



LSC COMMUNICATIONS

Postal Highlights: May 2018

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### PRESIDENTIAL EXECUTIVE ORDER ON USPS

On April 12, 2018, President Trump signed an Executive Order establishing a Task Force on the United States Postal Service which is assigned the responsibility of coming up with structural changes for the Postal Service. It's required to report back in 120 days, meaning the report is due August 9.

According to most, the order was a surprise to the Post Office, legislators and the PRC with none being consulted in advance.

### Executive Order Considerations and Impacts

- **10-Year:** PRC is likely to hold on releasing their 10-Year Review findings until the completion of the Task Force
- **Legislation:** Legislation is likely to hold until the completion of the Task Force.
- **BOG:** It is not expected to impact the confirmation of the three Board of Governors.
- **Rates Increases:** Unlikely to see more than one rate increase in 2018 (the typical CPI based increase).
- **Promotions:** Adds a layer of uncertainty if 2018 Promotions will move forward. The USPS VP in charge of Promotions has stated they are prepared to move them forward if the Governors for the USPS Board of Governors are approved, but there is new uncertainty if the BOG would approve them or what the PRC would do with them.

### Executive Order Participants

The Executive Order stated that the Task Force will be composed of the following department and agency heads, or their designees:

- The Director of the Office of Management and Budget
- The Director of the Office of Personnel Management
- Any other department and agency head the Chair may designate

In the Order, the Postal Service is not listed as represented on the Task Force, but it notes that both the PMG and PRC Chair are to be consulted.

In a meeting on April 24 between the USPS and Treasury, the following participants were named:

- Gary Grippo, Deputy Assistant Secretary, Government Financial Policy
- Clay Berry, Deputy Assistant Secretary, Office of Financial Markets
- Kipp Kranbuhl, Deputy Assistant Secretary, Small Business, Community Development & Housing Policy
- Steven Laughton, Deputy General Counsel

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### Executive Order Overview

The order instructs that the Task Team will conduct a thorough evaluation of the operations and finances of the USPS, including:

- The expansion and pricing of the package delivery market and the USPS's role in competitive markets
- The decline in mail volume and its implications for USPS self-financing and the USPS monopoly over letter delivery and mailboxes
- The definition of the “universal service obligation” in light of changes in technology, e-commerce, marketing practices, and customer needs
- The USPS role in the U.S. economy and in rural areas, communities, and small towns
- The state of the USPS business model, workforce, operations, costs, and pricing

### POSTAL REGULATORY COMMISSION (PRC) 10-YEAR RATE REVIEW

Some expect that the PRC is likely to hold on releasing their 10-Year Review findings until the completion of the Task Force.

More than 150 organizations submitted PRC 10-Year Review Comments.

Following the comment period, a reply comment period was opened with an end date of March 30, 2018.

The timeline for a final ruling is unknown. Once final, there is an anticipated 45 – 90 day implementation period. This is a very fluid situation. It could be as early as June or push into 2019. Most expect the proposal will change and we won't see implementation in 2018.

### POSTAL REFORM

Some expect that the legislation is likely to hold until the completion of the Task Force.

#### Senate

- Senate Bill Introduced
  - On March 22, 2018, a bipartisan group of Senators introduced reform legislation. The Postal Service Reform Act of 2018: Improving Postal Operations, Service, and Transparency to stabilize, preserve and improve the Postal Service – an essential part of our nation's infrastructure and economy.
  - It is unknown if it will move forward. Most in the industry do not feel that it will not, but it does keep the conversation alive.

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- The bill has much in common with HR756 which was introduced in the House of Representatives last year. It includes the 2.15% exigent increase as well as a provision that PRC will take it into account for the 10-Year Review Process.
- Senator Ron Johnson (R-WI) efforts
  - He is said to be forming his own bill.
  - It is anticipated that it would put the USPS through a bankruptcy type of proceeding, but no details are available. It is speculated that the end game of the proceeding would be to reopen labor contracts.
  - Little to no chance of an effort of this nature would move forward.

### House

On May 16, 2018, HR 756 was reintroduced. It has the same co-sponsors Meadows, Ross, Cummings, Connolly and Lynch. Markup is expected June, at which point amendments, such as the Medicare offset and the service language from the Senate bill, can be offered. The notion is to bring refreshed attention to USPS and the legislation ahead of the report from the Task Force.

### BOARD OF GOVERNORS

In early May, the Senate Homeland Security and Government Affairs Committee approved, by voice vote, the nominations of David C. Williams and Robert M. “Mike” Duncan to be Postal Service Governors.

On April 18, the U.S. Senate Committee on Homeland Security and Governmental Affairs held nomination hearings for the three White House nominees. This does not mean they are confirmed.

After the hearing, the third nominated governor, Calvin R. Tucker, withdrew his nomination.

### Hearing Summary

- Well attended with Majority Leader Mitch McConnell stopping in to show support for his fellow Kentuckian, Robert Duncan.
- **Legislation \ Prefunding Obligation:** The committee members were engaged and several stated that legislation was key to fixing the Postal Service. At times they asked questions that the nominees admitted that without legislation that nothing really could be done to “fix” the Postal Service.
  - Committee Chairman Ron Johnson (R-WI), lamenting his inability to get adequate information from the Postal Service, had prepared for senators on the panel a summary of the Postal Service’s financial picture. This highlighted the fact that the bulk of the Postal Service’s shortfall comes from this obligation.

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- **Last Mile:** Primary focus was on transparency of information regarding the U.S. Postal Service's special last-mile delivery arrangements.
  - Senator Claire McCaskill (D-MO) showed frustration over the Senate's inability to get information it has requested for years from postal management about its "co-opetition" deals with FedEx and UPS for last-mile delivery. Her concern is that the USPS is giving them discounts when, as competitors, they should be paying a premium.
  - Amazon was mentioned, but primary focus was on FedEx and UPS.
- **Rural Delivery:** Senator Heidi Heitkamp (D-ND) calling the USPS "rudderless" since it is without a BOG, adding that "America knows the post office is not delivering the way it used to deliver". Rural communities are a major concern for her.
- **Operations:** Senator Gary Peters (D-MI) expressed concern that the number of mail processing facilities has been drastically reduced. Williams weighed in, saying some early analysis of the impact of closures was wrong and mistakes were made.
- **Small Business:** Several of Calvin Tucker's comments focused on small business and nonprofits.
- **Opioids:** Senator Rob Portman (R-OH) raised concern about the security of the mail as it relates to the fentanyl epidemic.

At this time, no floor vote has been scheduled.

If the two nominees were approved by the senate, the USPS could consider seeking their approval to file rate changes and promotions with the Postal Regulatory Commission, PRC.

### Additional Background

The term of the last Governor expired on December 8, 2016. By law, the USPS must notify the PRC of any changes to rates, fees or basic classification rules. Such filings require the prior approval of the Postal Service's Board of Governors. The Board normally consists of up to nine governors appointed by the President of the United States with the advice and consent of the Senate. Currently, the Board of Governors now consists of only the Postmaster General and Deputy Postmaster General. With no politically appointed members they do not have the authority to approve rate changes or basic classification changes; this include promotions.

On October 26, 2017, the [White House announced](#) nominations for three individuals to be postal governors.

- [David C. Williams](#) of Illinois, for the remainder of a seven-year term expiring December 8, 2019. Williams was sworn in as the second independent Inspector General (IG) for the U.S. Postal Service on August 20, 2003.

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- [Robert M. Duncan](#) of Kentucky, for the remainder of a seven-year term expiring December 8, 2018, and an additional term expiring December 8, 2025. A 40-year political strategist and veteran of Republican politics, served as the 60th chairman of the Republican National Committee (RNC) from 2007-2009.
- (Withdrawn) [Calvin R. Tucker](#) of Pennsylvania, for the remainder of a term expiring December 8, 2023. President and CEO, Eagles Capital Advisors, LLC, a financial, management & Economic Development Consultant firm.

### PRC LEADERSHIP

A new Commissioner is being vetted, no official nomination. This is important because there is currently an even number of Commissioners what can lead to a tied decision in matters such as the 10-Year Review. The vacant position must be filled by a Democrat.

The individual being vetted is Michael Kubayanda:

- Supported by Schumer (D-NY)
- Background: USPS OIG, Congressional Staff
- OSU

**Background:** The Commission is composed of five Commissioners. They are appointed by the President, by and with the advice and consent of the Senate, for a term of six years. Not more than 3 of the Commissioners may be adherents of the same political party.

Current Commissioners	Term Expiration Date
Chairman Robert G. Taub (R)	Oct. 14, 2022
Vice Chairman Tony Hammond (R)	Oct. 14, 2018
Commissioner Mark Acton (R)	Oct. 14, 2022
Commissioner Nanci E. Langley (D)	Nov. 22, 2018
Vacant	Nov. 22, 2020

### SOUTH DAKOTA vs. WAYFAIR HEARING

On April 17 a hearing took place before the U.S. Supreme Court. The court is considering whether to overrule *Quill*, a 1992 decision that the Constitution’s commerce clause prohibits the states from requiring out-of-state retailers that do not have a physical presence in the state to collect tax on sales to state residents.

Some sources state that the mixed. The American Catalog Mailers Association, ACMA stated “we have reason for cautious optimism” and that “the Justices clearly understand what is at stake for the industry and they are wrestling with the appropriate result.”

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A decision is likely to be issued by the end of the Court's term, which is normally June 30th. The Justices commonly take a straw vote on the afternoon of the Argument, after they meet in Chambers. The Chief Justice assigns the writing of the majority opinion to one of the members of the Court, but other Justices can and oftentimes write concurring opinions to set forth his or her own view of the issues. In addition, in a case such as this, there will be one or more dissenting opinions, depending on the views of the Justices.

## USPS FINANCIALS AND MANDATORY PAYMENTS

### USPS Reports Financials for FY2018 Q2

On May 11, 2018, the Postal Service hosted a media call to review the financial results from FY2018 Q2. They have also posted the associated [press release](#) and supporting documentation.

They reported total revenue of \$17.5 billion for the second quarter of 2018 (January 1, 2018 – March 31, 2018), an increase of \$235 million, or 1.4 percent, compared to the same quarter last year. Reported a net loss of \$1.3 billion, with slight revenue increases offset by cost increases, particularly in transportation and salaries and benefits.

Shipping and Packages revenue grew by \$445 million, or 9.5 percent, while First-Class and Marketing Mail revenue fell by a combined \$181 million.

To date this year, USPS has lost \$1.9 billion.



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<i>(revenue in \$ millions; volume in millions of pieces)</i>	Revenue		Volume	
	2018	2017	2018	2017
<b>Service Category</b>				
First-Class Mail	\$ 6,460	\$ 6,626	14,701	15,222
Marketing Mail	3,989	4,004	18,604	18,783
Shipping and Packages	5,152	4,707	1,458	1,389
International	736	639	256	244
Periodicals	305	341	1,187	1,315
Other	854	943	68	73
<b>Total operating revenue and volume</b>	<b>\$ 17,496</b>	<b>\$ 17,260</b>	<b>36,274</b>	<b>37,026</b>

- **First Class:** For the three months ended March 31, 2018, First-Class Mail revenue decreased \$166 million, or 2.5%, and volume declined 521 million pieces, or 3.4%, compared to the same period last year. For the six months ended March 31, 2018, First-Class Mail revenue decreased \$475 million, or 3.5%, and volume declined nearly 1.2 billion pieces, or 3.7%, compared to the same period last year.
- **Marketing Mail:** For the three months ended March 31, 2018, Marketing Mail revenue decreased \$15 million, or 0.4%, and volume declined by 179 million pieces, or 1.0%, compared to the same period last year. For the six months ended March 31, 2018, Marketing Mail revenue decreased \$263 million, or 3.0%, and volume declined by 1.5 billion pieces, or 3.6%, compared to the same period last year.

After the presentation by PMG Brennan and VP Luke Grossman, USPS fielded questions from media where they reiterated their hope that immediate legislative and regulatory relief will be in the offing irrespective of the ongoing efforts of the President's Task Force.

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### Mandatory Pension \ Healthcare Payments

In September, it was announced that the USPS would not make their mandatory payments into accounts for its retirees' pensions and health care. From 2012 through 2017 these missed payments add up to nearly \$34 billion.

### USPS LEADERSHIP

Vice President, Sales and Customer Relations, Cliff Rucker announced retirement. Dennis R. Nicoski has been detailed to the position of Senior Vice President of Sales and Customer Relations, effective March 3.

**Bio:** Dennis began his postal career in Minneapolis in 1984. Since then he has developed functional expertise in marketing, sales, customer service, retail, and operations support that will serve him well in this challenging assignment. Recently served as the Director of Field Sales Strategy and Contracts, where he oversaw the development of customized mailing and shipping solutions for our largest mailers and shippers, and coordinated with the Postal Regulatory Commission approval of Negotiated Service Agreements.

### USPS CONTINUES ROLLOUT OF ENTERPRISE PAYMENT SYSTEM: CENTRALIZED SYSTEM TO PAY AND MANAGE SERVICES

The Postal Service has been developing a new Enterprise Payment System (EPS) to replace the current product-centric payment with a centralized account processing system enabling customers to pay and manage their service online using a single account.

The Enterprise Payment System (EPS) allows customers to pay for Postal products and services through a single account, called the Enterprise Payment Account (EPA). EPS supports commercial, domestic and international products and services which includes First-Class Mail, USPS Marketing Mail, Periodicals, Electronic PO Boxes Online (EPOBOL) and Address Quality Products.



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**Trust Account:** Allows you to directly deposit funds to your USPS payment account for transactions.

- Trust Accounts can be funded through:
  - Check, cash, or money order deposited at designated retail units (<https://postalpro.usps.com/EPS/RetailLocations>). You are no longer restricted to deposit at the Zip Code where your permit/publication is held. Note: As an EPS customer, you must provide your 10-digit EPA number, not your permit/publication number, to make a deposit to your Trust Account.
  - Fedwire Transfer -a service provided by the Federal Reserve bank to electronically deposit funds into your account
  - ACH Credit – electronic method to deposit funds into your account directly from your banking institution.

**ACH Debit:** Allows USPS to withdraw payment transactions directly from your bank account.

The USPS has posted a [Fact Sheet](#) that walks the user through how to enroll, create an account, migrate CAPS Account, setup payment methods and link account. To keep up to date on the latest regarding EPS, visit the USPS [Enterprise Payment System](#) site on PostalPro.

USPS representatives are also reaching out to mailers to help them through the upgrade process. For CAPS users, the USPS expects to retire that system in about a year.

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