

U.S. Postal Service Rolls Back Its Prices

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On April 10, 2016, the U.S. Postal Service (USPS) was [required to roll back prices](#) on many of its postal products and services, including First-Class "Forever" stamps. This is the [first time in nearly a century](#) that the USPS has dropped the price of First-Class "Forever" (or equivalent domestic letter) postage.

Due to the removal of a temporary surcharge (also called an exigent postal surcharge), the prices for nearly all market-dominant products and services, which are those where the USPS is considered to have a monopoly, such as First-Class Mail or Standard Mail (i.e., advertising mail), have dropped. The prices for competitive products, (e.g., Priority Mail, Parcel Mail, and First-Class Package Service), however, have remained the same. Competitive products and services are those in which USPS must compete with other providers (e.g., Fed Ex and UPS) in the open market.

[Figure 1](#) provides a select list of stamp prices with the exigent surcharge and stamp prices as of April 10, 2016. USPS also provides a [select list of adjusted postal prices](#) on its website. The [full list of adjusted market-dominant prices](#) is available as an Excel spreadsheet from the U.S. Postal Service's "Postal Explorer" website.

Figure 1. Selected USPS Stamp Prices as of April 10, 2016

		PRICE WITH EXIGENT SURCHARGE	PRICE AS OF APRIL 10, 2016	
	First-Class Forever Stamp	\$0.49	\$0.47	-2c
	First-Class Postcard Stamp	\$0.35	\$0.34	-1c
	First-Class 2-Ounce Letter Stamp	\$0.71	\$0.68	-3c
	First-Class Additional Ounce Stamp	\$0.22	\$0.21	-1c
	International Forever Stamp	\$1.20	\$1.15	-5c

Sources: U.S. Postal Service, [USA Philatelic Catalog](#), January 2016; U.S. Postal Service, "[Market Dominant Price List](#)."

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What Is an Exigent Postal Surcharge?

The Postal Accountability and Enhancement Act (PAEA, [P.L. 109-435](#)) limits price increases for market-dominant products to a formula based on annual, unadjusted changes in the Consumer Price Index for Urban Customers (CPI-U). During "[extraordinary or exceptional](#)" circumstances ([a term not defined in statute or regulation](#)), the PAEA allows the USPS to petition the Postal Regulatory Commission (PRC) for an expedited postal rate adjustment. This exigent surcharge is a rate increase above what USPS would otherwise receive based on the CPI-U formula.

In July 2010, the USPS made its first request to the PRC for an exigent surcharge. In its [2010 exigent request](#), the USPS sought to increase rates on its market-dominant products by approximately 5.6% due to poor economic conditions and decreased mail volume. The "extraordinary or exceptional" circumstance, according to USPS's request, was the "[unprecedented drop in mail volume](#)," which they argue was caused by the recession. The [PRC order](#) denied USPS's initial request for a rate increase, in part because PRC found that multiple factors contributed to reduced mail volume, not all of which were due to the recession.

In late 2013, the USPS filed and the [PRC approved a rate increase of 4.3%](#) on market-dominant products. For this request, the USPS developed a [methodology](#) to isolate the impact of the recession on mail volume. The exigent surcharge, however, would only be in place until the USPS had recovered an additional \$2.8 billion in lost revenue,

which was determined to be the amount attributable to the recession.

The exigent surcharge allowed the USPS to hold revenue for market-dominant products steady, despite continued losses in mail volume. Given the \$2.8 billion cap, the exigent surcharge was initially expected to be in place for less than two years—until sometime in mid-2015.

In 2014, the USPS challenged the PRC's methodology for calculating the cap, arguing before the U.S. District Court that the increase should be permitted to continue indefinitely. USPS challenged, among other issues, (1) the methodology for counting volume loss attributable to the Great Recession, (2) methods for translating volume loss into financial loss, and (3) how to determine the point at which the USPS must adjust to the "new normal" (i.e., the current economic conditions and mail volume).

On June 5, 2015, the [DC Circuit Court](#) delivered an opinion upholding the temporary nature of the increase. This opinion, however, did state that the PRC methodology for calculating the cumulative losses attributable to the recession must be revisited. Following the ruling of the DC Circuit Court the PRC increased the amount that the USPS could collect in exigent price revenue by an additional \$1.4 billion.

What Impact Has the Exigent Surcharge Had on Postal Revenues?

On February 25, 2016, the PRC issued a "[Notice of the Removal of the Exigent Surcharge](#)," which announced the Postal Service's plan to remove the surcharge on April 10, 2016. The exigent surcharge had been in place since January 24, 2014. [Table 1](#) shows the estimated revenue from the exigent surcharge for FY2014 and FY2015.

Table 1. Estimated USPS Revenue from Exigent Surcharge

(FY2014 to FY2015, in billions)

	FY2014	FY2015
Revenue (excluding exigent surcharge)	66.4	66.8
Revenue from exigent surcharge	1.4	2.1
Total Revenue	67.8	68.9
Controllable Expenses	66.4	67.7
Controllable Income/Profit (with exigent surcharge)	1.4	1.2
Controllable Income/Profit/Loss (excluding exigent surcharge)	0.0	-0.9

Sources: U.S. Postal Service, [2015 Report on Form 10-K](#), Washington, DC, 2015, pp. 13-16; also see U.S. Board of Governors, [November 2015 Open Session Presentation](#).

Note: *Controllable Expenses* excludes certain [retiree and workers' compensation costs](#).

In FY2014 and FY2015, the estimated revenue from the temporary exigent surcharge was \$1.4 billion and \$2.1 billion, respectively. Total revenue (excluding the surcharge) was \$66.4 billion in FY2014 and \$66.8 billion in FY2015. In the two full years that the exigent surcharge has been in place, it has contributed an estimated 2.1% and 3.2% to the total revenue of the USPS (or an estimated 2.7% and 4.0% to the total market-dominant revenue, respectively).

Further, the amount of revenue generated in FY2014 and FY2015 by the exigent surcharge has exceeded USPS's relatively small profit, excluding non-controllable expenses such as their statutory requirement to [prefund certain retiree health benefits](#). Without the exigent surcharge, the USPS might have had very little in profits or losses in FY2014 and operational losses rather than narrow controllable income profits in FY2015.