letter to Alaska that it does to carry it three city blocks? Should the USPS operate the world's largest network of post offices when 80 percent of

them lose money? And is there a way for the country to have a mail system that addresses the needs of consumers who use the Internet to correspond?

The Capitol Hill debate is primarily about money. The USPS and its employee unions are lobbying for the least painful remedy: They want the agency to be relieved of its requirement to build a health-care trust fund for its future retirees. They are supported by junk mailers, greeting card manufacturers, and magazine publishers whose businesses are, in some cases, subsidized by the post office's generously low mailing prices. Never mind that their benefactor loses money on some of their products, most notably magazines and some junk mail.

Democrats receive the vast majority of the contributions made by postal workers' unions, according to campaign finance records, so they tend to be sympathetic. President Barack Obama inserted a proposal in his 2012 budget to absolve the USPS of \$4 billion of its retiree health-care liabilities in 2011. This would enable it to slog through another year without extraordinary changes. Meanwhile, Senator Thomas Carper (D-Del.) introduced a bill on May 17 that would relieve the USPS of its prefunding headaches. "If we do nothing, we face a future without the valuable services that the postal service provides," Carper cautioned in a statement the same day. The bill would give the postal service access to as much as \$75 billion it claims to have overpaid the federal retirement system. Naturally, the USPS and its unions are pushing for this because it would swiftly erase the agency's red ink. Others in Washington dispute the postal service's claim and call this wishful thinking at a time when there is such concern about the rising deficit. They also add that the bill would do nothing to address the larger issues afflicting the USPS.

House Republicans are less charitable. They oppose anything that could be construed as a bailout. They are pushing instead for the USPS to make deep budget cuts. Even so, budget hawks sound nervous. In a March hearing, the often provocative U.S. Representative Darrell Issa (R-Calif.) said two post offices could be closed in every congressional district. He added with a laugh: "Let's hope there's not one—or three—in mine." (A spokesman for Issa says that the congressman was trying to "introduce a bit of levity" into the proceeding and is fully in favor of shuttering postal facilities.)

The irony of the political stalemate



Donahoe says cutting delivery to five days a week could save \$3 billion annually

is that it may be much simpler to fix the USPS than more intractably troubled federal programs such as Medicare and Social Security. Indeed, many other countries have figured out profitable ways to run a postal service. The U.S. could learn a lot from them. Yet hardly anybody is talking about this, except for Herr.

It's a sunny afternoon in early March, and Patrick Donahoe is talking about music. "Are you a fan of the Allman Brothers?" he asks. "They used to sing that song *One Way Out*. There's a way out."

The 73rd Postmaster General sits comfortably in a blue leather chair in his wood-paneled Washington office, surrounded by postal artifacts. There's a portrait of original Postmaster Benjamin Franklin on loan from the Smithsonian Institution and a bronze statue of a Pony Express rider. Donahoe, a car buff, has also decorated the room with sports car stamps.

A broad-shouldered 55-year-old from Pittsburgh, he looks like he could easily deliver a heavy sack of mail. He has toted plenty in his time. He started as a clerk in his hometown mail sorting center when he was in college. "I just never left," Donahoe chuckles. "That's the story of a lot of people around here."

Donahoe, who took office in January, is surprisingly upbeat for someone in charge of an agency on the verge of bankruptcy. He says he wants to dispel "some of the negative vibes that have been floating around" the postal service. He acknowledges that first-class mail is in an inexorable decline, but he sees junk mail rebounding with the economy. In the last quarter of 2010, junk revenue

climbed 7.1 percent. "That proves that there is viability in our system," Donahoe insists. (Unfortunately for the USPS, junk volume has since plateaued.)

The Postmaster General promises that if the USPS is excused from its annual health-care prepayment, he will wring enough costs out of the system to turn a profit on its remaining mail stream. He wants permission from Congress to cut weekly delivery from six to five days, which he says will save \$3 billion a year. He says he wants to reduce the USPS's headcount by 20 percent over the next five years through attrition, though the agency's union contracts prohibit layoffs.

What's more, Donahoe wants to close post offices and move some of their operations into convenience stores and supermarkets, where nonunion workers can staff them. The USPS is targeting 2,000 of its 31,871 post offices. That's not much for an agency that's nearly \$15 billion in debt. Donahoe says he's doing what he can, despite a federal stricture that forbids the closing of post offices solely for economic reasons. He tells anybody who will listen on Capitol Hill that the prohibition makes little sense at a time when his agency's coffers are nearly depleted.

Some praise Donahoe for his early efforts. "I'm really high on the guy," says Anthony W. Conway, executive director of the Alliance of Non-Profit Mailers, a coalition of colleges, fraternal organizations, and advocacy groups that use the mail for fundraising. "Pat," he says, "is a breath of fresh air."

The USPS has historically placed the interests of its unions first. That hasn't changed. In March it reached a four-and-a-half-year agreement with the 250,000-member American Postal Workers Union, which represents mail clerks, drivers, mechanics, and custodians. The pact extends the no-layoff provision and provides a 3.5 percent raise for APWU members

over the period of the contract, along with seven uncapped cost-of-living increases. The union is happy. "Despite the fact that the postal service is on the edge of insolvency, the union and management have reached an agreement that is a 'win-win' proposition," said APWU President Cliff Guffey on the union's website. A USPS spokeswoman said the agency agreed to the raise because it feared the decision would otherwise be made by an arbitrator who might be even more deferential to the union.

Congressional Republicans say the agreement sets a bad precedent for the USPS's other three unions, whose contracts expire this year. Fredric V. Rolando, president of the 275,000-member National Association of Letter Carriers, doesn't sound like he's interested in making major concessions. He argues the agency should be increasing rather than cutting its services. One of his ideas is to outfit postal trucks with sensors so mail carriers can thwart possible biological terrorist attacks. "They can work with Homeland Security to detect things that are in the air," Rolando says. The Homeland Security Dept. declined to comment.

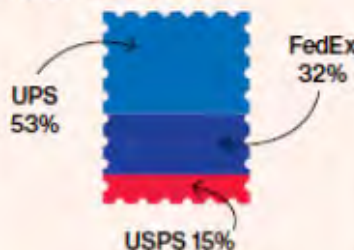
The more Phillip Herr tried to figure out the USPS and its financial agonies last year, the more he was vexed by something: He couldn't say for sure how poorly it was doing because he had nothing to contrast it with. "There is always the 'compared to what?' question," Herr says. "Compared to FedEx? Compared to UPS?"

Herr thought it made more sense to compare the USPS to postal services in other countries. Last summer he sent a small team of analysts to Finland, Sweden, Germany, Switzerland, Austria, and Canada. He was fascinated by what they discovered.

Three decades ago, most postal services around the developed world were government-run monopolies like the USPS. In the late '80s, the European Union set out to create a single postal market. It prodded members to give up their monopolies and compete with one another. The effort roused an industry often thought to be sleepy and backward-looking.

Many countries closed as many of their brick-and-mortar post offices as possible, moving these services into gas stations and convenience stores, which then take them over—just as the USPS is trying to do now, only far more aggressively. Today, Sweden's Posten runs only 12 percent of its post offices. The rest are

Share of 2010 American express and ground-shipping service



in the hands of third parties. Deutsche Post is now a private company and runs just 2 percent of the post offices in Germany. In contrast, the USPS operates all of its post offices.

Some of these newly energized mail services used the savings to pursue new business lines. Deutsche Post bought DHL, a package deliverer that competes with FedEx and UPS. "More than half of our workforce is outside of Germany," says Markus Reckling, executive vice-president for corporate development at Deutsche Post. "It's pretty much the same thing for our profits."

Many used their extra cash to create digital mail products that allow customers to send and receive letters from their computers. Itella, the Finnish postal service, keeps a digital archive of its users' mail for seven years and helps them pay bills online securely. Swiss Post lets customers choose if they want their mail delivered at home in hard copy or scanned and sent to their preferred Internet-connected device. Customers can also tell Swiss Post if they would rather not receive items such as junk mail.

Sweden's Posten has an app that lets customers turn digital photos on their mobile phones into postcards. It is unveiling a service that will allow cell-phone users to send letters without stamps. Posten will text them a numerical code that they can jot down on envelopes in place of a stamp for a yet-to-be-determined charge.

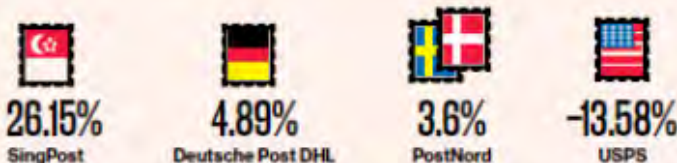
Anders Asberg, Posten's head of marketing and development, says the service is experimenting with these initiatives, and he expects some will prove to be lucrative. "The customers are all on these digital interfaces now," he says. "That's where the growth is going to be in the future."

Posten can afford to take chances. In 2009 the Swedish mail carrier merged with Post Danmark, the Danish postal service, creating PostNord, a company with \$6.2 billion in net sales and \$320 million in EBITDA. In 2010 the latter rose by 43 percent, to \$490 million.

"The question is, are there any special circumstances that suggest all these other countries are wrong and we are right?" says James I. Campbell Jr., a consultant in Potomac, Md., who advises foreign governments on postal policy issues. "The answer is pretty simple: The European countries are on a reasonably viable course. The U.S. is not."

Herr traveled to Sweden, Switzerland, and Finland last summer. He met

The postman's profit margins for the first three months in 2011



with Posten executives who told him how hard they had worked to sell their plans to close post offices to a skeptical public. Not everyone approved. Some Swedes were very upset. Eventually, they got over it. In the end, they got their mail as efficiently and reliably as before.

In Switzerland, Herr met with Swiss Post executives who demonstrated the digital mail service. "You can say, 'Here's what I want,'" he explains. "'No, thank you, I'd rather not have that seed catalogue. But I would like to have my bill from Citibank and my mortgage.' Well, maybe the advertising mail people wouldn't be too excited about that."

Herr returned to America full of excitement. In February he delivered a 40-page report to the House subcommittee that oversees the postal service. It makes two major points: The USPS needs to close post offices, as many foreign postal services have done despite real opposition. And the USPS needs to create products for its wired customers if it wants to play a role in the future of communication. He acknowledges some foreign digital services are in early stages, but they are in demand, and in some cases the digital technology reduces delivery costs.

Joseph Corbett, the American postal service's chief financial officer, thanked Herr for his efforts. At the same time, he said the agency was sticking to its plan. Postmaster Donahoe says he isn't so sure about the digital mail initiatives emerging outside the U.S. "The value added there might not be as much as everybody thinks," he says. Joanne Veto, a USPS spokeswoman, said in an e-mail that the USPS had hired outside consultants who examined some of these digital mail offerings and advised the agency not to pursue them: "While foreign posts did make money by diversifying their products, it took as many as 20 years before a profit was realized. In the short term, there was limited or no profit. We do not have 20 years."

Under Donahoe, the USPS is focused instead on trying to slow the migration

of its customers to the Net. The man in charge of this task, which brings to mind King Canute's attempts to hold back the incoming tide, is Paul Vogel, a former letter carrier who is now the postal service's chief marketing sales officer. He is less spirited than his boss and understandably so; his job is to persuade banks to keep sending paper statements in the mail. It's a losing battle, and Vogel knows it. "Inevitably, it's going to go to those new technologies," he sighs.

Herr couldn't agree more. The other day he got a notice in the mail from the U.S. Senate Federal Credit Union. It said it was going paperless in August. Customers who still want to get their statements mailed to them would have to pay a fee. He dropped by the office on Capitol Hill to find out how much. "I have a disproportionate interest in things like this, given the work I've been doing lately," Herr says.

A credit union worker told him the fee was \$5 a month. Herr was astonished. "I thought to myself, that's \$60 a year," he recalls. "Who's going to want to do that? What happens when Bank of America or Citigroup says you are going to have to pay to get your statement on paper? That's going to change a lot of behavior. It's going to affect the postal service. That's how they make most of their money."

The baying begins as soon as Jim Rice climbs out of his truck with his mail sack on his shoulder. He looks around warily. "This is the street where I've had some issues with dogs," he says.

It's a pleasant morning in early April, and Rice, a 58-year-old letter carrier, is going from house to house on Rugby Road in Cardinal Valley, a blue-collar neighborhood in Lexington, Ky. He hardly appears a threat in his white pith helmet and ill-fitting blue uniform. The pets on his route have a different view. Rice has fought off Piper, a black Labrador retriever. He recently used his mail pouch to fend off Rocky, a German shepherd.

The Kentucky letter carrier is stoic about his scrapes. Some things about his

job are eternal. Others are changing rapidly. He carries a lot more of what he calls "standard mail." "Civilians call it junk mail," Rice says, joking. "We don't like that term. We call it job security."

Rice's ritual hand delivery of the mail remains the essence of the USPS's business. Until fairly recently, this was a fabulous model, although its history of success, in retrospect, is notable for its missed opportunities.

As America's population expanded, so did the postal service. In its early years, people paid to receive mail. In 1863 the U.S. Post Office Dept., a Cabinet level agency, was flush enough to begin offering free city delivery. In 1896 it expanded free service to rural areas, providing what it now refers to as "universal service" to all Americans. Mail volume exploded. In cities such as Philadelphia and Boston, letter carriers made their appointed rounds three times a day.

Inevitably, perhaps, there were problems. The post office became a patronage dumping ground. After decades of mismanagement and neglect, service broke down completely in Chicago in 1966. "The sorting floors were bursting with more than 5 million letters, parcels, circulars, and magazines that could not be processed," Lawrence O'Brien, the Postmaster General at the time, would recall somewhat poetically. "Outbound mail sacks formed still gray mountain ranges as they waited to be shipped out."

Four years later, President Richard M. Nixon signed the Postal Reorganization Act, transforming the Post Office Dept. into the U.S. Postal Service, a government corporation that was supposed to pay for itself and behave more like a private business. This proved a naive as-

sumption. The USPS's leaders rewarded their union employees with more expensive benefits than most federal employees enjoy. According to the U.S. Postal Service Inspector General's Office, it covers 79 percent of most of its employees' health benefits, compared with the typical 72 percent for federal workers.

The USPS was slow to react to shifts in the industry. In the late '70s, Congress prodded it to allow private companies to carry letters needing urgent delivery. FedEx and UPS built enormously valuable businesses on the USPS's turf. They weren't required to visit every doorstep in the country on a daily basis. They set their own rates and had no qualms about extracting concessions from their unions. The postal service tried to compete, without much success. "They just cleaned the postal service's clock," says Tad DeHaven, a budget analyst at the Cato Institute, a libertarian think tank in Washington. It didn't matter at the time. The agency had its slower-moving letter monopoly, and mail volume kept climbing.

The USPS slumbered as the postal service industry was upended overseas. Michael Coughlin, former Deputy Postmaster General, attended meetings in Brussels in the early 1990s where his peers in Sweden and Germany described the innovative things they were doing. "I would sit there and think, I wish that was us," he says. Coughlin left the USPS in 1999 to work at Accenture, a global consulting firm, where he advised foreign postal services on their streamlining efforts. He retired in 2009.

In the late '90s, there was talk within the USPS about reforms, including privatizing the organization. Robert Reissner, a former USPS vice-president of strategic planning, recalls raising some of these issues during a visit to the White House with a Clinton Administration official: "She said, 'Well, we would have to ask our union friends. You know they are critical to the coming campaign.'"

At the same time, e-mail took hold. By 2000 the USPS was losing money. The GAO warned that the service might not be able to cover its retiree health-care costs.

Congress came up with what it thought would be a fix. In 2006 it relieved the postal service of \$27 billion in pension liabilities for workers with military service. At the same time, the USPS agreed to make annual payments of \$5.5 billion for the next 10 years to build up a fund for future retirees. John E. Potter, the Post-

master General at the time, was ecstatic when the bill was signed into law. "We're planning for the future right now," he said. "Today the postal service is operating in the black."

The USPS was O.K. that year. Then, over the next three years, the economy collapsed, and the service lost \$12 billion.

A former letter carrier in the Bronx, Potter remained ebullient. He testified before Congress in 2009 that mail volume would eventually return. Herr sat nearby. He says he was stunned. Potter announced his resignation six months after Herr issued his report on the USPS's broken business model. The postal service rushed out a study of its own around the same time by McKinsey that reached the same dispiriting conclusions.

The USPS, however, still seems to be in denial. "The postal service is already carrying more junk than first class," says postal consultant Campbell. "Pretty soon it's going to be a government-run advertising mail delivery service. Does that make any sense? It doesn't make any sense."

There are still flaws in the USPS's junk-centric plan. The service now predicts that total mail volume will decline from 171 billion pieces annually in 2010 to 150 billion in 2020. That's a best-case scenario. The worst-case, according to its own projections, is 118 billion.

That's still a lot of stamps to sell. The problem is that costs keep rising. The number of addresses the USPS services climbs at an average of roughly 1 million a year as the population grows. Meanwhile, the agency continues to raise the salaries and benefits of its clerks and mail carriers even with periodic freezes.

"I really believe that the USPS is going to get to a point where, regardless of what it does with the prefunding [of retiree health care], it is going to implode," says R. Richard Geddes, an associate professor of policy analysis and management at Cornell University. "It is either going to default on those obligations to its retirees or we are going to have to give it a direct bailout from the United States taxpayers."

The implosion could happen this year because of the stalemate in D.C. Maybe that's what it will take for Americans to get a modern mail service. Even Donahoe, who advocates something less, sounds as if he would welcome it because there's no other way out. "Some people say if you crash the system," he says, "then people will pay attention to you." **E**

—With Sommer Saadi and Angela Greiling Keane

