Attachment I

PENALTY MAIL
FACT SHEET

Penalty mail allows for reimbursement of states' postage costs "after the fact," which the Department of Labor (DOL) pays directly to the United States Postal Service (USPS). The authorized users include the following programs/organizations:

> Unemployment Insurance (UI), Wagner-Peyser (WP), Foreign Labor Certification (FLC), Disaster Unemployment Assistance (DUA), Bureau of Labor Statistics (BLS) Cooperative Agreement, Trade Adjustment Assistance (TAA), Work Opportunity Tax Credit (WOTC), and the Disabled Veterans' Outreach and Local Veterans Employment programs (Veterans Programs).

The legal authority to use penalty mail is found at **39 U.S.C. 3202(a)(1)(E)**:

> "[T]he United States Employment Service and the system of employment offices operated by it in conformity with the provisions of sections 49-49c, 49d, 49e-49k of Title 29 [Wagner-Peyser Act], and all state employment systems which receive funds appropriated under authority of these sections" are authorized to use penalty mail.

Section 3.3 of the USPS Domestic Mail Manual interprets the penalty authority privilege granted to the "United States Employment Service" in 39 U.S.C. as encompassing "Employment Security Offices," which provides the authority to other DOL users and functions, e.g., UI – All mail prepared under 7.0, 8.0, 9.0, and 11.0 (sections in the manual) by state employment security offices is accepted without prepayment of postage and fees.

Additionally, the appropriations act provides DOL with the authority to pay the USPS directly for state postage costs. Since states do not pay their postage directly, their individual postage costs are essentially invisible. Thus, there is little incentive for states to aggressively manage their costs.

How the Current System Works

- DOL subtracts funds from state UI administration, WP, Foreign Labor Certification (FLC), Trade Adjustment Assistance (TAA), Workforce Information Grants (WIG), Work Opportunity Tax Credit (WOTC) appropriations to cover state postage costs before annual allocations are provided to the states. These funds are held by ETA, which pays monthly postage charges to the USPS for the states' employment security postage.
- ETA bills BLS for actual costs, and charges Veterans' programs an estimated amount.
- A few states use vendors to bundle their mail to obtain discounts and are reimbursed for their postage costs through supplemental budget requests.

States' Postage Experience

Actual postage costs vary from state to state and are primarily influenced by UI claim workloads, WP usage, and state efficiency. Historically, postage costs have been approximately 4-5 percent of the appropriations, but vary depending upon the state of the economy. In the case of UI, recent postage costs have ranged from $76 million in FY 2000 to $142 million in FY 2004. Little information is available on actual WP, FLC, TAA, WIG, and WOTC postage costs; the USPS does not collect program specific information, and the ETA Office of Financial and Administrative Management (OFAM) has charged these programs approximately $20 million per year over the past five years for postage costs based upon estimation.

ETA reviewed UI postage expenditures for FY 2003, FY 2004 and FY 2005 (Attachment V) using Weeks Claimed and 4 times Subject Employers as a proxy for workload to assess state postal expenses and expressed the result as a postal workload index (PWI). The review revealed that in FY 2005 the average PWI was 0.62 and the median 0.66, ranging from a low of 0.42 to a high of 1.69. In FY 2003, the median was 0.70 and the range was 0.46 to 1.63. The wide range results from differing state practices in postal management, including the use of available discounts to reduce overall costs.

On several occasions, ETA has encouraged improvements in state postage handling with varying degrees of success. In FY 2005, ETA provided a $50,000 SBR opportunity for states to study and examine mailing operations, explore opportunities to improve efficiency and reduce mailing costs and to implement available technology to decrease state mailing expenditures in anticipation of this change; only 30 states requested funds. Previously, in FY 1992, ETA provided funding ($11.5 million) for states to purchase postal equipment to improve efficiencies and reduce costs; as a result, many states now participate in complicated postal discount rate programs (e.g., presorting, bar-coding etc.) and have reduced their postage costs. For example, a 39 cent letter can be mailed at the automated presorted three digit rate of 30.8 cents per piece or a 21 percent cost saving. Today, some states continue to use mail discount programs. A few states even use commercial mail practices wherein ETA pays the costs through SBRs.