

## APMU News

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### Heavier Weight Priority Mail Hit Hard By Additional Rate Increase

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An additional rate increase imposed by the Governors in Docket No. R2000-1 took effect on July 1, 2001. Rates were designed to provide the Postal Service with an additional \$1 billion to offset higher costs and other inefficiencies not included in the original filing. Within Priority Mail, most of the increase was on zoned rates in excess of 5 pounds, where rate increases on top of those imposed in January ranged up to as much as 31 percent in some rate cells, and averaged more than 10 percent. Whether these rate increases will be productive — or counterproductive — remains to be seen (*see* article below on the decline in Priority Mail volume).

The deadline for appealing the Governors' action has passed, with both of the appeals that were initially filed now voluntarily withdrawn. This means that Docket No. R2000-1 is finally closed, and none too soon, as speculation is that the next omnibus rate case will be filed by the Postal Service some time this fall.

### Experimental Priority Mail Presort Discounts Available

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The Postal Service will begin a two-year experiment of Presorted Priority Mail rate categories starting July 15, 2001. The experimental rates include discounts for three presort options: ADC (area distribution center – a mail processing facility that represents a state or a large portion of a state), 3-digit ZIP Code prefixes, and 5-digit ZIP Code prefixes. The discounts are 12, 16 and 25 cents per piece, respectively. The discounts being offered represent only 60 percent of the estimated cost savings. Hence, if the program is generally successful and the discounts become a permanent part of the rate structure, they could be increased, perhaps significantly.

In order to receive the discounts, mailers must meet certain preparation, containerization, minimum quantity, and data collection requirements. The containerization and preparation requirements may vary by mailer location (see the May 31 *Postal Bulletin* for detailed participation criteria).

The purpose of the experiment is to measure the costs associated with mailer presortation and to determine whether incentives provided by the discount structure are attractive and beneficial to the mailing community. The Postal Service expects to work closely with participants to observe first-hand any problems, and it hopes to learn how to fashion an effective presort program for Priority Mail. Participation in the experimental presort program is expected to be limited initially to about 10 mailers, and to increase during the second half of the experiment.

APMU members interested in participating in this experiment should contact Postal Service representative Karen Magazino, 703-292-3644, for application information.

**Pilot Test: Priority Mail Drop Shipment With Delivery Confirmation**

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The Postal Service has underway a nationwide operational test of Delivery Confirmation with Priority Mail drop shipments. The test is expected to last 120 days, after which the goal is to extend the service to all shippers who use Priority Mail drop ship to expedite time-critical mail closer to its destination.

A new sack tag has been created to identify the Priority Mail drop shipments with Delivery Confirmation service. Tag 161 is lime green, measures 9” x 4½”, and should be easy to distinguish from the existing Tag 159.

Delivery confirmation enables a mailer to determine easily whether shipments have reached their Priority Mail destination, at which point the pouch is to be opened immediately and the contents sent to delivery. Significantly, this move by the Postal Service marks the first official recognition of Priority Mail drop ship as a separate niche product within Expedited Package Services. It coincides, interestingly, with the massive rate hikes on zoned Priority Mail which were ordered into effect on July 1<sup>st</sup>, and which will have a disproportionate effect on those who use Priority Mail drop ship.

In the last rate case, APMU proposed — and the Postal Service opposed — explicit recognition of Priority Mail drop ship by offering discounts that reflect cost savings for mail which terminates at a processing plant.

**Effect of Massive Rate Hike Reflected in Priority Mail Volume**

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Increased competition, coupled with the average 16 percent rate hike that took effect on January 1<sup>st</sup> of this year, have taken a heavy toll on Priority Mail volume, as shown by the following table.

**Year-over-Year Percentage Change  
in Priority Mail Volume, Revenue & Revenue/Piece**

A/P	Ended	Volume	Revenue	Revenue/ Piece
	(1)	(2)	(3)	(4)
I	Dec 1	-3.1%	-2.6%	0.6%
II	Feb 23	-4.6%	2.3%	7.2%
III	May 18	-5.3%	9.1%	15.2%

In Accounting Period III, total revenue (column 3) does not go up nearly as much as revenue/piece (column 4) because of the decline in volume which reflects the high price elasticity of Priority Mail. Price effects on volume occur with a lag, so further declines in volume can be anticipated. Since Priority Mail is one of the Postal Service’s most profitable products, the decline in volume is an important contributor to the current operating deficit (*see* article below on the current postal deficit).

**Postal Service Finances in Deficit; Rate Case Looms**

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At the end of Accounting Period 9 (ended May 18<sup>th</sup>), the Postal Service reported an accumulated deficit of about \$422 million, versus a planned net income of \$345 million. In other words, the results to date represent a shortfall of some \$767 million versus plan, despite the higher rates that took effect in January. As APMU News went to press, the Postal Service’s official projection was for a loss of between \$1.6 and \$2.4 billion this fiscal year. The Postal Service is rumored to have lost an additional \$300 million in A/P 10, bringing the year’s loss up to around \$722 million. It traditionally budgets for and runs large deficits during the last four accounting periods of the fiscal year, and this year appears to be no exception.

Actual mail volume continues to exceed budgeted volume, but the volume of mail with high profit margins, such as Priority Mail, is down (see preceding article). As further rate increases become increasingly counterproductive, the Postal Service will be compelled to explore other options, such as reducing delivery to five days a week, closing thousands of small, unnecessary post offices, and shifting the extremely costly subsidy for Alaska passenger air transportation, carefully hidden by Senator Stevens (R-AK) in the nation’s postal laws, to the Transportation Department, where it properly belongs (see related article below on postal reform).

The continuing red ink, coupled with the Postal Service’s inability to achieve sustained increases in productivity and reductions in costs, means that the outlook for FY 2002 and FY 2003 is grim indeed. Without a rate increase, the deficit in 2002 could exceed \$2.5 billion, and, of course, could be even worse in 2003.

The next rate case is likely to be filed in October or November, at which time the Postal Service is expected to seek \$6 to \$8 billion in additional revenue. Some mailer groups are trying to have the filing put off until January or later. That presents various problems, however, not the least of which is that the Postal Service could run out of money (and borrowing authority) before higher rates could be put into effect.

**Postal Reform on Center Stage**

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Now that the last rate case is finally history, and the next rate case has yet to begin, attention is focusing on postal reform. It is reported that Dan Burton (R-IN), Chairman of the House Government Reform Committee, has asked Rep. John McHugh (R-NY), who formerly chaired the now-defunct postal subcommittee, to spearhead the drafting of a new postal reform bill.

For six years McHugh tried, but failed, to get a so-called “reform bill” to the floor of the House. The previous bill sidestepped virtually every politically-sensitive substantive issue that would help reduce costs and improve efficiency, and is now widely recognized as having been grossly inadequate for the current circumstances facing the Postal Service. Since Congress will be in recess during much of August, new legislation may not be introduced until September or October.

The current reform effort is likely to become somewhat more contentious. For instance, the Government Accounting Office believes that the most critical problem facing the Postal Service and mailers is the low, almost negligible increase in productivity, not the rate-making system. Many knowledgeable

