

The Universal Service Obligation and Financial Sustainability

Background:

The *Postal Reorganization Act of 1970* (PRA) and annual appropriations acts passed by Congress set the parameters for the Postal Service's universal service obligation (USO).

The USO binds the Postal Service to provide prompt, reliable, affordable, and efficient postal services to all Americans, regardless of where they live. The Postal Service does not receive tax dollars to cover operating expenses related to the USO.

USO parameters allow for some Postal Service discretion to adjust operations to changing conditions. However, any adjustments (to the USO) are checked by statutory restrictions, oversight by Congress, and the Postal Regulatory Commission (PRC), as well as the Postal Service's legal obligation to bargain with its unions over resulting impacts, if any, to wages, hours, or working conditions of bargaining unit employees.

In recognition of the burdens imposed by the USO, Congress has historically sought to sustain the obligation by guaranteeing the Postal Service certain revenues:

- The Private Express Statutes require all letters less than 12.5 ounces carried over postal routes to be sent through the Postal Service, with various exceptions.
- Another statute requires all mailable matter placed into mailboxes to bear postage. This statute not only protects postal revenue, but also ensures the privacy, security, and efficiency of the mail.

These measures, sometimes referred to as the Letter Monopoly and the Mailbox Monopoly, respectively, guard against the risk that competitors might undermine the Postal Service's provision of universal service by skimming off lucrative business while leaving behind only more costly volume.

Despite these USO-supporting measures, the Postal Service's inflexible business model resulted in a streak of multibillion-dollar net losses since 2006 prior to the passage of the *Postal Service Reform Act* (PSRA). Furthermore, in the PRC's Fiscal Year 2022 Annual Report to the President and Congress, the estimated cost of the USO was \$6.1 billion, whereas the value of the Letter and Mailbox Monopolies were only valued at \$3.3 billion. Resulting in a net burden for the Postal Service (based strictly on this PRC measure) of \$1.22 billion. PSRA further outlined the USO by codifying six-day delivery and requiring an integrated network for the delivery of market-dominant and competitive products.

Why it Matters:

Although the postal system retains a key role in America's economic and cultural life, the public has drastically reduced its use of the mail in the face of electronic alternative communication channels and a series of cumulative economic circumstances. The number of delivery points continues to grow with an increase of 1.7 million in 2023, while mail volume continues to drop. The average number of pieces delivered per delivery point per day fell from average of 5.5 pieces of mail per day per delivery point to 2.6 pieces in 2023, a decline of 53 percent.

Private delivery companies that provide competing services do not operate under a USO. They can raise rates or refuse delivery whenever they deem that certain customers or delivery points are not cost-effective, or target more profitable delivery points and travel only where customer business takes them.

The Postal Service takes its universal service mission seriously and strives to keep communities connected and deliver a sense of normalcy, even during local, regional, or national disruptions to service. The organization's difficulties in providing universal postal service in a financially self-sustaining manner led to passage of PSRA, and will require additional management and regulatory action as detailed in the Delivering for America Plan: <https://about.usps.com/what/strategic-plans/delivering-for-america/>.

1.7 Million New Delivery Points in 2023
As a result, the Postal Service delivered to more than 165 million delivery points in 2023.

46 Percent of the World's Mail
Is processed and delivered by the U.S. Postal Service.