

**Written Testimony of Michael Kubayanda  
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Before the Senate Homeland Security and Governmental Affairs Committee**

**April 16, 2024**

**Postal Service On-Time Delivery, Finances, and Efficiency are Subpar**

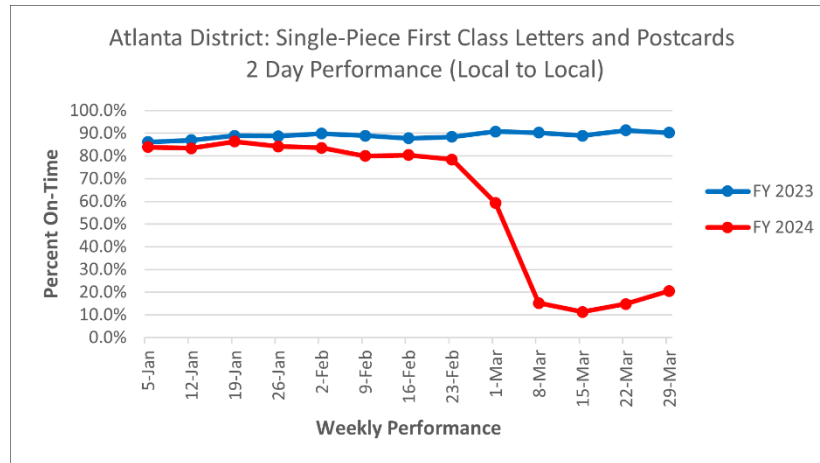
The Postal Regulatory Commission is a micro agency with a substantial mission – providing transparency and accountability of the United States Postal Service (USPS). The Commission has about 90 total personnel, including presidentially appointed, Senate-confirmed Commissioners, overseeing the 600,000-person USPS. The Commission recently [issued](#) the 2023 Annual Compliance Determination (ACD) for USPS. The ACD findings are alarming: based on the numbers reported by USPS, service performance, financial results, mail volume, and efficiency are moving in the wrong direction. I do think USPS can make improvements, but its leadership must acknowledge these problems and be transparent with stakeholders, Congress, and oversight bodies while attempting to address them.

**Service Performance is Subpar and Declining**

The ACD found that 15 of 27 reported market dominant products failed to meet targets for on-time service performance last year, although USPS made several of the standards easier to meet. The disappointing service performance should raise concerns now, as elections are scheduled for this Fall and mail ballots could play an important role.

In Georgia, Virginia, and many other states, service quality has declined further since the period covered by the report. Individual letters and cards mailed from one location in metro Atlanta to another location in metro Atlanta, which should arrive in a generous two-day window, met that standard 16 percent of the time for the month of March, based on the latest [publicly](#) available USPS data.

## Metro Atlanta Local Service Performance Collapsed in March 2024



Single Piece First Class Mail letters and cards deposited in the Atlanta metro area, destined for delivery in the Atlanta metro area. Source: USPS Service Performance Dashboard, at <https://about.usps.com/what/performance/service-performance/external-service-measurement.htm>

The target for First Class Mail (set by USPS itself and measured against delivery standards set by USPS) is over 92 percent. That is the level of performance one should normally expect from USPS.<sup>1</sup>

Atlanta and Richmond, Virginia are the home of new regional processing plants deployed under the March 2021 Delivering for America (DFA) plan, which was meant to make USPS “self-sustaining and high performing.” Three years later, USPS does not appear to be closer to meeting these goals. While some disruption should be anticipated with network changes of that magnitude, the bottleneck in Georgia, which coincides with a brand new, purpose-built regional [processing plant](#) opening on February 24, suggests problems with planning, execution, or both.

Hopefully, poor service in Atlanta is an extreme outlier and will rebound soon, but national performance has been subpar and [trending](#) in the wrong direction. Nationwide service performance has continued to decline in FY 2024. In the present quarter, USPS [numbers](#) show Single Piece First Class Letters and Postcards (what most people are likely to send) meeting their standard 81 percent of the time. This is well under the 92 percent target, and lower than in the same period last year. Disturbing stories about delayed bill payments, [medications](#), and

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<sup>1</sup> The traditional target for on-time performance was 95 percent. USPS has lowered the targets in recent years.

medical tests for [veterans](#) and the elderly are too frequent. Marketing Mail, most of which is presorted, barcoded, and given to USPS close to its destination, bypassing much of the postal network, does much better. It is close to 94 percent on time so far this year. USPS seems to be turning away from this “last mile” approach for some products. It is requiring customers to use more of its entire network even as it appears to be operating poorly.

Some context helps in understanding the on-time service performance numbers. First, the Postal Service has relaxed service standards in recent years, which should make it *easier* to achieve a high on-time percentage. Second, the official numbers may underrepresent delays experienced by mailers and recipients. The measurement system generally tracks the time from when mail is first scanned in the postal network to its final scan at a postal facility near its destination.

If mail trucks are stuck in traffic outside a USPS facility before the first scan, official delivery stats may not reflect the bottleneck because USPS has not yet started to measure the affected mail, or the mail has already been counted as delivered before it reaches its final destination. DFA calls for centralized processing plants, increasing the time from when a customer hands mail to USPS until the first scan, sometimes in a different state. For example, under a pending DFA change, mail sent from one town in Northern Nevada to another nearby town would go to California for processing, before returning to Nevada. Similar network changes and rerouting have raised concerns in Vermont, West Virginia, Colorado, Montana, and several other parts of the country.

USPS has also decided to stop picking up mail from some Post Offices in the evening (through a program formally called Optimized Collections), letting it sit until the following day to improve space utilization on its trucks. The official metrics, therefore, may undercount delivery times by days, even when the network is operating smoothly.

## **In Addition to Concerns with Service Performance, Network Changes Do Not Appear to Be Leading to Financial Savings or Improving Efficiency So Far**

One might assume that relaxed standards, operational changes, and slower service have allowed USPS to cut spending, be more efficient, and be “self-sustaining” as DFA calls for. Up to this point, they have not. Costs have not gone down even as mail volume has declined. For example, a recent Office of Inspector General [audit](#) report on the new USPS plant in Richmond, Virginia noted that the new facility has not produced anticipated savings, despite dealing with lower mail volume in the region served by the new plant. USPS and its oversight bodies evaluate postal efficiency using Total Factor Productivity (TFP), a widely used economic metric that analyzes the relationship of aggregate outputs (workload) to aggregate inputs (resources). USPS’ Annual Report to Congress states that in 2023, TFP declined by 4 percent.<sup>2</sup> If this figure is verified, it appears to be one of the largest annual drops in the history of TFP in the postal sector.<sup>3</sup>

In 2020 and 2022, USPS received a combined boost of over \$100 billion from [Congress](#) and the Commission through a reduction in retiree health benefits payments, and increased revenue from new pricing authority. With that assistance, plus the massive operational changes, DFA called for USPS to break even in 2023. Instead, the agency reported a loss of over \$6 billion and is on track to lose another \$6 billion or more this year.

To be clear, the idea of making changes to the network is not inherently unreasonable. Standardizing and centralizing a network built over two centuries is intuitive in some respects and has potential benefits. However, the strategy has pushed up against several realities. A

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<sup>2</sup> United States Postal Service, Fiscal Year 2023 Annual Report to Congress, at 58. Available at <https://about.usps.com/what/financials/annual-reports/fy2023.pdf>

<sup>3</sup> See, Postal Regulatory Commission, Financial Analysis of the United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2022, for historical TFP trends, at 90-91. Available at [https://www.prc.gov/sites/default/files/reports/Financial%20Report%20FY%202022\\_0.pdf](https://www.prc.gov/sites/default/files/reports/Financial%20Report%20FY%202022_0.pdf)

major constraint is that the postal network must go everywhere—its managers cannot pick and choose which areas to serve based on financial or logistical desirability. This is why Congress created a government-run postal operator, overseen by a postal regulator.

No long-term plan of DFA's scope can be designed and implemented without some mistakes. It would be heartening, however, to see USPS build in the flexibility to learn quickly, make faster adjustments from the original plan, provide transparency, and incorporate stakeholder input as it is implementing these drastic changes. The Postal Service has much of the necessary expertise within its ranks, and there are models for implementing operational changes while incorporating new information to drive incremental improvement. In the manufacturing, technology, and logistics industries, there are well-established techniques, such as lean management, for implementing operational changes in smaller increments, evaluating the impact of those changes, and absorbing the lessons learned quickly in order to improve the next iteration. For a national public sector entity, the schedule for adjusting the plan and incorporating stakeholder input must be more frequent than once every few years or only after being scolded by Congress or oversight bodies.

### **Transparency is Key as the Postal Service Implements These Changes**

While USPS employees are working harder than ever in difficult conditions, I am troubled by these persistent service, operational, and financial problems. Changes are needed to make the system sustainable. However, the changes being pursued by USPS seem to systematically disadvantage households and small businesses, especially the elderly and others who rely on First Class Mail, and people in rural areas and states. USPS is a public service created specifically to provide universal service, not to undermine it.

It looks increasingly difficult to have a universal postal system that reaches every American six days a week, at affordable prices, with reasonably fast and reliable service, and is self-sustaining financially. But any deviation from this vision, which is largely enshrined in current law, should be transparent and keep in mind the needs of vulnerable customers such as the

elderly and rural citizens. Many of the changes desired by USPS have the impact of trimming back universal service, which should go through the legislative process, and not be pursued unilaterally without debate and oversight. Some of the needed transparency is provided by the Commission's regulatory procedures, but USPS has tried to circumvent, if not eliminate them.

I understand that USPS management remains committed to its present course, and that the Commission lacks the direct legal authority to stop implementation of DFA. I hope that USPS can turn around its subpar service performance. In the meantime, I encourage its leaders to be more collaborative and transparent with customers, Congress, state and local officials, and oversight bodies about the scale of its problems and the appropriate solutions. Voters and election officials, for example, *must* have accurate information regarding the amount of time needed to deliver ballots.

The advisory opinion process is one proven approach, established by statute, for providing transparency for operational changes that impact service on a nationwide or substantially nationwide basis. The proceedings are usually initiated by a USPS request to the Commission for an advisory opinion and allow stakeholders to provide input and on network changes affecting them, providing an opportunity to evaluate otherwise opaque changes. The Commission relies on the stakeholder input and detailed analyses by its staff to comprehend the impact of proposed changes, such as a network redesign, and issues advisory opinions that identify potential problems and offer recommendations for addressing them. The Commission has issued prior advisory opinions related to portions of DFA, and another advisory opinion appears to be warranted as USPS ramps up the nationwide rollout of DFA's new processing plants and transportation options.

## What the Commission is Doing in Response to These Issues

The Commission has opened proceedings to understand the ongoing service problems and is reviewing a USPS filing regarding the service measurement system. Commission actions include:

- Opening a Public Inquiry into DFA. The Public Inquiry allows the Commission to evaluate the impacts of DFA, hear from affected stakeholders, and determine if regulatory action is necessary.
- Opening a review of the ratemaking system nearly two years earlier than anticipated. The Commission cited multiple reasons for revisiting the ratemaking system, including implementation of DFA, changes in service standards, poor service and financial performance, and declines in mail volume.
- Publishing the FY 2023 Annual Compliance Determination, which included analyses of the recent service problems. The Commission will shortly issue its Financial Analysis of the Postal Service's fiscal condition in FY 2023 as well as a review of the Postal Service's performance in FY 2023 and its performance plan for FY 2024.
- The Commission is working hard to make our findings more accessible and improve the agency's capacity to deal with USPS filings and stakeholder concerns. With very limited resources, the Commission has begun to implement compliance with Evidence Act, FISMA, and other government modernization policies related to managing and protecting information, as well as making information readily available to the public. Policymakers and stakeholders will see more readily comprehensible data and benefit from objective analysis of the issues facing USPS. The Commission recently adopted geographic information systems (GIS) software to support its analytics efforts. We are striving to upgrade the Commission's IT to contemporary standards after years of underinvestment in infrastructure, due to a lack of resources. The Commission has

obtained support from the Technology Modernization Fund for these efforts. In addition to complying with the law, these upgrades will allow the Commission's very small staff to organize and analyze information using automated, efficient, and more powerful methods in line with best practices in the public and private sectors. I believe these initiatives, which are still in the early stages, will help the Commission to better meet our mission of providing transparency and accountability of USPS at a time when that mission is more important than ever.

- As the Commission is increasing its capacity, it is working to handle an increasing number of USPS and stakeholder petitions in a thorough and brisk manner with its small staff. In FY 2023, the Commission approved 280 competitive negotiated service agreements (NSAs), which are contracts between USPS and mailers.<sup>4</sup> That is more than twice the number of competitive NSAs approved by the Commission in the prior year. A total of 856 competitive NSAs were in effect in FY 2023,<sup>5</sup> requiring the Commission to process new petitions expeditiously while ensuring compliance with the law and fair competition in the parcel market. USPS has also increased the frequency of its market dominant rate filings, large-scale legal proceedings which take up much of the Commission's staff time. Recent USPS actions have also caused stakeholders and elected officials to increase the frequency of formal and informal complaints to the Commission about pricing and service issues. The Commission has responded to these concerns and will continue to be responsive.

The Commission does not have the power to halt implementation of DFA, nor does it have clear authority to enforce some of the relevant portions of title 39 of the U.S. Code, such as the requirement to provide universal service. Besides the authority to design and enforce rate

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<sup>4</sup> Postal Regulatory Commission, Fiscal Year 2023 Annual Report to the President and Congress, at 23. Available at [https://www.prc.gov/sites/default/files/reports/ARFY2023FINAL\\_web.pdf](https://www.prc.gov/sites/default/files/reports/ARFY2023FINAL_web.pdf).

<sup>5</sup> Postal Regulatory Commission, Annual Compliance Determination Report, Fiscal Year 2023, Figure IV-1, at 62. Available at <https://www.prc.gov/sites/default/files/reports/FY-2023-ACD.pdf>. Also available at <https://www.prc.gov/fy-2023-acd-highlights>.



regulations, the Commission's main role with respect to USPS strategy and operations is to monitor compliance with specific provisions of the law related to reporting and transparency. The Commission has faced roadblocks when providing even this modest level of oversight. Going forward, it is important that the new budget process (in which the Commission budget, which is funded by postal ratepayers and amounts to about .03% of USPS spending, is submitted to the USPS Governors for approval) not be used to restrict, limit, or interfere with oversight. This would be the worst possible time to do so.

The Postal Service is a lifeline for communities, a vital part of our democratic process, and a symbol of national unity. The Commission stands ready to work with USPS leadership and stakeholders to preserve an effective and efficient postal system, consistent with the law and public interest.