



## Intra-Alaska Mail Service by Air

**Mail Service in Alaska:** Established by law (39 USC 5402) the United States Postal Service (USPS) is required to perform its mail delivery mission of “providing universal service at universal rates” to all persons in the United States. In order to meet its mission to deliver mail to all persons in Alaska, the USPS must use air transportation to deliver *all* mail to many of the 82% of Alaska communities not accessible by road.



There are two categories of intra-state mail delivery in Alaska:

1. Priority rate mail (First Class, Priority, and Express Mail)
2. Non-priority rate mail (Parcel Post / Bypass Mail)

Priority-rate mail, which travels by air to most locations within the U.S., constitutes about 6% to 7% of the total Alaska intra-state mail. The remainder of the mail is non-priority rate mail, which travels under the label of parcel post—the USPS’s *ground-based* delivery service. In Alaska, however, parcel post mail travels by air rather than by surface route to many locations. That is to say, shippers pay ground-based delivery postage rates, but the USPS uses air service to move that mail. The cost to the USPS to transport parcel post mail by air far exceeds the revenue from postage paid by customers (i.e., the USPS moves the mail at a considerable financial loss). For example, in 2009, it cost \$15.09 to ship

a 68 pound parcel to Cold Bay, but the USPS paid \$153.00 to transport it (D. Macy, USPS, 2009).



**Bypass Mail:** Bypass mail is unique to Alaska. Bypass mail is a type of mail that falls within the non-priority rate category. About 20% of Alaska’s non-priority mail is handled just as it would be anywhere else in the U.S.; it is received and handled at any Post Office in Alaska and is delivered to its in-state destination. The remaining 80% of the non-priority mail ships as “bypass mail.”

Bypass mail is prepared so as not to require handling in a postal facility—mail is able to move directly from shipper to customer without passing through a Post Office, hence it “bypasses” the postal facilities. Mail shipped under this category has specific requirements that distinguish it from regular non-priority mail, such as the minimum weight of the shipment, the packaging and sizing requirements, the locations at which this mail can be accepted, and the locations where this mail is authorized for delivery. The bypass mail program was established and designed to:

- Prevent overloading of Alaska’s limited postal facilities.
- Provide affordable means of delivering everyday necessities to rural Alaskans.
- Support affordable and reliable passenger and non-mail freight service.



Bypass mail shipments originate in Anchorage and Fairbanks only. Service is currently provided to 16 regional hubs and 120-130 bush community destinations. Five mainline carriers transport mail to the regional hubs, and 20-25 bush carriers transport mail to the bush destinations presently.

The minimum weight of each shipment must be at least 1,000 pounds, and the shipment must be palletized. Shippers apply in advance with the USPS to send goods via bypass mail. Qualified shippers become responsible for weighing the shipment, affixing all postage and labels, and tendering the shipment directly to the air carrier. The air carrier then becomes responsible for delivering the shipment to the final addressee at the bush destination.



### **Current Events Affecting Alaska's Mail System:**

The USPS's position on bypass mail has been that the agency is committed to the program, recognizes its valuable purpose, and currently has no plans to end it. Bypass mail volume is on the rise, even though first class & priority mail volumes have decreased drastically. However, the USPS is mandated by Congress to run much like a private enterprise – required to break even in business. The USPS reported a loss of \$8.5 billion for fiscal year 2010. In Alaska, the USPS pays air carriers approximately \$155 million each year to deliver mail at a loss of nearly \$60 million annually. Since bypass mail makes up approximately 75% of Alaska's mail volume, this loss can be largely attributed to bypass mail.

In light of its financial situation, the USPS has been aggressively searching for cost savings (aka

loss avoidances). The need to reduce losses led to the USPS hub expansion proposal, which would increase the number of hubs statewide. As a general rule, the USPS pays lower mainline rates to air carriers for mail delivery to hubs and more expensive bush rates for service to bush destinations (approximately 7-8 times more expensive than mainline rates). The cost savings of hub expansion are realized by converting a bush destination into a hub, thereby reducing the rates paid to move mail to that location.

The current hub expansion proposal is looking at nine top candidates in three geographic regions of Alaska for designation as new hubs. These top candidate communities are Hooper Bay, Chevak, Togiak, Sand Point, Shishmaref, Wales, Savoonga, Kiana, and Noorvik. Only one new hub would be designated for a geographic region. The hub expansion proposal was introduced in late 2007 and began with a year-long consultation period with affected communities, air carriers, and other stakeholders. The USPS proposed Savoonga as a new hub in February 2009 and after a year-long comment period formally announced it as a new hub, effective May 1, 2010. Togiak and Hooper Bay or Chevak were proposed as new hubs in May 2010. No further action has been taken on these locations, as of July 2011. Even if any of these locations is designated as a new hub, there is no guarantee that a mainline carrier will choose to provide service to that location.



In addition to seeking loss reductions through the addition of hubs, the USPS has also made efforts to cut its costs by making greater use of surface transportation modes. Examples include the use



of hovercraft in the Bethel area and the trucking of mail from Fairbanks to Deadhorse for subsequent air delivery to Barrow and other northern communities. While these changes have provided the USPS with some loss avoidance realizations, the effects on customers, the public, and the mail carriers may not be equally appreciated.



### **Working to Create a More Effective and Efficient System:**

The Alaska Department of Transportation & Public Facilities (DOT&PF) established a work group in 2009 specifically to address postal hub considerations as part of the Alaska Aviation System Plan (AASP). The work of this group was targeted at coordination between the DOT&PF and the USPS on infrastructure and funding priorities at Alaska's airports. Air carrier participation and input was fundamental to understanding infrastructure needs and limitations. Through the work group, the following considerations were identified in regards to the proposed hub expansion:

### **USPS-Identified Benefits of New Postal Hubs**

- Financial loss reductions for the USPS.
- Mail volume distributed more widely, reducing mail accumulation and delivery delays at existing hubs.
- Direct and faster service to new hub communities and bush locations served by the new hub.
- Less handling means less time in transit and less loss/damage potential.
- Opportunity for larger cargo products to be delivered by air via the larger mainline aircraft serving new hub communities.

### **Community-Identified Issues**

- While potential new hub communities anticipate an improved level of service and greater job/economic opportunities, existing hub communities perceive a potential decrease in the level of service and loss of business and jobs with the designation of a new hub.
- Bush carriers in an existing hub community could lose business to carriers serving a new hub community and its bush points.



### **Carrier-Identified Issues**

- Hub expansion creates an instable operating environment, presenting carriers with the following challenges:
  - Financing is difficult to obtain for infrastructure investments that may be rendered obsolete with hub changes.
  - Business planning difficulties.
  - High financial and operating risks.
- Air carriers often front the cost to construct the USPS-required mail handling infrastructure at newly designated hubs. Carriers' operating costs are reimbursed by the USPS through the Federal DOT Intra Alaska mail rate setting process, but capital development costs are not. Air carrier infrastructure needs at hubs typically include:
  - Available lease lots of adequate size and suitable for construction
  - Fuel delivery and storage
  - Deicing chemicals and sand storage
  - Buildings with securable space for mail storage





- Runway dimensions at many new hub candidate airports are inadequate to accommodate some mainline aircraft currently in use.



#### DOT&PF-Identified Issues

- The USPS hub selection has typically not taken into account infrastructure (runway and facilities) requirements or the deficiencies of existing infrastructure.
- The DOT&PF often shoulders the cost of upgrading airfield infrastructure to safely and adequately accommodate air traffic serving a new hub. Infrastructure needs include:
  - Adequate runway length, width, & strength
  - Parking apron and lease lots of adequate size
  - Power availability on lease lots
  - Adequate building and equipment
- Using DOT&PF funding to upgrade a new hub may divert funding from other critical—possibly life safety—needs elsewhere in the state.

In summary, the capital and operating costs borne by other parties (carriers, the State, communities) due to hub expansion would likely outweigh the projected savings by the USPS.

#### The Future of the Bypass Mail Program

While changes to the bypass mail program (such as the designation of new hubs) have significant impact, the potential elimination or reduction of the entire program is exponentially more alarming. In early 2011, the USPS began a sweeping reorganization in an attempt to curb its losses. Although the USPS has long held its position that it is committed to sustaining the bypass mail program, many long-time USPS employees have recently retired, leaving the future of the bypass mail program uncertain. Furthermore, the current federal budget constraints may impact Alaska's ability to defend this program in Congress. With the USPS – and the nation as a whole – ambitiously searching for ways to balance budgets, the bypass mail program may very well be in the crosshairs.

In the end, the consumers may bear most of the costs associated with reductions to the bypass mail program. Rural Alaska residents would suffer the greatest impact of higher costs to move necessities and reduced levels of service for passenger travel and non-mail freight delivery. However, the benefits of the bypass mail program that are appreciated by *all* who live in, work in, and do commerce with rural Alaska would be in jeopardy.

#### For More Information

*Intra-Alaska Mail Service by Air*

*USPS Handbook PO-508*

<http://www.usps.com/cpim/ftp/hand/po508.pdf>

*39 USC Chapter 54 – Transportation of Mail by Air*

<http://uscode.house.gov/download/pls/39C54.txt>

*Yukon-Kuskokwim Delta Transportation Plan*

*Appendix C: Bypass Mail*

[http://www.dot.state.ak.us/stwdplng/areaplans/pu b/YKDelta\\_appendices.pdf](http://www.dot.state.ak.us/stwdplng/areaplans/pu b/YKDelta_appendices.pdf)