

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING  
(PROPOSAL TWO)

Docket No. RM2023-7

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE  
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES  
IN ANALYTICAL PRINCIPLES (PROPOSAL TWO)  
(May 26, 2023)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports. The proposal, to establish procedures for estimating the revenues and costs associated with interagency agreements (IAAs), responds to a directive in the FY 2022 Annual Compliance Determination, is labeled Proposal Two and is discussed in detail in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

James L. Tucker  
Chief Counsel, Pricing & Product Support

Eric P. Koetting  
David White

475 L'Enfant Plaza, S.W.  
Washington, D.C. 20260-1137  
(202) 277-6333  
eric.p.koetting@usps.gov  
May 26, 2023

## **Proposal Two: To develop procedures for estimating revenues and costs for interagency agreements.**

### **Objective**

The objective of this proposal is to develop procedures for estimating the revenues and costs associated with interagency agreements (IAAs). The general revenue procedure is to examine the payment amounts or procedures specified in the agreement, and to review accounting records and data from other financial systems to identify actual payments. The general costing methodology is to attribute to the IAA the incurred costs reliably determined to be caused by the agreement.

### **Background**

When the Postal Service Reform Act (PSRA) was enacted in April of 2022, Congress added Chapter 37 to title 39, and those new provisions included new reporting requirements for IAAs through which the Postal Service provides property and non-postal services to other Government agencies. In response, the Postal Service included financial information regarding IAAs with its Annual Compliance Review (ACR) filed in December of 2022. The Commission addressed the IAA material filed in the ACR on pages 99-102 of its Annual Compliance Determination (ACD). The ACD acknowledged that FY 2022 was the first reporting year for the new requirements and found that the record in the ACR docket reflected that, in the aggregate, total IAA reimbursements in FY 2022 exceeded total estimated IAA costs. FY 2022 ACD (March 29, 2023) at 101. The Commission, however, perceived a need to standardize IAA reporting procedures, and included the following directive:

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*Consistent with 39 U.S.C. § 3705(b)(2), the Commission directs the Postal Service to develop a proposed methodology (or methodologies) for calculating and attributing costs and revenue to interagency agreements authorized under 39 U.S.C. §§ 3703 and 3704. The Postal Service shall initiate a rulemaking proceeding (or proceedings) concerning such methodology (or methodologies) in accordance with 39 C.F.R. § 3050.11 no later than May 31, 2023.*

*Id.* at 102. Proposal Two responds to that directive.

### Proposal

The main mode for determining the costs that should be attributed to IAAs is simply to identify the postal resources being used to fulfill, adhere to, or maintain such agreements. Conversely, one could also think of the costs or resources which would be removed if the agreement were to be terminated. This process is similar to what is currently used for non-postal agreements most recently reported in USPS-FY22-NP27, for Special Services found in USPS-FY2022-28 and USPS-FY2022-NP26, and for the other such similar costs found throughout the ACR. Establishing causality is the main underlying component of all these exercises. Some of these costs are extracted directly from procurement documents or accounting entries for accounts associated with the agreement, while others rely on calculations, cost models, or estimates of time consumed by activities relating to the agreement.

Investigation into resources starts with a review of the agreement with the internal point of contact (i.e., the Postal Service personnel administering the agreement) to understand the services being rendered, the administrative burden, and the nature, length, and frequency of tasks associated with the agreement. This might include a review of the contract, standard work instructions, or any other documentation that is available. Once resources have been identified, appropriate data are identified and

requested. For instance, if an agreement includes a retail component, data regarding the number of window service transactions and average length of transaction are requested.

A similar investigation is implemented when determining the revenue collected for an agreement. A review of the contract often indicates the amount of payment and the payment structure (i.e., if the payment is based on the number of transactions, frequency, or lump sum payment). Once we have indication of the payment amount, the actual payment is identified and confirmed with information from Accounting or the Revenue, Pieces, and Weight report.

### A. Current Agreements

After passage of the Postal Service Reform Act in 2022, the Postal Service initially reviewed the existing agreements covered by the new reporting requirements that had been established. The Postal Service identified several groupings or categories of similar agreements. Those categories include Retail Services, COVID Test Kits, Addressing and Geospatial Technology Services, Short Term Rental and Training Facility Services, Lease Agreements, and Contracting Services. These categories have been defined to hopefully allow for future agreements to be included as they are formed, but the creation of new categories as needed in the future is certainly not precluded. Likewise, categories can be omitted if all relevant IAAs have expired, and no new agreements replace them.

**Retail Services** encompasses services conducted at the retail counter such as identify verification or Passport acceptance. The number of transactions and length of

transactions are often important data points to determine both cost and revenue. These services include a retail window service component, for which the average length of transactions and an appropriate wage rate are multiplied to determine the cost per transaction. Piggyback, wait time, and miscellaneous time factors are also applied to include a full picture of the total cost per transaction. These unit costs are then multiplied by the total number of transactions to obtain total window service costs. Any additional costs, such as advertising, training, and administrative costs are also included in whole since they are not related to the per transaction cost. However, in regard to training, it should be noted that the total number of hours spent training is estimated and the appropriate wage rate applied. Training may encompass an initial iteration and then an annual retraining or renewal certification, as is the case of Passport acceptance. Revenues within this category can either be a fixed fee or on a per transaction basis.

**COVID Test Kits** includes the total revenue and cost for COVID test kit fulfillment and delivery; including the picking, packing, and delivery of the kits. Delivery revenue (i.e., postage) and costs for the mail pieces, as well as being reflected in these figures, are also included in the total product reporting in the Cost and Revenue Analysis (CRA). This category is unique for its two-part structure of fulfillment and delivery. Times and resources used for fulfillment are tracked to determine reimbursement through various postal functions and provided for reporting purposes. The Delivery portion of the cost and revenue are captured through regular Postal Service processes in the CRA and RPW reports.

**Addressing and Geospatial Technology Services** provide reports from Postal Service operational data systems, such as ZIP Code or route book information, for use

by other agencies. The costs attributed to these reports are related to times to initiate, process, review, and disseminate the reports. Given that the data utilized in these reports are already captured for operational purposes, no time or technology costs for the collection and storage of the data are attributed to these reports. Conversely, if these reports were no longer provided to the agencies, the Postal Service would still incur these costs. These reports also have the advantage of being automated with little or no maintenance required, and therefore they incur minimal costs. If a new report is requested, or a change request is submitted, those costs would be included in this category. No such new report or change request was received in FY 2022. The revenue for these reports is listed in the contract and verified by Accounting.

**Short Term Rental/ Conference and Training Center Services** allows other agencies to use space in postal facilities for a few hours to a few days; agencies may book single or multi day meetings, trainings, and other events, including guest rooms, training facilities, conference services, and banquet/food and beverage services. Most conference and training centers are operated by a hospitality service provider that the Postal Service has under contract. The costs are described as direct costs, which may include expenses for labor for room turnover, food, goods and supplies, and transportation. Further details were provided in the response to Question 12 of ChIR No. 10, filed in the FY2022 ACR docket on February 10, 2023. Revenue is calculated by summing the rates and fees charged for services rendered and confirmed by Accounting.

**Lease Agreements** are longer term agreements with agencies to occupy space in postal facilities. Information regarding leasing agreements with non-governmental

entities is routinely reported with information regarding other non-postal services in the preface for folder USPS-FY20xx-NP27. Costs for lease agreements includes mainly utilities and maintenance for which the Postal Service is responsible as identified in the agreement. Leased space is often shared between the agency and the Postal Service, and in these instances, the utility and maintenance costs are proportional to the number of square feet occupied by the agency. The rental revenue can usually be found in the lease and is confirmed by Accounting.

**Contracting Services** encompasses those services where the Postal Service provides services to other agencies, largely using Postal Service contractors, with a small amount of the work being performed by postal employees. Many agreements that fall into this category are EEO services. Generally, for these services, the Postal Service enters into procurement contracts (also known as Supply Management contracts) for services (e.g., EEO case handling) primarily to meet the needs of the Postal Service. However, some such procurement contracts have the capacity to provide the same services to other agencies as well. In performing these IAAs, the Postal Service reviews the case for the agency, and assigns it to a contractor by issuing a task order. As the contract holder, the Postal Service incurs the cost of the procurement contract. The Postal Service also incurs administrative costs in performing these IAAs, as a team of Postal Service employees must input agency case information, issue task orders assigning cases, transfer files, and monitor contractor performance, including reviewing contractor work. The revenues from these IAAs, often provisional upon the necessity to utilize EEO services, are outlined in the agreements and confirmed with Accounting.

**B. Treatment of Future IAAs**

In the future, the Postal Service will perform the same investigation into the postal resources used for each new IAA, including the review of the agreement with the internal points of contact, review of documentation, data requirements, payment structure, and confirmation of revenues. The Postal Service will also attempt to identify an appropriate category into which the new agreement will fall. If no suitable category is identified, the Postal Service will create a new category which characterizes the agreement (and any future similar agreements).