



Financial Analysis of United States Postal Service Financial Results and 10-K Statement

Fiscal Year 2015

March 29, 2016

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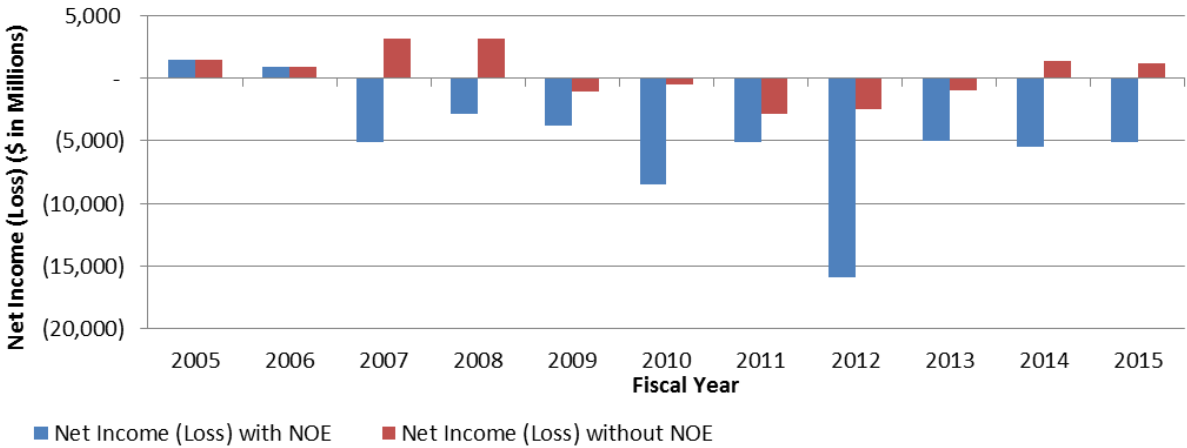
Chapter I. Report Overview

Financial Changes

The Postal Service has made significant efforts to reduce operating expenses and improve efficiency to ensure that expenses are better aligned with mail volumes. In FY 2015, the Postal Service generated its second consecutive operating income. Increases in Competitive product volume and revenue, in addition to the continued collection of the Market Dominant exigent rate surcharge, contributed significantly to achieving this year’s net operating income of \$1.2 billion.¹

Figure I-1 shows the net income or loss for the last 10 years, both with and without Non-operating Expenses (NOEs). The Postal Service considers non-cash workers’ compensation costs, accrued payments to the Retiree Health Benefit Fund (RHBF), Federal Employees Retirement System (FERS) supplemental payments, and one-time adjustments to be NOEs.²

Figure I-1
Postal Service Net Income (Loss) (\$ in Millions)



Source: Postal Service Form 10-K and USPS Annual Report, FY 2005-2015.

Note: NOEs include all non-cash workers' compensation costs, the accrued payment to the Postal Service's RHBF, the FERS supplemental payment, and any one-time expense or revenue adjustments.

In FY 2015, the exigent surcharge generated an additional \$2.1 billion³ in revenue, greatly mitigating revenue losses resulting from a decline in Market Dominant product volume.⁴

¹ United States Postal Service, 2015 Report on Form 10-K, November 13, 2015, at 14 (Postal Service FY 2015 Form 10-K).

² The Postal Service considers these NOEs as non-controllable factors and the net operating income (loss) as “controllable income (loss).” *Id.*

³ *Id.* at 13.

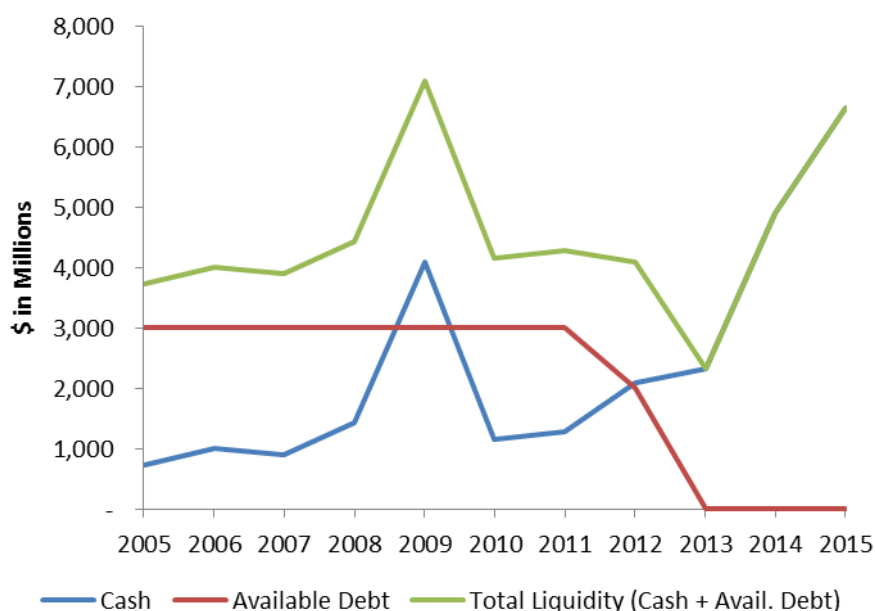
⁴ *Id.* at 16.

Competitive product volume increased significantly in FY 2015,⁵ generating more than \$1 billion in additional revenue.

Operating expenses, most notably in compensation and benefits, grew in FY 2015. The continued growth in parcel volume resulted in increased work hours and an increase in the Postal Service’s career employee complement.⁶ This is the first time since FY 2005 that the Postal Service has increased the career employee complement. In addition, the Postal Service will have to invest in equipment and vehicles better suited to the handling and delivery of parcels in order to reduce work hours and improve productivity.

The Postal Service’s liquidity continues to improve from its nadir in FY 2013. Figure I-2 illustrates the overall liquidity, along with cash and debt trends, since FY 2005. The Postal Service reached its statutory debt limit of \$15 billion at the end of FY 2012.⁷ As a result, capital expenditures over the past few years have been limited to necessary safety, customer support, and initiatives with a high return on investment.⁸

**Figure I-2
Postal Service Liquidity (\$ in Millions)**



Source-Postal Service Form 10-K and USPS Annual Report, FY 2005-2015.

However, the recent improvements in its cash balance have allowed the Postal Service to increase its capital investment plans. The FY 2015 Integrated Financial Plan (IFP) included a capital investment budget of \$1.5 billion for mail processing equipment, vehicles, and

⁵ *Id.* at 14.

⁶ *Id.* at 19.

⁷ *Id.* at 10.

⁸ *Id.* at 31.

information technology. The FY 2016 IFP builds upon the FY 2015 investments in these assets by allocating an additional \$1.4 billion.⁹

Despite the slight improvement in liquidity, the Postal Service faces significant financial challenges. The net book value of the Postal Service's assets remains significantly lower than its liabilities,¹⁰ and the Postal Service has been unable to make the statutorily required payments to the RHBF since FY 2012.¹¹ There are also large unfunded pension and RHBF liabilities that are not included on the Postal Service's balance sheets.¹² Beginning in FY 2017 and FY 2018, amortized payments to reduce these large unfunded liabilities will begin.¹³ Additionally, the Postal Service's liquidity will be significantly affected by the expiration of the Market Dominant exigent surcharge that the Postal Service intends to remove on April 10, 2016.¹⁴ According to the Postal Service, the removal of the exigent surcharge will reduce revenue by at least \$1 billion in FY 2016.¹⁵

Other Highlights

Other highlights for FY 2015 include:

- Market Dominant revenue increased for the second consecutive year despite continuing declines in volumes.
- Competitive products volumes and revenues increased 14.8 percent and 7.5 percent, respectively.
- For the eighth consecutive year, certain products did not cover their attributable costs. These products generated a total negative contribution of \$1.2 billion in FY 2015.
- Total attributable costs increased for the first time since FY 2008.
- Average unit total costs continue to increase; however, for the first time since FY 2010, the average unit attributable cost also increased.
- The increase in attributable costs reduced the percentage of total costs that are considered institutional.

⁹ Total actual capital investments for mail processing equipment, vehicles, and information technology in FY 2015 were \$0.4 billion less than planned. United States Postal Service Fiscal Year 2016 Integrated Financial Plan, November 20, 2015, at 5 (Postal Service 2016 Integrated Financial Plan).

¹⁰ *Id.* at 1.

¹¹ Postal Service FY 2015 Form 10-K at 45.

¹² *Id.* at 23 and 26.

¹³ See 5 U.S.C. § 8348(h) and 5 U.S.C § 8909a(d)(2)(B).

¹⁴ Docket No. R2013-11, Notice of the United States Postal Service of Removal of the Exigent Surcharge, February 25, 2016, at 1.

¹⁵ Postal Service 2016 Integrated Financial Plan at 2.

- The percentage of volume, revenue, attributable costs, and contribution to institutional costs from Competitive products continues to increase.
- The Postal Service cash position is at the highest level since FY 2007, however significant balance sheet liabilities and off-balance sheet unfunded liabilities for pension and annuitant health benefits threaten the improvements in liquidity.

Chapter 2. Postal Service Financial Status

Introduction

This chapter analyzes the Postal Service's overall financial status. It evaluates relationships between the essential components of the Postal Service's financial statements in order to obtain a better understanding of the Postal Service's viability, stability, and profitability.

The Postal Service's Form 10-K report for FY 2015 consists of the Statements of Operations, Balance Sheets, Statements of Changes in Net Deficiency, and Statements of Cash Flows. The Statements of Operations measure the Postal Service's financial performance (profit and loss) over the fiscal year; the Balance Sheets summarize the Postal Service's assets and liabilities; the Statements of Changes in Net Deficiency combine the accumulated net deficit from operations and initial capital contributions; and the Statements of Cash Flows measure the Postal Service's intake and outflow of cash.

In this Chapter, the Commission reviews and analyzes the Postal Service's financial statements for FY 2014 and FY 2015. The Commission examines various factors that affect the Postal Service's financial position, and discusses its operational status and allocation of resources. To provide a basis for comparison, the Commission also examines key financial data from the past 10 fiscal years. The remainder of this chapter is broken into the following sections:

Analysis of Statements of Operations. This section begins by reviewing overall income and loss, and compares current revenues and expenses with those reported during the prior fiscal year. It also compares changes in Postal Service productivity between FY 2014 and FY 2015. Additionally, targets forecasted in the Postal Service's FY 2015 Integrated Financial Plan (IFP) are compared to the FY 2015 financial statements.

Analysis of Balance Sheets. This section begins with a discussion of changes in the Postal Service's net deficiency and the remainder of the section summarizes the Postal Service's assets and liabilities as of September 30, 2015, the last day of the fiscal year.

Analysis of Off-Balance Sheets Items. This section examines items that are effectively liabilities of the Postal Service, but that do not appear on its Balance Sheets. More specifically, these items are future net liabilities that will need to be funded by future revenue. The off-balance sheet items are found in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Postal Service Form 10-K.¹⁶

¹⁶ Postal Service FY 2015 Form 10-K Statement, November 13, 2015, at 23–27 (Postal Service FY 2015 Form 10-K).

Analysis of Statement of Cash Flows. This section analyzes the Postal Service's inflow and outflow of cash during the fiscal year.

Analysis of Statements of Operations

To facilitate a detailed financial analysis of the Postal Service's Statements of Operations, the Commission separately identifies certain non-cash elements of the reported operating revenues and operating expenses. The Commission adjusts operating expenses to exclude the payment to the Postal Service Retiree Health Benefits Fund (RHBF), the supplemental contribution to the Federal Employees Retirement System (FERS) annuity, and the non-cash adjustments to the workers' compensation liability. These adjustments are properly recognized as accrual entries in the Postal Service's financial statements and have been disaggregated by the Commission to provide an in-depth analysis of the financial results for FY 2015. Table II-1 illustrates the Commission's disaggregation of the Postal Service's Statements of Operations.

Table II-1
Postal Service Statements of Operations Disaggregated to Facilitate Analysis FY 2015 and FY 2014
(\$ in Millions)

| | FY 2015 | FY 2014 | Variance | FY 2015 Plan | Variance from Plan |
|--|-------------------|-------------------|-----------------|-------------------|--------------------|
| Operating Revenue as reported by the Postal Service | \$ 68,928 | \$ 67,831 | \$ 1,097 | \$ 69,707 | \$ (779) |
| Operating Expense as reported by the Postal Service | 73,827 | 73,178 | 649 | 74,941 | (1,114) |
| less: Statutory accrual into Retiree Health Benefit Fund | (5,700) | (5,700) | - | (5,700) | - |
| Supplemental Contribution to FERS Annuity | (241) | (7) | (234) | - | (241) |
| Non-Cash Change to Workers' Compensation Liability | (307) | (1,182) | 875 | (922) | 615 |
| Net Operating Expense | \$ 67,579 | \$ 66,296 | \$ 1,283 | \$ 68,319 | \$ (740) |
| Interest Income | 23 | 24 | (0) | 25 | (2) |
| Interest Expense | 184 | 184 | 1 | 194 | (10) |
| Net Income (Loss) from Operations | \$ 1,188 | \$ 1,357 | \$ (169) | \$ 1,348 | \$ (160) |
| Statutory accrual into Retiree Health Benefit Fund | 5,700 | 5,700 | - | 5,700 | - |
| Supplemental Contribution to FERS Annuity | 241 | 7 | 234 | - | 241 |
| Non-Cash Change to Workers' Compensation Liability | 307 | 1,182 | (875) | 922 | (615) |
| Net Loss | \$ (5,060) | \$ (5,507) | \$ 447 | \$ (5,403) | \$ 343 |

Decrease in revenue and expense is denoted by (). Increase in net loss is denoted by ().

Numbers may not add across due to rounding.

Source: Library References USPS-FY15-5, December 29, 2015, and USPS-FY14-5, December 29, 2014; FY 2015 Plan data from USPS Preliminary Financial Information (Unaudited), September 2015, November 13, 2015 (November 13, 2015, Preliminary Financial Information); file "2015.11.13 September FY 2015 Report to the PRC-Report.pdf."

The Postal Service recorded total net operating income of almost \$1.2 billion in FY 2015. This figure is \$0.2 billion lower than the \$1.4 billion net operating income reported in FY 2014. In FY 2015, total revenues increased by \$1.1 billion while operating expenses increased by \$0.6 billion. The increase in revenues was primarily due to the continuance of

the exigent surcharge on Market Dominant products,¹⁷ price increases for both Market Dominant and Competitive products implemented in May 2015,¹⁸ and increased volume of Competitive products. The increase in operating expenses was primarily the result of higher compensation outlays.

After accounting for the non-cash adjustment to the workers' compensation liability and the RHBF payment, the Postal Service had a total net loss of \$5.1 billion in FY 2015. This amount is \$0.4 billion less than the total net loss in FY 2014. The improved net loss figure is primarily the result of a lower non-cash adjustment to the workers' compensation liability.

Current Revenues Compared to Prior Fiscal Year

This section presents an overview of revenues for Market Dominant and Competitive products. A more detailed discussion of the revenues generated by Market Dominant and Competitive products appears in Chapter 3.

CURRENT MARKET DOMINANT REVENUES COMPARED TO PRIOR FISCAL YEAR

Table II-2 disaggregates FY 2015 and FY 2014 Market Dominant revenues by class.

Table II-2
Market Dominant Mail Class Revenue FY 2015 and FY 2014 (\$ in Millions)

| | FY 2015 | Original FY 2014 | Variance | Adjusted FY 2014 | Variance |
|---|------------------|-----------------------------|-----------------|-----------------------------|-----------------|
| First-Class Mail | \$ 29,597 | \$ 29,571 | 0.1% | \$ 29,637 | (0.1%) |
| Standard Mail | 17,711 | 17,497 | 1.2% | 17,494 | 1.2% |
| Periodicals | 1,589 | 1,625 | (2.2%) | 1,625 | (2.2%) |
| Package Services | 806 | 837 | (3.7%) | 831 | (3.0%) |
| Ancillary and Special Services | 1,925 | 2,041 | (5.7%) | 2,017 | (4.6%) |
| Sub-Total Mail and Service Revenue | \$ 51,628 | \$ 51,572 | 0.1% | \$ 51,604 | 0.0% |
| Other | 798 | 916 | (12.9%) | 1,162 | (31.3%) |
| Total Market Dominant Mail | \$ 52,426 | \$ 52,488 | (0.1%) | \$ 52,767 | (0.6%) |

Decrease in revenue is denoted by ().

Numbers may not add across due to rounding.

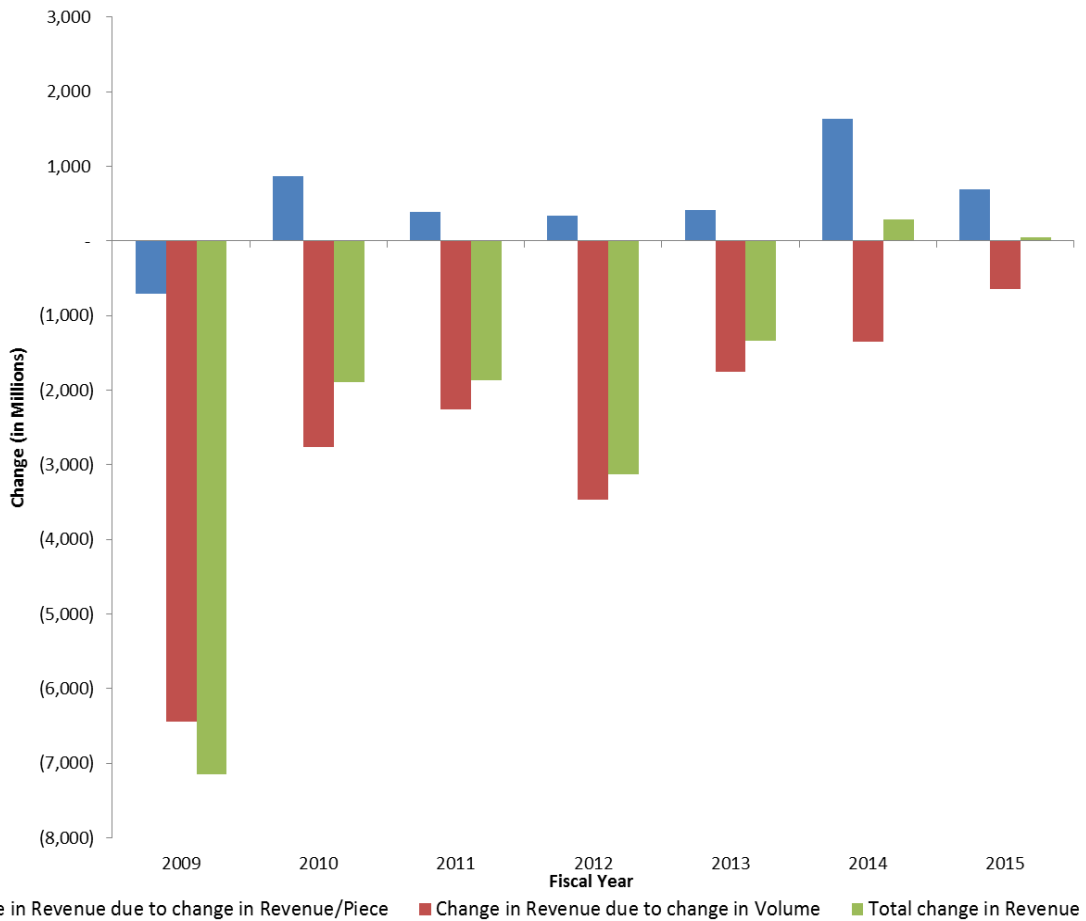
Source: Library Reference PRC-LR-ACR2015/1, March 28, 2015; Library Reference PRC-LR-ACR2014/1, March 27, 2015 ; Library Reference USPS-FY15-42, December 29, 2015.

¹⁷ Docket No. R2013-11, Order Granting Exigent Price Increase, December 24, 2013 (Order No. 1926).

¹⁸ Docket No. R2015-4, Order on Revised Price Adjustments for Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, May 7, 2015 (Order No. 2472); Docket No. R2015-4, Order Amending Order Nos. 2365 and 2388, April 7, 2015 (Order No. 2426); Docket No. R2015-4, Order on Price Adjustments for Special Services Products and Related Mail Classification Changes, March 10, 2015 (Order No. 2388); Docket No. R2015-4, Order on Price Adjustments for First-Class Products and Related Mail Classification Changes, February 24, 2015 (Order No. 2365); Docket No. CP2015-33, Order Approving Changes in Rates of General Applicability for Competitive Products, February 25, 2015 (Order No. 2366); Docket No. CP2015-33, Notice of New Implementation Date for Changes in Rates of General Applicability for Competitive Products, May 7, 2015 (Order No. 2473); Docket No. CP2015-33, Order Approving Additional Mail Classification Changes for Competitive Products, May 13, 2015 (Order No. 2481).

Total FY 2015 Market Dominant revenues did not significantly change from FY 2014, despite a decline in volume. Continuance of the exigent surcharge on Market Dominant products, as well as the implementation of a consumer price index (CPI)-based rate increase, largely explains why FY 2015 revenues remained virtually unchanged from FY 2014. As shown in Figure II-1, the increase in revenue per piece was sufficient to offset the loss of revenue due to continued declines in Market Dominant product volumes in FY 2015 and FY 2014.¹⁹

Figure II-1
Change in Market Dominant Revenue Due to Changes
in Average Revenue per Piece and Total Mail Volumes
FY 2009 - 2015



Source: Postal Regulatory Commission (PRC) derived from Postal Service Revenue, Pieces and Weight Report, FY 2009 - 2015.

¹⁹ The change in revenue per piece can be affected by more than just rate changes. Changes in mail mix, average weight per piece, and, in the case of Periodicals, changes in the editorial/advertising content, can influence the overall average revenue per piece. Generally, however, rate changes are the predominant factor affecting changes in revenue per piece.

Table II-3 shows that in FY 2015, exigent surcharge revenues were \$2.1 billion, without which there would not have been an increase in revenue for Market Dominant products.

Table II-3
Disaggregation of Change in Market Dominant Revenue FY 2015 (\$ in Millions)

| | Change in Revenue from Average Change in Revenue Per Piece | Revenue from Exigent Surcharge | Change in Revenue from Extrinsic Changes in Revenue Per Piece | Change in Revenue from Changes in Volume | Net Change in Revenue |
|------------------------------|--|--------------------------------|---|--|-----------------------|
| | 1 | 2 | 3=1-2 | 4 | 5=1+4 |
| First-Class | \$ 740,930 | \$ 1,206,119 | \$ (465,189) | \$ (762,219) | \$ (21,289) |
| Standard Mail | 315,554 | 730,876 | (415,322) | (92,098) | 223,456 |
| Periodicals | 18,657 | 61,246 | (42,589) | (56,118) | (37,461) |
| Package Services | 210 | 33,779 | (33,569) | (25,308) | (25,098) |
| Special Services | (382,766) | 85,917 | (468,683) | 290,906 | (91,860) |
| Total Market Dominant | \$ 692,584 | \$ 2,117,937 | \$ (1,425,352) | \$ (644,836) | \$ 47,748 |

Decrease in revenue is denoted by ().

Numbers may not add across due to rounding.

Source: PRC derived from Library Reference USPS-FY15-42; Docket No. R2013-11, Notice of the United States Postal Service of Filing Revenue Collection Report for Quarter 4 of Fiscal Year 2015, November 17, 2015.

CURRENT COMPETITIVE PRODUCTS REVENUES COMPARED TO PRIOR FISCAL YEAR

Table II-4 compares revenues for Competitive products between FY 2015 and FY 2014.

Table II-4
Competitive Product Revenue FY 2015 and FY 2014 (\$ in Millions)

| | FY 2015 | Original FY 2014 | Variance | Adjusted FY 2014 | Variance |
|---------------------------------------|------------------|------------------|-------------|------------------|-------------|
| Priority Mail | \$ 7,276 | \$ 6,884 | 5.7% | \$ 6,729 | 8.1% |
| Total Ground | 3,925 | 3,160 | 24.2% | 3,171 | 23.8% |
| First-Class Packages | 1,689 | 1,462 | 15.5% | 1,418 | 19.2% |
| Priority Mail Express | 779 | 760 | 2.5% | 760 | 2.5% |
| International | 1,970 | 2,310 | (14.7%) | 2,211 | (10.9%) |
| Ancillary and Special Services | 786 | 703 | 11.7% | 710 | 10.7% |
| Sub-Total Competitive Products | \$ 16,426 | \$ 15,279 | 7.5% | \$ 15,000 | 9.5% |
| Other Revenue | 99 | 87 | 13.5% | 88 | 12.4% |
| Total Competitive Products | \$ 16,525 | \$ 15,367 | 7.5% | \$ 15,088 | 9.5% |

Decrease in revenue is denoted by ().

Numbers may not add across due to rounding

Source: Library Reference PRC-LR-ACR2015/1; Library Reference PRC-LR-ACR2014/1; Library Reference USPS-FY15-42.

Competitive products' revenues continued to show significant growth in FY 2015, increasing by \$1.2 billion (7.5 percent) over last year. While revenue increased for most Competitive products, Standard Post and Competitive International Mail revenues declined. The large decline in International Mail revenue was due to a reduction in the average revenue per piece for Outbound and Inbound International negotiated service agreements (NSAs) and International Priority Mail. Volume declined in FY 2015 for all Competitive International Mail products except Inbound International NSAs. The decline in Standard Post revenue was entirely due to a loss of volume.

The overall revenue per piece for Priority Mail declined 16 cents over the prior year due to a change in rates implemented at the beginning of the fiscal year. Prices for Commercial Priority Mail products were reduced while prices for Retail Priority Mail increased.²⁰ The resulting change in revenue per piece led to a revenue decline of \$144 million. This decline was offset by additional revenue of \$691 million from increased volume.

Expense Analysis Compared to Prior Year

As shown in Table II-5, total expenses in FY 2015, including the adjustments for the payment into the RHBF, the non-cash adjustment to the workers' compensation liability,²¹ and the supplemental contribution to FERS,²² increased 0.9 percent or \$643 million. Personnel expenses increased 3 percent, but were offset by reductions in transportation, other expenses, and non-cash adjustments to workers' compensation expenses, which are primarily driven by fluctuations in interest rates during the year.

Personnel expenses include compensation, retirement, and health benefits. In addition, personnel expenses reflect certain system-wide benefits, such as the cash payment for workers' compensation and the current year's annuitant health benefit premiums. Total operating expenses, as shown in Table II-5, include compensation and benefit expenses, transportation, and other expenses. Total personnel costs accounted for 70.2 percent of total operating expenses in FY 2015, 1.4 percent higher than in FY 2014. Non-operating personnel expenses²³ accounted for 8.5 percent of total expenses. Total personnel expenses (including operating and non-operating) accounted for 78.7 percent of total operating expenses, an increase of 0.5 percentage points over FY 2014.

²⁰ Docket No. CP2014-55, Order Approving Changes in Rates of General Applicability for Priority Mail, August 15, 2014, at 2 (Order No. 2156).

²¹ Non-cash adjustments are different from the non-cash adjustments to the workers' compensation liability, which was referred to earlier. Non-cash adjustments to workers' compensation liability include actuarial revaluations of existing cases and new workers' compensation cases, the initial estimated cost of new workers' compensation cases, and fluctuations in the discount rate used to estimate the amount of current funds needed to settle all claims in the current year.

²² In FY 2015 the Office of Personnel Management (OPM) notified the Postal Service that the retiree FERS account was underfunded by \$3.6 billion dollars. OPM directed the Postal Service to make additional payments to the FERS account of \$241 million per year for 30 years beginning in 2015. Postal Service FY 2015 Form 10-K, at 22.

²³ Non-operating personnel expenses are payments into RHBF, the non-cash adjustment to workers' compensation, and the supplemental contribution to FERS.

**Table II-5
Total Expenses, FY 2015 and FY 2014 (\$ in Millions)**

| | FY 2015 | FY 2014 | \$ Variance | % Variance |
|--|------------------|------------------|--------------------|-------------------|
| Compensation & Benefits Expenses: | | | | |
| Salaries and Benefits | \$ 46,944 | \$ 45,674 | \$ 1,270 | 2.8% |
| Workers' Compensation | \$1,452 | 1,372 | \$ 80 | 5.8% |
| Annuitant Health Benefits-Current Payment | \$3,111 | 2,985 | \$ 126 | 4.2% |
| Other Personnel Related | \$334 | 326 | \$ 8 | 2.6% |
| Subtotal Personnel Expenses | \$ 51,841 | \$ 50,357 | \$ 1,484 | 3.0% |
| Transportation | \$6,579 | 6,586 | (7) | (0.1%) |
| Other Expenses | \$9,158 | 9,353 | (195) | (2.1%) |
| Total Operating Expenses | \$ 67,579 | \$ 66,296 | \$ 1,283 | 1.9% |
| Systemwide Personnel Expenses: | | | | |
| Workers' Compensation Non-Cash Adjustments | \$308 | 1,182 | (874) | (74.0%) |
| Statutory Accrual into RHBF | 5,700 | 5,700 | - | 0.0% |
| Supplemental Contrib. to FERS | 241 | 7 | 234 | 3499.0% |
| Total Expenses | \$ 73,827 | \$ 73,184 | \$ 643 | 0.9% |

Decrease in expenses is denoted by ().

Numbers may not add across due to rounding.

Source: PRC derived from Postal Service National Trial Balance September 2015, November 13, 2015; Postal Service National Trial Balance September 2014, December 8, 2014.

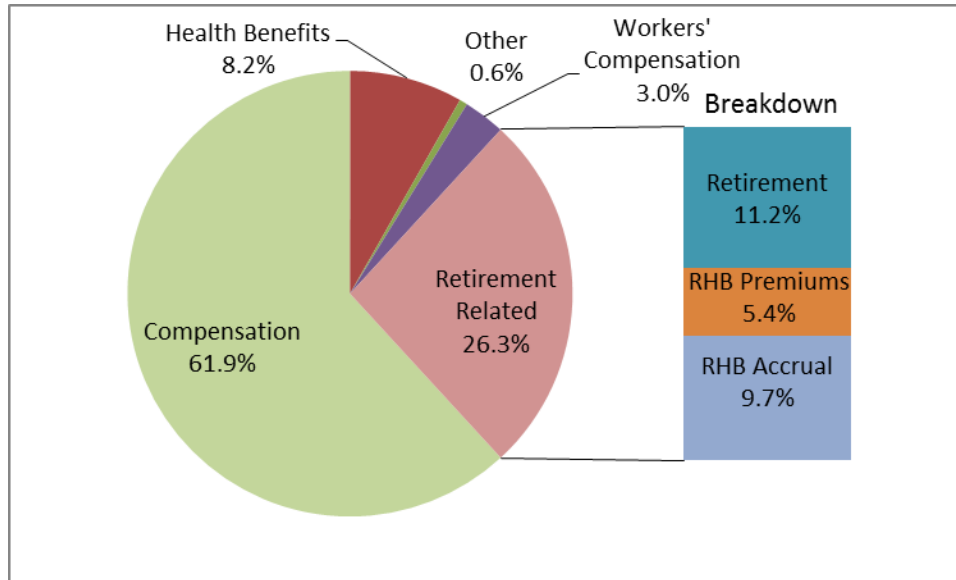
Transportation expenses declined 0.1 percent from FY 2014. These expenses accounted for 8.9 percent of total expenses. Other expenses include depreciation, rents and utilities, and supplies and services, which decreased by 2.1 percent over last year.

PERSONNEL EXPENSES

Figure II-2 illustrates the composition of FY 2015 personnel expenses. Compensation accounts for the largest portion of personnel expenses, representing 61.9 percent of total personnel costs. Retirement benefits are the next largest component, accounting for over 26 percent of total personnel expenses.

Retirement related expenses include the current year retiree health benefits premiums, FERS supplemental payments, matching contributions to the Thrift Savings Plan, and Social Security costs. The current premiums for annuitant health benefits, along with the statutory prefunding RHBF payments, account for 15.2 percent of total retirement related expenses.

**Figure II-2
Total Personnel Expenses, FY 2015**



Source: Postal Service FY 2015 Form 10-K at 20, 26, and 29.

Table II-6 shows the total compensation and benefits expenses for FY 2015. Overall, total personnel expenses were \$844 million higher than last year. Total operating personnel expenses increased \$1.5 billion but were partially offset by a significant reduction in the non-cash adjustment to the workers' compensation liability. Every category of personnel expenses, except for current employee health benefit premiums, rose in FY 2015. The most significant increases were in compensation and retirement benefits.

**Table II-6
Total Personnel Expenses, FY 2015 and FY 2014 (\$ in Millions)**

| | FY 2015 | FY 2014 | \$ Variance | % Variance |
|--|------------------|------------------|-----------------|-------------|
| Total Compensation | \$ 35,931 | \$ 35,113 | \$ 818 | 2.3% |
| Retirement | 6,239 | 5,758 | 481 | 8.3% |
| Health Benefits-Current Employees | 4,774 | 4,804 | (30) | (0.6%) |
| Workers' Compensation | 1,452 | 1,372 | 80 | 5.8% |
| Retiree Health Benefits - Current Year Premiums | 3,111 | 2,985 | 126 | 4.2% |
| Other Compensation | 334 | 326 | 8 | 2.6% |
| Total Operating Personnel Expenses | \$ 51,841 | \$ 50,357 | \$ 1,483 | 2.9% |
| Statutory Accrual into Retiree Health Benefit Fund | 5,700 | 5,700 | - | 0.0% |
| Non-Cash Change to Workers' Compensation Liability | 308 | 1,182 | (874) | (73.9%) |
| Supplemental Contribution to FERS | 241 | 7 | 234 | 3499.8% |
| Total Personnel Expenses | \$ 58,090 | \$ 57,246 | \$ 844 | 1.5% |

Decrease in expenses is denoted by ().

Numbers may not add across due to rounding.

Source: PRC derived from Postal Service National Trial Balance September 2015; Postal Service National Trial Balance September 2014.

Compensation includes the salaries of full-time career employees, salaries of part-time career and non-career employees, overtime, leave, and performance or arbitration awards. There are several cost drivers for compensation, including contractual pay increases, inflation used to calculate semi-annual Cost of Living Allowances (COLAs), work hours used, and the composition of the work force. Each component of compensation increased, with salaries and overtime costs accounting for over 75 percent of the total increase of \$818 million. According to the Postal Service, this increase was primarily caused by obligated salary increases and additional work hours necessitated by the growing demand for shipping services. Shipping services are more labor intensive and thus, consume additional work hours.

The Postal Service’s overall work force is composed of career employees and non-career employees, which include postal support employees, city carrier assistants, mailhandler assistants, and other non-career employees. Table II-7 shows the number of employees by type for FY 2013, FY 2014, and FY 2015.

**Table II-7
Postal Service Employee Complement, FY 2015 - FY 2013**

| | FY 2015 | FY 2014 | Change FY 2015 over FY 2014 | FY 2013 | Change FY 2014 over FY 2013 |
|--------------------------------|----------------|----------------|--------------------------------|----------------|--------------------------------|
| Career Employees | 491,863 | 488,299 | 3,564 | 491,016 | (2,717) |
| Postal Support Employees (PSE) | 29,312 | 24,781 | 4,531 | 28,795 | (4,014) |
| City Carrier Assistants (CCA) | 37,767 | 36,081 | 1,686 | 30,428 | 5,653 |
| Mailhandler Assistants (MHA) | 5,322 | 5,475 | (153) | 5,382 | 93 |
| Other Non-Career | 57,573 | 63,240 | (5,667) | 62,089 | 1,151 |
| Total On-Roll Employees | 621,837 | 617,876 | 3,961 | 617,710 | 166 |

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: On-Roll and Paid Employee Statistics (OPRES) reports, September 2015, 2014, and 2013.

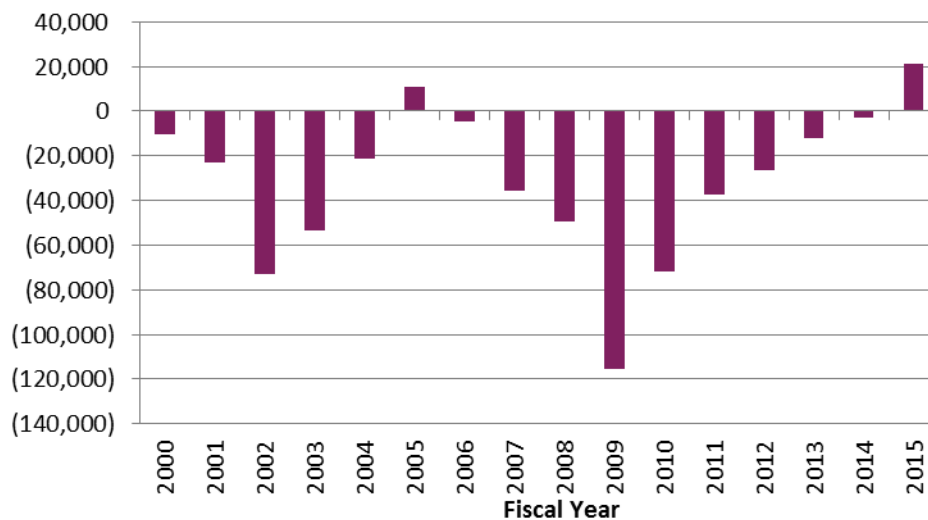
Career employees include both full-time and part-time employees. From FY 1999 through FY 2014, the Postal Service reduced the number of career employees every year, resulting in a total reduction of almost 306,000 career employees. However, in FY 2015 the number of career employees increased by 3,564. This increase in total career employees was due to significant growth in Part-Time Flexible employees, primarily in the Clerk craft. The Postal Service attributes the increase to an arbitration award regarding the staffing of Post Offices under the Postal Service’s POSTPlan re-organization strategy.²⁴ Increases in career

²⁴ See Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-6 of Chairman’s Information Request No. 9, February 11, 2016, questions 3(b) and 4; See also National Arbitration Award, Case No. Q11c-4Q-C 12243899,

employees also occurred in Supervisors, Rural Carriers, and Professional, Administrative, and Technical personnel. These increases were offset by reductions in the number of Postmasters/General Managers, Building and Equipment Maintenance employees, and City Carriers.

As shown in Figure II-3, FY 2015 also saw the first increase in the number of work hours since FY 2005.

**Figure II-3
Change in Work Hours, FY 2000 - FY 2015**



Source: Postal Service Form 10-K and Annual Reports, FY 2004 - 2015.

As shown in Table II-8, the largest increases in work hours were for delivery, and customer service and retail. The increase in work hours for these functions accounted for almost the entire increase in work hours in FY 2015. Of particular note, work hours for mail processing grew for the first time since FY 1999. The decline in work hours for the category “other” is attributable to the continuing reduction in postmaster positions.

http://www.apwu.org/sites/apwu/files/resource-files/POStPlan_Staffing_090514.pdf; Memorandum of Understanding Between the United States Postal Service and the American Postal Workers Union, AFL-CIO, http://www.apwu.org/sites/apwu/files/resource-files/POStPlan_Staffing_MOU_092214.pdf.

**Table II-8
Work Hours by Function (Thousands of Work Hours), FY 2015 - FY 2013**

| | FY 2015 | FY 2014 | % Variance FY 2015 over FY 2014 | FY 2013 | % Variance FY 2014 over FY 2013 |
|-----------------------------|------------------|------------------|--|------------------|--|
| Mail Processing | 200,661 | 198,076 | 1.3% | 202,607 | (2.2%) |
| Customer Service and Retail | 159,249 | 146,370 | 8.8% | 147,169 | (0.5%) |
| Delivery Service: | | | | | |
| City Delivery | 403,983 | 394,123 | 2.5% | 390,518 | 0.9% |
| Rural Delivery | 184,726 | 179,466 | 2.9% | 176,697 | 1.6% |
| Maintenance: | | | | | |
| Plant & Equipment | 66,741 | 65,227 | 2.3% | 65,832 | (0.9%) |
| Vehicle | 28,153 | 27,646 | 1.8% | 26,779 | 3.2% |
| Other | 84,886 | 95,996 | (11.6%) | 100,193 | (4.2%) |
| Total Work Hours | 1,128,399 | 1,106,903 | 1.9% | 1,109,795 | (0.3%) |

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service National Workload Reporting System, September 2015 and 2014.

The overtime ratio, which is the ratio of overtime work hours to total work hours, grew from 9.4 percent in FY 2014 to 9.9 percent in FY 2015.²⁵ Overall, the growth in work hours accounted for approximately \$455 million of the total growth in compensation expenses. An increase in the productive hourly wage rate for almost all crafts was responsible for the remaining growth in compensation expenses.

Growth in the productive hourly wage rates was primarily due to contractual increases that went into effect in November 2014, and COLA increases awarded in March and September of 2014. The increases in wage rates accounted for approximately \$275 million of the total \$818 million increase in compensation expenses. Table II-9 shows the productive hourly wage rates for FY 2013 through FY 2015.

²⁵ Calculation based on the United States Postal Service National Payroll Hours Summary Report, Pay Period 20, FY 2015, October 2, 2015; United States Postal Service National Payroll Hours Summary Report, Pay Period 20, FY 2014, September 26, 2014.

**Table II-9
Productive Hourly Wage Rates (\$ per Work Hour), FY 2015 - FY 2013**

| Segment/Subsegment | FY 2015 | FY 2014 | % Change FY 2014 to FY 2015 | FY 2013 | % Change FY 2013 to FY 2014 |
|---------------------------|----------------|----------------|--|----------------|--|
| Supervisors & Technicians | \$ 50.12 | \$ 49.39 | 1.5% | \$ 49.61 | (0.4%) |
| Clerks | 40.44 | 40.34 | 0.2% | 39.68 | 1.7% |
| Mailhandlers | 40.91 | 39.92 | 2.5% | 40.23 | (0.8%) |
| Clerks and Mailhandlers | 40.55 | 40.23 | 0.8% | 39.81 | 1.0% |
| City Delivery Carriers | 41.32 | 41.26 | 0.1% | 42.83 | (3.7%) |
| Vehicle Drivers | 43.34 | 42.51 | 1.9% | 41.68 | 2.0% |
| Rural Carriers | 36.21 | 35.85 | 1.0% | 35.15 | 2.0% |
| Building Services | 40.06 | 40.12 | (0.2%) | 39.74 | 1.0% |
| Operating Equipment | 53.21 | 51.28 | 3.8% | 49.62 | 3.3% |
| Building Equipment | 49.07 | 47.59 | 3.1% | 46.33 | 2.7% |
| Motor Vehicle Service | 46.70 | 45.39 | 2.9% | 44.94 | 1.0% |
| City and Rural Carriers | 39.64 | 39.49 | 0.4% | 40.41 | (2.3%) |
| Headquarters | 63.71 | 62.31 | 2.2% | 63.83 | (2.4%) |

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding

Source: FY 2015 from Library Reference USPS-FY15-43, January 13, 2016; FY 2014 from Library Reference PRC-ACR2014/1, March 27, 2015; FY 2013 from Library Reference USPS-FY13-43, January 13, 2014.

Health benefits for current employees declined less than 1 percent in FY 2015, as contractual reductions in the Postal Service’s share of health benefit premiums were offset by increases in the number of career employees covered by the Federal Health Benefits Program (FHBP) and increases in premiums for the health plans. The cost of health benefits for Postal Service annuitants increased \$125 million over FY 2014, as health premiums grew and the number of annuitants and survivors continued to increase.

Postal Service employees participate in either the Civil Service Retirement System (CSRS) or FERS. The Postal Service has not made contributions to CSRS since FY 2007, but will begin to make payments into CSRS if OPM estimates that there is an unfunded liability, beginning in FY 2017.²⁶ Less than 40,000 of the current 491,000²⁷ career employees are eligible for CSRS.

Most postal employees are covered by FERS, which includes an annuity component that the Postal Service contributes to at a rate established by OPM. This rate grew from 11.9

²⁶ 5 U.S.C § 8348(h)(2)(C).

²⁷ Postal Service FY 2015 Form 10-K at 54.

percent of base salary to 13.2 percent of base salary in FY 2015.²⁸ This change was the largest source of increase in total retirement expenses. The Postal Service's FERS contribution expenses increased \$377 million in FY 2015.²⁹

Additionally, OPM's reassessment of the actuarial valuation of the liability for the FERS annuity resulted in an unfunded liability of \$3.6 billion. OPM directed the Postal Service to fund this supplemental liability with annual payments of \$241 million for 30 years.³⁰

Overall, total workers' compensation costs declined by \$794 million in FY 2015. Workers' compensation expenses consist of a cash payment and a non-cash accrual expense. The cash payment is made to the U. S. Department of Labor to cover the current year cost of medical and compensation benefits and an administrative fee. This payment increased in FY 2015 by \$56 million. Non-cash adjustments include actuarial revaluations of existing cases and new cases, the initial estimated cost of new cases, and fluctuations in the discount rate used to estimate the amount of current funds needed to settle all claims in the current year. In FY 2015, the actuarial revaluation resulted in a \$1.1 billion reduction in the liability, significantly offsetting an increase in the liability resulting from reductions in the discount rate. The revision of the valuation model in the first quarter of FY 2015 accounted for \$353 million of the \$1.1 billion reduction in the workers' compensation liability. Table II-10 disaggregates the components of the workers' compensation liability for the past 2 years.

Table II-10
Components of Workers' Compensation Expense, FY 2015 - FY 2014
(\$ in Millions)

| | FY 2015 | FY 2014 | Variance | Variance |
|--|-----------------|-----------------|-----------------|----------------|
| Non-cash changes in the discount rate | \$ 809 | \$ 485 | \$ 324 | 66.8% |
| Cost of new cases | 1,767 | 1,956 | (189) | (9.7%) |
| Actuarial valuation of new cases and revaluation of existing cases | (886) | 45 | (931) | (2068.9%) |
| Subtotal | \$ 1,690 | \$ 2,486 | \$ (796) | (32.0%) |
| Administrative fee | 70 | 68 | 2 | 2.9% |
| Total workers' compensation expense | \$ 1,760 | \$ 2,554 | \$ (794) | (31.1%) |
| Less medical claims payments | (1,429) | (1,372) | (57) | 4.2% |
| Total non-cash workers' compensation expense | \$ 331 | \$ 1,182 | \$ (851) | (72.0%) |

Decrease in expenses is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2015 Form 10-K at 56.

²⁸ *Id.* at 21.

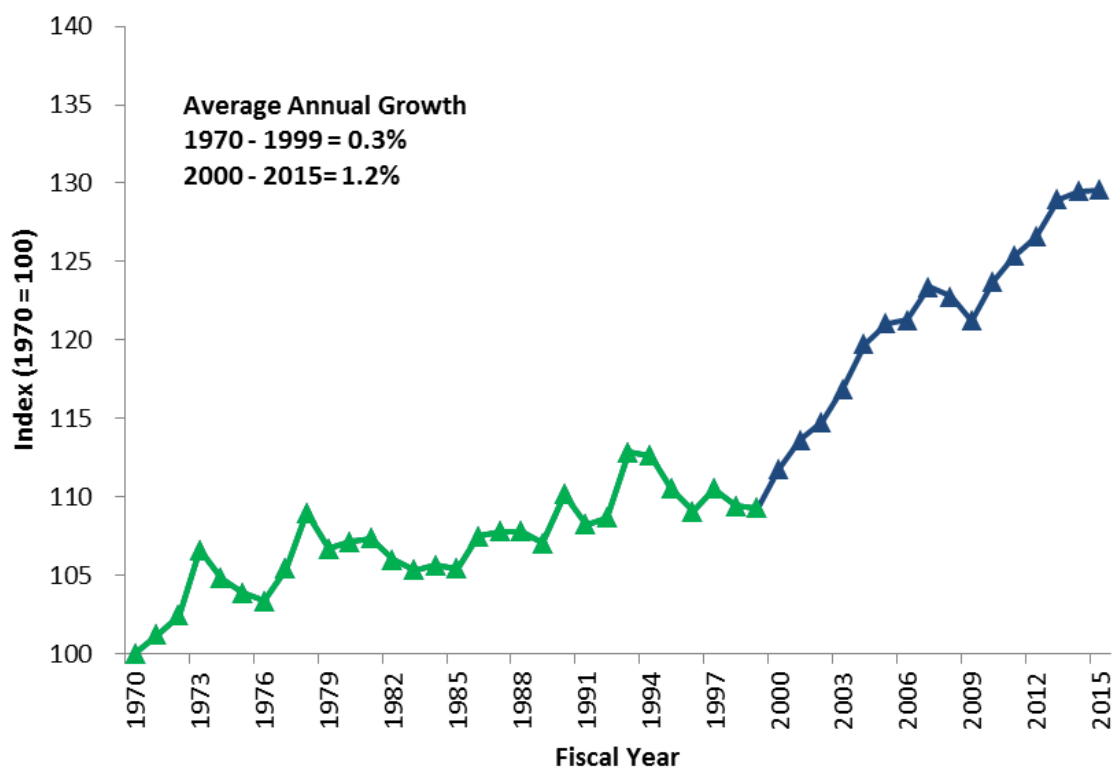
²⁹ Postal Service National Trial Balance, September, 2015, November 13, 2015.

³⁰ Postal Service FY 2015 Form 10-K at 22.

TOTAL FACTOR PRODUCTIVITY

Total Factor Productivity (TFP) measures the change in the relationship between outputs (weighted workload) and inputs (resources used) over a period of time. Total workload is calculated using weighted mail volumes, miscellaneous output, and the change in delivery points. Resources consist of labor, materials (including purchased transportation), and deployed capital assets. Workload growth, less growth in resources used, equals TFP growth. Figure II-4 shows the growth in TFP since 1970.

Figure II-4
Postal Service Total Factor Productivity, 1970 - 2015



Source: Library Reference USPS-FY15-43, Postal Service Annual Tables, FY 2015 TFP.

The 0.1 percent growth in TFP in FY 2015 represents the sixth consecutive year of productivity growth. However, the FY 2015 increase is the smallest since FY 2006.

Total workload grew 0.7 percent, the first growth in workload since FY 2006. Increases in delivery points and weighted mail volume were the primary contributors. The growth in weighted mail volume was due to the increase in parcel volume, which requires more resources to process than letter- and flat-shaped mail. Capital inputs continued to decrease

because of restrictions on capital investment resulting from the lack of liquidity. Materials usage continued to increase. For the first time since FY 2005, labor inputs increased, as work hours, employment levels, and the price of labor grew. Much of the increase in materials usage continues to be related to the increased costs for vehicle supplies and maintenance related to the upkeep of the Postal Service’s aging vehicle fleet. Overall, total resource usage grew for the first time since FY 2006.

NON-PERSONNEL EXPENSES

A major component of non-personnel related expenses is transportation, which accounted for 41.8 percent of total costs. Table II-11 compares expenses for each transportation cost category from FY 2015 to expenses for each transportation cost category from FY 2014.

Table II-11
Transportation Cost by Category, FY 2015 - FY 2014 (\$ in Millions)

| | FY 2015 | FY 2014 | Variance | Variance |
|------------------------------|-----------------|-----------------|---------------|---------------|
| Highway Transportation | \$ 3,638 | \$ 3,531 | \$ 107 | 3.0% |
| Air Transportation | 2,151 | 2,092 | 59 | 2.8% |
| International Transportation | 773 | 934 | (162) | (17.3%) |
| Other Transportation | 18 | 29 | (11) | (39.4%) |
| Total Transportation | \$ 6,579 | \$ 6,586 | \$ (7) | (0.1%) |

Decrease in expenses is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2015 Form 10-K at 28.

The total transportation expense remained essentially unchanged from FY 2014. The increase in highway transportation was primarily due to higher costs for transportation between sectional center facilities (SCF). The increase in expenses for air transportation was primarily due to higher costs for air transportation provided by United Parcel Service (UPS). These increases were offset by a reduction in international and other transportation costs³¹ of \$173 million.

Table II-12 disaggregates other non-personnel related expenses, which declined by \$196 million in FY 2015. Supplies and services was the only component that increased, primarily due to debit and credit card merchant fees and the implementation of new technology in

³¹ Other transportation expenses include transporting empty mail containers, costs incurred while transporting mail between postal facilities (other than delivery costs), and contracted air, highway, and other contracted transportation costs.

retail operations.³² This increase was offset by a decline in every other component, including rent and utilities, maintenance services, and information technology.

For vehicle maintenance services, higher repair and maintenance expenses were offset by lower fuel costs in FY 2015.

Table II-12
Other Non-Personnel Expenses, FY 2015 - FY 2014 (\$ in Millions)

| | FY 2015 | FY 2014 | Variance | Variance |
|---|-----------------|-----------------|-----------------|---------------|
| Supplies and Services | \$ 2,705 | \$ 2,550 | \$ 155 | 6.1% |
| Depreciation and Amortization | 1,769 | 1,843 | (74) | (4.0%) |
| Rent and Utilities | 1,613 | 1,613 | - | 0.0% |
| Vehicle Maintenance Services | 1,053 | 1,108 | (55) | (5.0%) |
| Information Technology and Communications | 784 | 791 | (7) | (0.9%) |
| Rural Carrier Equipment Maintenance | 514 | 556 | (42) | (7.6%) |
| Miscellaneous Other | 719 | 892 | (173) | (19.4%) |
| Total Other Expenses | \$ 9,157 | \$ 9,353 | \$ (196) | (2.1%) |

Decrease in expenses is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2015 Form 10-K at 29.

Comparison to the Postal Service Operating Plan

The Postal Service's original FY 2015 Operating Plan, as outlined in its IFP, projected a net loss of \$6.1 billion in FY 2015.³³ The change in planned expenses, which was reported in the September 2015 Preliminary Financial Report showed a reduction of \$674 million. This adjustment lowered the planned net loss from the original \$6.1 billion to \$5.4 billion.³⁴

Compared with the Postal Service's Operating Plan, the total net loss of \$5.1 billion was \$341 million less than the Postal Service's estimated net loss. Table II-13 compares the actual results for FY 2015 with the estimated results in the Operating Plan.

³² Postal Service FY 2015 Form 10-K at 29.

³³ United States Postal Service Fiscal Year 2015 Integrated Financial Plan, August 10, 2015, at 1 (Postal Service 2015 Integrated Financial Plan). The Postal Service noted that planned expenses were adjusted to reflect savings from Tier 2 employees. USPS Preliminary Financial Information (Unaudited), June, 2015, August 10, 2015, at 1, n.c.

³⁴ USPS Preliminary Monthly Financial Report to the PRC, September, 2015, November 13, 2015 at 1, n. c. The following analysis of the Postal Service's FY 2015 Operating Plan, versus its actual operating results, uses the original IFP estimates for volume and revenue, and the revised planned expense figures reported in the September 2015 Preliminary Financial Report.

Table II-13
Actual and Operating Plan Statement of Operations, FY 2015 (\$ in Billions)

| | FY 2015 Actual | FY 2015 Operating Plan | Variance |
|------------------------------------|---------------------------|---------------------------------------|-----------------|
| Total Revenue | \$ 69.0 | \$ 69.7 | \$ (0.8) |
| Total Operating Expense | 67.8 | 68.5 | (0.8) |
| Net Operating Income/(Loss) | \$ 1.2 | \$ 1.2 | \$ (0.0) |
| | | | |
| RHBF Payment | 5.7 | 5.7 | - |
| Workers' Comp. Adj. | 0.3 | 0.9 | (0.6) |
| FERS Supplemental | 0.2 | - | 0.2 |
| Total Net Income/(Loss) | \$ (5.1) | \$ (5.4) | \$ 0.3 |

Decrease in revenue and expense is denoted by (). Increase in net loss is denoted by ().

Numbers may not add across due to rounding.

Source: November 13, 2015, Preliminary Financial Information, file "2015.11.13 September FY 2015 Report to the PRC--Report.pdf."

Total revenues were \$781 million less than the Operating Plan projected. As seen in Table II-14, revenue from First-Class Mail, Periodicals, and Competitive and Market Dominant parcels were higher than expected. The revenue shortfall was the result of lower than expected revenue from Standard Mail, International Mail, and Other Revenue, which consists mostly of Ancillary and Special Services.

Table II-14
Actual and Operating Plan Revenue by Class, FY 2015 (\$ in Billions)

| | FY 2015 Actual | FY 2015 Operating Plan | Variance |
|-------------------------------|---------------------------|---------------------------------------|-----------------|
| First-Class Mail | \$ 28.3 | \$ 27.5 | \$ 0.8 |
| Periodicals | 1.6 | 1.5 | 0.1 |
| Standard Mail | 17.6 | 18.2 | (0.6) |
| Other | 2.5 | 3.6 | (1.1) |
| Competitive and Other Parcels | 16.0 | 15.7 | 0.3 |
| International | 2.8 | 3.1 | (0.3) |
| Total Mail Revenue | \$ 68.8 | \$ 69.6 | \$ (0.8) |

Decrease in revenue is denoted by ().

Numbers may not add across due to rounding.

Source: November 13, 2015, Preliminary Financial Information, file "2015.11.13 September FY 2015 Report to the PRC--Report.pdf."

Total volume was 900 million pieces higher than expected, primarily due to higher than planned volume for First-Class Mail. Standard Mail volumes did not meet expected levels, falling short by almost 1.3 billion pieces. Table II-15 compares the volume by class for FY 2015 with the volume projected in the Operating Plan.

Table II-15
Actual and Operating Plan Volume by Class, FY 2015 (\$ in Billions)

| | FY 2015 Actual | FY 2015 Operating Plan | Variance |
|-------------------------------|---------------------------|---------------------------------------|-----------------|
| First-Class Mail | 62.4 | 60.3 | 2.1 |
| Periodicals | 5.8 | 5.5 | 0.3 |
| Standard Mail | 80.0 | 81.3 | (1.3) |
| Other | 0.4 | 0.7 | (0.3) |
| Competitive and Other Parcels | 4.5 | 4.5 | 0.0 |
| International | 0.9 | 0.9 | 0.0 |
| Total Mail Volume | 154.1 | 153.2 | 0.9 |

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: November 13, 2015, Preliminary Financial Information, file "2015.11.13 September FY 2015 Report to the PRC--Report.pdf."

Total expenses for FY 2015 were \$1.1 billion less than the Operating Plan projected. Lower than planned non-personnel expenses and a smaller than forecasted non-cash adjustment to workers' compensation liability offset higher expenses for compensation and benefits. As shown in Table II-16, the compensation and benefits expense was \$200 million higher than expected, primarily due to higher work hours. Basic compensation and benefits was \$304 million higher, but was offset by lower than budgeted current premiums for retiree health benefits and other compensation and benefits.

Total non-personnel expenses were \$952 million less than the Operating Plan projected, with the largest differences coming from transportation (\$144 million), supplies and services (\$187 million), and other expenses (\$276 million). There were also significant differences between actual expenses and the Operating Plan for information technology (\$125 million) and depreciation (\$91 million). Overall, all categories of non-personnel expenses were less than budgeted. The largest difference was for the non-cash workers' compensation liability adjustment. The Postal Service forecasted a \$922 million adjustment

to the workers' compensation liability. The actual adjustment was \$307 million, a difference of \$615 million.

Table II-16
Actual and Operating Plan Expenses, FY 2015 (\$ in Billions)

| | FY 2015 Actual | FY 2015 Operating Plan | Variance |
|---------------------------------|---------------------------|---------------------------------------|-----------------|
| Compensation & Benefits | \$ 51.8 | \$ 51.6 | \$ 0.2 |
| Transportation | 6.6 | 6.7 | (0.1) |
| Supplies & Services | 2.7 | 2.9 | (0.2) |
| Depreciation | 1.8 | 1.9 | (0.1) |
| Rent/Utilities/Other | 4.7 | 5.2 | (0.5) |
| Total Operating Expenses | \$ 67.6 | \$ 68.3 | \$ (0.7) |
| PSRHBF Payment | 5.7 | 5.7 | - |
| Workers' Compensation Adj. | 0.3 | 0.9 | (0.6) |
| FERS Supplemental | 0.2 | - | 0.2 |
| Total Expenses | \$ 73.8 | \$ 74.9 | \$ (1.1) |

Decrease in expense is denoted by ().

Numbers may not add across due to rounding.

Source: FY 2015 Plan data from USPS September 2015 Monthly Financial Report, filename "2015.11.13 September FY 2015 Report to the PRC-Report.pdf", November 13, 2015.

Analysis of Balance Sheets

This section analyzes the Postal Service's financial situation and use of resources based on Balance Sheets prepared according to the U.S. Generally Accepted Accounting Principles (GAAP). The Balance Sheets compare two points in time, September 30, 2015 (FY 2015), and September 30, 2014 (FY 2014).

The balance sheets have three components: assets, liabilities, and net position. The difference between assets and liabilities is the net position. Working capital is the difference between current assets and current liabilities. The difference between total assets and total liabilities on a balance sheet is net worth, or equity. The amount of equity generally indicates the combination of borrowing (liability) and capital contributions and/or accumulated earnings from prior years used to finance the assets. Negative net worth (net deficiency) occurs when liabilities are greater than assets.

Table II-17 compares the Postal Service's assets and liabilities for FY 2015 and FY 2014. This analysis is derived from the Postal Service's balance sheets. Current assets are the sum of cash and cash equivalents, receivables and supplies, and prepayments. Current assets

can be easily converted to cash for financing operations. Non-current assets, mainly buildings and equipment (capital assets), are more difficult to convert to cash in the short term. Likewise, current liabilities are obligations that will come due within 1 year, while non-current liabilities are long-term financial obligations.

Table II-17
Assets and Liabilities (\$ in Millions)

| | FY 2015 | FY 2014 | \$ Variance | % of Total Assets | |
|--|------------------|------------------|-----------------|------------------------|---------------|
| | | | | FY 2015 | FY 2014 |
| Assets | | | | | |
| Cash and Cash Equivalents (includes Restricted Cash) | \$ 6,867 | \$ 5,152 | \$ 1,715 | 28.6% | 22.4% |
| Receivables | 930 | 930 | 0 | 3.9% | 4.0% |
| Supplies and Prepayments | 117 | 122 | (4) | 0.5% | 0.5% |
| Total Current Assets | \$ 7,915 | \$ 6,204 | \$ 1,711 | 33.0% | 27.0% |
| Net Property and Equipment | 15,686 | 16,338 | (652) | 65.3% | 71.2% |
| Other Assets | 413 | 420 | (7) | 1.7% | 1.8% |
| Total Assets | \$ 24,014 | \$ 22,962 | \$ 1,052 | 100.0% | 100.0% |
| | | | | % of Total Liabilities | |
| | FY 2015 | FY 2014 | \$ Variance | FY 2015 | FY 2014 |
| Liabilities | | | | | |
| Compensation and Benefits | \$ 1,899 | \$ 1,506 | \$ 393 | 2.6% | 2.2% |
| Retiree Health Benefits | 28,100 | 22,417 | 5,683 | 37.8% | 32.8% |
| Workers' Compensation Costs | 1,401 | 1,320 | 80 | 1.9% | 1.9% |
| Payables and Accrued Expenses | 1,853 | 2,023 | (170) | 2.5% | 3.0% |
| Deferred Revenue-Prepaid Postage | 3,304 | 3,064 | 239 | 4.4% | 4.5% |
| Customer Deposit Accounts | 1,202 | 1,191 | 11 | 1.6% | 1.7% |
| Other Current Liabilities | 1,053 | 1,221 | (168) | 1.4% | 1.8% |
| Current Portion of Long-Term Debt | 10,100 | 9,800 | 300 | 13.6% | 14.3% |
| Total Current Liabilities | \$ 48,911 | \$ 42,542 | \$ 6,369 | 65.7% | 62.3% |
| Workers' Compensation Costs, Noncurrent | 17,410 | 17,102 | 307 | 23.4% | 25.0% |
| Employees' Accumulated Leave, Noncurrent | 1,951 | 1,982 | (31) | 2.6% | 2.9% |
| Other Noncurrent Liabilities | 1,233 | 1,467 | (234) | 1.7% | 2.1% |
| Noncurrent Portion of Long-Term Debt | 4,900 | 5,200 | (300) | 6.6% | 7.6% |
| Total Liabilities | \$ 74,405 | \$ 68,293 | \$ 6,112 | 100.0% | 100.0% |

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2015 Form 10-K at 38; PRC derived from September 2015 National Trial Balance.

Total assets were \$24 billion at the end of FY 2015, a \$1 billion increase over FY 2014. This increase is due to the growth of cash and cash equivalents. Revenues from the Market Dominant exigent rate surcharge and parcel volume growth contributed to the increase in cash and cash equivalents.

Liabilities at the end of FY 2015 totaled \$74.4 billion, \$6.1 billion higher than FY 2014. This increase is largely due to the addition of \$5.5 billion for the non-payment of the required FY 2015 payment into the RHBFB. Current liabilities account for 62 percent of total liabilities. Current liabilities consist largely of prior years' unpaid RHBFB prefunding obligations and the current year payments due on long-term borrowing. The Postal Service continues to accrue the annual RHBFB statutory prefunding obligation, which totaled \$28.1 billion at the end of FY 2015. This includes accruals from FY 2011 through FY 2015. This obligation is 57.5 percent of current liabilities. Net liabilities consist of the RHBFB payments, workers' compensation liability (\$17.4 billion), and the total net debt owed to the Federal Financing Bank³⁵ (\$15 billion).

At the end of FY 2015, the Postal Service's total liabilities exceeded the total value of its assets by \$50.4 billion. This results from several years of net operating losses starting in FY 2007. Although FY 2014 and FY 2015 had a net operating income, the slow replacement of fully depreciated capital assets and substantial personnel related liabilities also contributed to this high net deficiency. Highlights from the balance sheets include:

- Non-current assets comprise 67 percent of total assets, while non-current liabilities only comprise 33 percent of total liabilities.
- Aging capital assets, such as vehicles and equipment, along with the Postal Service's inability to invest in new capital, resulted in a \$652 million decline in the value of its property, plant, and equipment.
- Total liabilities increased by \$6.8 billion dollars, mainly due to the Postal Service's non-payment of its RHBFB statutory obligation and increases in workers' compensation liability.
- Negative net worth indicates that the Postal Service has spent both its initial capital and the debt borrowed from the Federal Financing Bank. Simply put, its debts are no longer secured by its assets.

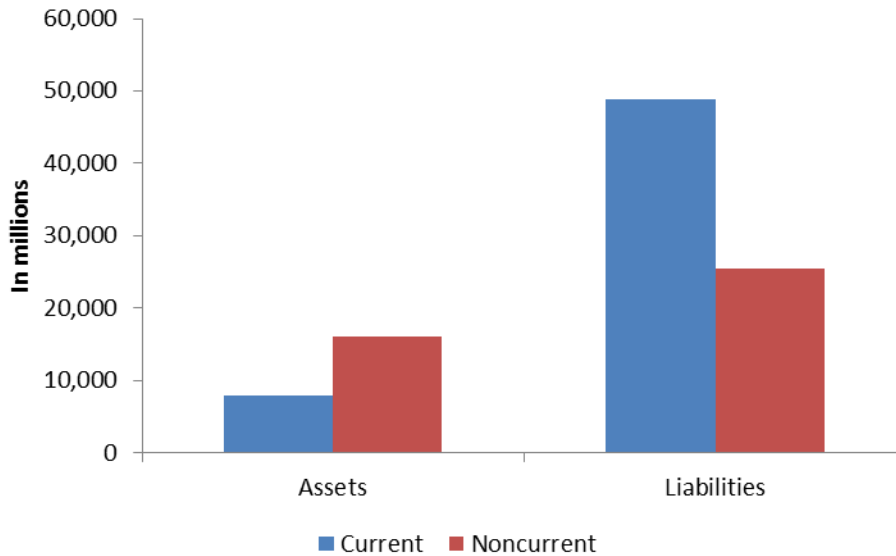
Because the Postal Service reached the limit of its borrowing authority, all current activity must be financed with internally generated cash.³⁶ This has severely limited the Postal Service's ability to invest in much needed equipment and other productive assets.

Figure II-5 shows the Postal Service's asset and liability structure.

³⁵ The Federal Financing Bank is a government corporation created by Congress in 1973 to centralize and reduce the cost of federal borrowing and federally assisted borrowing from the public.

³⁶ Internally generated cash is funding generated from or within the business itself.

**Figure II-5
Asset and Liability Structure as of September 30, 2015**



Source: Postal Service FY 2015 Form 10-K at 38; PRC derived from September 2015 National Trial Balance.

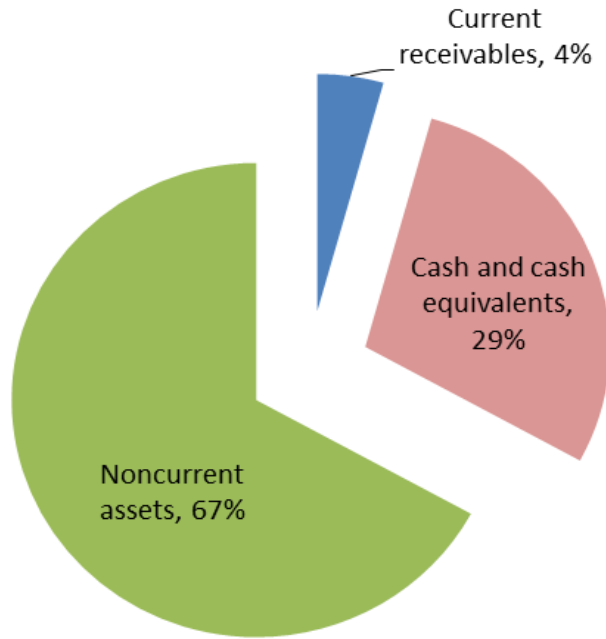
Assets

During FY 2015, assets grew by \$1 billion. This change reflects an increase in cash of \$1.7 billion and a decline in property, plant, and equipment value of \$652 million.

Although the Postal Service’s cash reserves are higher than they were in FY 2014, that growth is due in significant part to increased revenues from the Market Dominant exigent surcharge, which is expected to expire on April 10, 2016. Its inability to access debt has limited its ability to invest in much needed property and equipment. Moreover, despite the improved cash position, the Postal Service was again unable to make the statutory payment into the RHBF in FY 2015.

Figure II-6 illustrates the Postal Service’s FY 2015 asset structure.

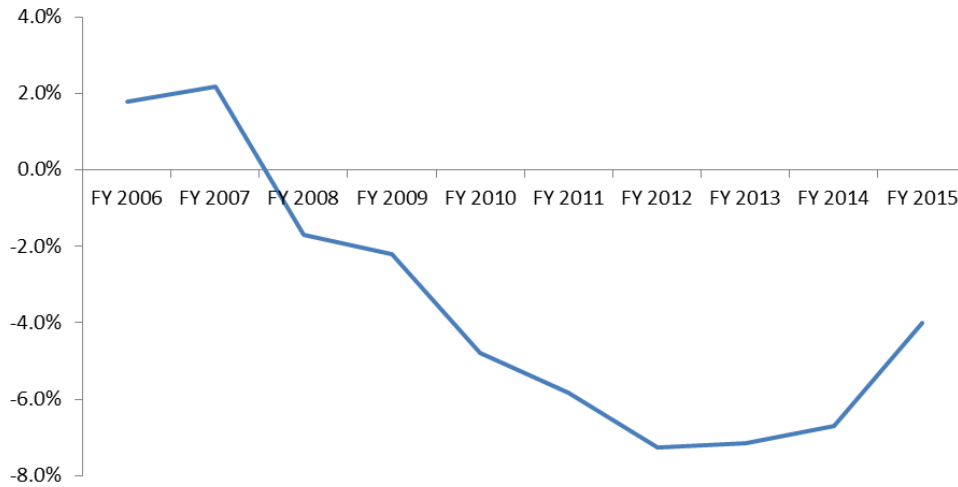
Figure II-6
Postal Service Asset Structure, September 30, 2015



Source: Postal Service FY 2015 Form 10-K at 38; PRC derived from September 2015 National Trial Balance, November 13, 2015.

Figure II-7 illustrates the Postal Service's capital investment activity since FY 2006. The Postal Service has restricted capital investment since FY 2008. From FY 2008 to FY 2012 capital investment continued to decline. The Postal Service has gradually increased planned capital investment since FY 2013 as there has been an improvement in available cash.

**Figure II-7
Capital Investment Activity since FY 2006**



Source: Postal Service FY 2006 to 2015 Forms 10-K.

Although the rate of reduction in capital assets has slowed over the past 2 years, the Postal Service continues to limit its capital expenditures to those required for safety, customer support, and projects with high returns “on investment and a short payback period.”³⁷ To be competitive in today’s growing e-commerce market, the Postal Service will need to increase its capital expenditures to include new delivery vehicles and equipment. Its lack of working capital has hindered its ability to make these investments.

The Postal Service states that the increase in compensation expense is largely due to growing volumes from Competitive products and services, which consist mostly of parcels.³⁸ In order to reap the full benefits of the increase in parcel volume, it is critical that the Postal Service invest in parcel sorting equipment that will eventually make parcel processing more efficient and reduce costs.

Liabilities

In FY 2015, total liabilities increased by \$6.1 billion, primarily due to an increase in the accrual for the RHBF payment of \$5.7 billion. Workers’ compensation and other short term debt increased by \$381 million.

In FY 2015, the long-term portion of the workers’ compensation liability increased by \$300 million. This increase was significantly less than the \$1.2 billion increase in FY 2014. The

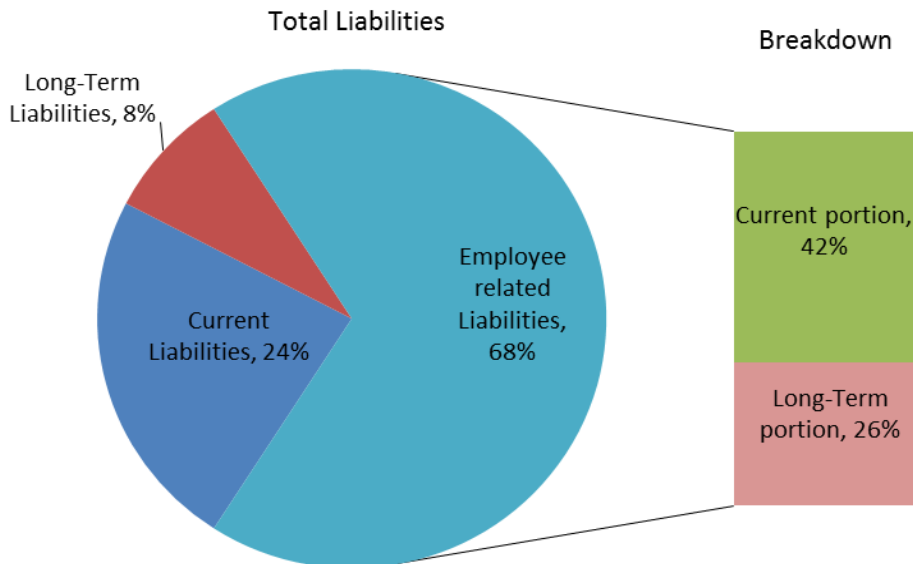
³⁷ Postal Service FY 2015 Form 10-K at 31.

³⁸ *Id.* at 19-20.

long-term portion of the workers' compensation liability is highly sensitive to discount and inflation rates and to new and existing claims, and was the only long-term liability to increase over FY 2014. The Postal Service noted that a revision in the actuarial revaluation of current cases in FY 2015 decreased the total workers' compensation liability from the prior year by \$353 million.³⁹

Figure II-8 shows the current breakdown of the Postal Service's liabilities as of September 30, 2015.

Figure II-8
Postal Service Liabilities Structure, September 30, 2015



Source: Postal Service FY 2015 Form 10-K at 38; PRC derived from September 2015 National Trial Balance, November 13, 2015.

³⁹ *Id.* at 56.

Analysis of Off-Balance Sheet Items

In addition to the various liabilities recorded on the Postal Service's Balance Sheets, there are other liabilities for pensions and retiree health benefits that are not recognized in the Postal Service's financial statements. These liabilities are controlled and administered by OPM and relate to the assets and liabilities attributed to: (1) the Civil Service Retirement and Disability Fund (CSRDF); and (2) the RHBF. The CSRDF provides pension benefits to retired and disabled Federal employees, including Postal Service employees covered by CSRS and FERS. The Postal Service is required to make specified annual payments into the RHBF to prefund the retiree health benefit for its current and future retirees.⁴⁰

In addition, the Postal Accountability and Enhancement Act (PAEA) requires the Postal Service to report certain disclosures provided by OPM regarding the funded status of the CSRDF, specifically for postal employees and the Postal Service RHBF.⁴¹ This information is then reported in the Postal Service Form 10-K statement.

CSRS and FERS Pensions

Table II-18 shows the funded status of the Postal Service's pension obligations.

Table 11-18: Funded Status of Postal Service Pension Obligations (\$ in Billions)

| CSRS Funded Status | | | | FERS Funded Status | | | | Total USPS Pension Funded Status | | | |
|--------------------|----------|-----------------------|-----------------------------------|--------------------|---------|-----------------------|-----------------------------------|----------------------------------|----------|-----------------------|--|
| Fiscal Year | Assets | Actuarial Liabilities | Net CSRS Funded Status (Unfunded) | Fiscal Year | Assets | Actuarial Liabilities | Net FERS Funded Status (Unfunded) | Fiscal Year | Assets | Actuarial Liabilities | Net CSRS and FERS Funded Status (Unfunded) |
| 2006 * | \$ 210.8 | \$ 193.7 | \$ 17.1 | 2006 | \$ 95.3 | \$ 86.6 | \$ 8.7 | 2006 * | \$ 306.1 | \$ 280.3 | \$ 25.8 |
| 2007 | 193.8 | 196.9 | (3.1) | 2007 | 63.5 | 55.1 | 8.4 | 2007 | 257.3 | 252.0 | 5.3 |
| 2008 | 195.1 | 204.1 | (9.0) | 2008 | 69.3 | 62.8 | 6.5 | 2008 | 264.4 | 266.9 | (2.5) |
| 2009 | 195.3 | 202.6 | (7.3) | 2009 | 75.2 | 68.3 | 6.9 | 2009 | 270.5 | 270.9 | (0.4) |
| 2010 | 194.6 | 193.0 | 1.6 | 2010 | 80.8 | 69.9 | 10.9 | 2010 | 275.4 | 262.9 | 12.5 |
| 2011 | 193.0 | 210.8 | (17.8) | 2011 | 86.6 | 84.0 | 2.6 | 2011 | 279.6 | 294.8 | (15.2) |
| 2012 | 190.7 | 209.5 | (18.8) | 2012 | 91.7 | 90.8 | 0.9 | 2012 | 282.4 | 300.3 | (17.9) |
| 2013 | 186.6 | 204.4 | (17.8) | 2013 | 96.5 | 96.6 | (0.1) | 2013 | 283.1 | 301.0 | (17.9) |
| 2014 | 182.1 | 201.5 | (19.4) | 2014 | 100.9 | 104.5 | (3.6) | 2014 | 283.0 | 306.0 | (23.0) |
| Projected 2015 | 179.2 | 199.6 | (20.4) | Projected 2015 | 107.6 | 111.3 | (3.7) | Projected 2015 | 286.8 | 310.9 | (24.1) |

Source: Postal Service FY 2007 to FY 2015 Forms 10-K.

* FY 2006 CSRS surplus of \$17.1 billion transferred to the PSRHBF per PAEA.

Note: This table provides OPM's estimation of the funded status of the CSRS and FERS programs for United States Postal Service (USPS) as of the end of each fiscal year. Data are actual amounts for FY 2006-2014 and projected amounts for FY 2015.

Assets include securities of the CSRDF. Although CSRDF is a single fund and does not maintain separate accounts for individual agencies, Pub. L. 109-435 requires the asset disclosures shown in this table as if the funds were separate.

Actuarial Liabilities are actual amounts for FY 2007-2013 and projected amounts for FY 2014 as of the end of each fiscal year. These data are prepared by OPM and represent the actuarial present value of the cost of future retiree pension benefits for which USPS is responsible and that are attributed to past service; this liability reflects all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers.

Net Funded status equals assets minus liabilities.

⁴⁰ 5 U.S.C. § 8909a

⁴¹ 39 U.S.C. § 3654

Both pension plans had unfunded liabilities in FY 2014. These unfunded liabilities are projected to increase in FY 2015. After the transfer of the FY 2006 CSRS surplus to the RHBF, CSRS has had an unfunded liability at the end of almost every fiscal year. In FY 2017, OPM must determine the funded status of CSRS and any surplus must be transferred to the RHBF. However, if there is an unfunded liability, which appears to be increasingly likely, OPM must develop a 30 year amortization of the unfunded liability, which the Postal Service will have to begin paying in FY 2017. If the current trend continues and there are no changes in the law governing the determination of the CSRS liability, the amortization payment for CSRS could be over \$1 billion annually beginning in FY 2017.⁴²

The FERS portion of the CSRDF generally had a funding surplus until FY 2013. FERS is funded by a percentage of basic pay that the Postal Service must pay and a statutorily set employee contribution. OPM raised the agency contribution from 11.9 percent of basic pay to 13.2 percent, beginning in FY 2015. The rate will increase further in FY 2016 to 13.7 percent.

Additionally, if there is an unfunded liability in the Postal Service's portion of the FERS pension, OPM is required to develop a 30-year amortization schedule to fund the unfunded liability. In FY 2015, OPM notified the Postal Service of the unfunded FERS liability and directed the Postal Service to pay an additional \$241 million per year for the next 30 years.

Retiree Health Benefits Fund

The PAEA established the RHBF in order to fund the long-term retiree health benefits for postal employees, retirees, and their survivors. This fund is administered by OPM.

The initial funding for the RHBF was the transfer of CSRS pension benefit overfunding at the end of FY 2006, which OPM determined to be \$17.1 billion, plus the retirement savings escrow held by the Postal Service. Additionally, the Postal Service is obligated to pay into the fund a series of annual payments, averaging \$5.2 billion per year⁴³ in addition to continuing to pay the annual government share of retiree health benefits premiums.

In FY 2017, the funding mechanism for Postal Service retiree health benefits under current law will change. Each year since FY 2007, OPM has determined the increase in the retiree health benefit liability (referred to as the normal cost) and determined the funding status of the RHBF. This determination will continue in FY 2017 and beyond, as the Postal Service will be required to fund the RHBF with payments consisting of the normal cost, as determined by OPM, and any unfunded portion of the RHBF liability amortized over 40

⁴² This assumes that the current FY 2015 estimate of the CSRS unfunded liability of \$20.4 billion will be the same in FY 2017 and is amortized over 30 years at a discount rate of 5.25 percent.

⁴³ The total payments over 10 years into the RHBF equal \$51.8 billion and include the reduction of the original FY 2009 payment of \$5.4 billion to \$1.4 billion. See 5 U.S.C. 8909a(d)(3)(A).

years. The RHBF will then pay the government share of postal retiree health benefit premiums. With this change, the Postal Service will no longer be required to pay the annual government share of retiree health benefit premiums.

Table II-19 on the next page shows the funded status of the RHBF, including the assets and liabilities, as determined by OPM.

Table II-19
Retiree Health Benefit Fund Status (\$ in Billions)

| Fiscal Year | Beginning of Year Assets | One-Time Transfer from CSRS Pension | One-Time Transfer from USPS Escrow | USPS Prefunding Payment | Interest Earned | End of Year Assets | End of Year Actuarial Liabilities | End of Year Net Funded Status (Unfunded) | Missed USPS Prefunding Payments |
|-----------------|--------------------------|-------------------------------------|------------------------------------|-------------------------|-----------------|--------------------|-----------------------------------|--|---------------------------------|
| 2007 | 0.0 | \$ 17.1 | \$ 3.0 | \$ 5.4 | \$ 0.3 | \$ 25.7 | \$ 80.8 | \$ (55.0) | 0.0 |
| 2008 | 25.7 | | | 5.6 | 1.3 | 32.6 | 86.1 | (53.5) | 0.0 |
| 2009 | 32.6 | | | 1.4 | 1.5 | 35.5 | 87.5 | (52.0) | 0.0 |
| 2010 | 35.5 | | | 5.5 | 1.5 | 42.5 | 91.1 | (48.6) | 0.0 |
| 2011 | 42.5 | | | 0.0 | 1.6 | 44.1 | 90.3 | (46.2) | 0.0 |
| 2012 | 44.1 | | | 0.0 | 1.6 | 45.7 | 93.6 | (47.9) | 11.1 |
| 2013 | 45.7 | | | 0.0 | 1.6 | 47.3 | 95.6 | (48.3) | 5.6 |
| 2014 | 47.3 | | | 0.0 | 1.5 | 48.9 | 97.7 | (48.9) | 5.7 |
| 2015 | 48.9 | | | 0.0 | 1.5 | 50.3 | 105.2 | (54.8) | 5.7 |
| Subtotal | | | | 17.9 | 12.4 | | | | 28.1 |

Source: Postal Service FY 2007 to FY 2015 Forms 10-K.

Note: This table provides OPM's estimation of the funded status of United States Postal Service (USPS) obligations for retiree health benefits. Data for assets, liabilities, and net funded status are actual amounts for FY 2007-2013 and projected amounts for FY 2014.

Assets include securities of the Postal Service Retiree Health Benefits Fund (PSRHBF), which is managed by OPM.

Actuarial Liabilities represent the actuarial present value of the cost of the portion of future retiree health premiums for which USPS is responsible and that are attributable to past service; this liability reflects all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers..

Net funded status equals assets minus liabilities.

One-Time Transfer from CSRS Pension Fund: PAEA - Pub. L. 109-435, enacted Dec. 20, 2006 established the PSRHBF and directed OPM to determine any USPS surplus for CSRS obligations as of Sept. 30, 2006, and to transfer this amount from the Civil Service Retirement and Disability Fund (CSRDF) into the PSRHBF by June 30, 2007.

One-Time Transfer from USPS Escrow Fund: PAEA required USPS to transfer the escrow funds resulting from the Postal Civil Service Retirement System Funding Reform Act of 2003 (Pub. L. 108-18), which reduced USPS's CSRS payments and required these reductions to be placed into escrow.

USPS prefunding payments are statutory payments established by PAEA that are due from USPS to the PSRHBF. Subsequent congressional action reduced the 2009 prefunding payment from \$5.4 billion to \$1.4 billion and delayed \$5.5 billion from FY 2011 to FY 2012, resulting in a requirement to pay \$11.1 billion in FY 2012. See 5 U.S.C 8909a(d)(3)(A).

Missed Prefunding Payments have not been made by USPS and remain as current liabilities on USPS's balance sheet. These amounts are reflected in this table through the lower asset total and higher net unfunded liability than would have occurred if the prefunding payments were made.

As the table above shows, the Postal Service had an unfunded liability of \$54.8 billion at the end of FY 2015. Over the last 5 years, the Postal Service has not paid the statutorily scheduled payments into the RHBF. Through FY 2015, the Postal Service missed a total of \$28.1 billion in payments. This sum is reported on the Postal Service's Balance Sheets as a current liability, contributing significantly to its negative working capital. The statutory payment due for FY 2016 is \$5.8 billion; however, the Postal Service represented that there will be no resources available to make that payment into the RHBF.⁴⁴

⁴⁴ Postal Service FY 2015 Form 10-K at 55.

Analysis of Statement of Cash Flows

At the end of FY 2015, the Postal Service's cash and cash equivalents totaled \$6.6 billion, \$1.7 billion higher than in FY 2014. With an average daily cash requirement of \$275 million, this balance represents 24 days of operating cash,⁴⁵ an increase of 5 days from the end of FY 2014. Table II-20 compares the Postal Service's cash flow from FY 2007 to FY 2015.

Table II-20
Postal Service Cash Flow, FY 2015 - FY 2007 (\$ in Millions)

| | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|--|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net income/(loss) | \$(5,142) | \$(2,806) | \$(3,794) | \$(8,505) | \$(5,067) | \$(15,906) | \$(4,977) | \$(5,508) | \$(5,060) |
| Non-cash items and other cash flows | 2,539 | 2,367 | 5,367 | 5,213 | 5,561 | 15,474 | 5,912 | 8,822 | 7,939 |
| Cash flows from investing activities: | | | | | | | | | |
| Decrease (increase) in restricted cash | 2,958 | | | | (10) | (28) | (79) | 66 | 13 |
| Purchase of property and equipment | (2,715) | (1,995) | (1,839) | (1,393) | (1,190) | (705) | (667) | (781) | (1,222) |
| Proceeds from sale of property and equipment | 257 | 57 | 33 | 70 | 137 | 148 | 158 | 129 | 120 |
| Net cash used in investing activities | 500 | (1,938) | (1,806) | (1,323) | (1,063) | (585) | (588) | (586) | (1,089) |
| Cash flows from financing activities: | | | | | | | | | |
| Increase (decrease) in debt | 2,100 | 3,000 | 3,000 | 1,800 | 1,000 | 2,000 | - | - | - |
| Payments for capital leases | (19) | (29) | (46) | (50) | (51) | (51) | (59) | (58) | (62) |
| U.S. Government appropriations - expensed | (76) | (61) | (64) | (63) | (63) | (129) | (48) | (90) | - |
| Net cash (used) provided by financing activities | 2,005 | 2,910 | 2,890 | 1,687 | 886 | 1,820 | (107) | (148) | (62) |
| Net increase/(decrease) in cash | (98) | 533 | 2,657 | (2,928) | 317 | 803 | 240 | 2,580 | 1,728 |
| Cash balance beginning of year | 997 | 899 | 1,432 | 4,089 | 966 | 1,283 | 2,086 | 2,326 | 4,906 |
| Cash balance end of year | \$ 899 | \$ 1,432 | \$ 4,089 | \$ 1,161 | \$ 1,283 | \$ 2,086 | \$ 2,326 | \$ 4,906 | \$ 6,634 |
| Debt outstanding | \$ 4,200 | \$ 7,200 | \$10,200 | \$12,000 | \$13,000 | \$ 15,000 | \$15,000 | \$15,000 | \$ 15,000 |

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2007 to FY 2015 Forms 10-K.

The Postal Service reached its statutory borrowing limit in FY 2012. This includes a revolving credit line of \$3.4 billion and an overnight line of \$600 million.

As of September 30, 2015, the Postal Service's fixed interest rate obligations consist of fixed rate borrowings from the Federal Financing Bank of \$10.1 billion, which are due within 1 year. Table II-21 illustrates the current liquidity position of the Postal Service. Since the Postal Service has depleted its statutory borrowing limit, its liquidity is limited to cash and cash equivalents.

⁴⁵ The Commission calculated the days of operating cash by dividing the \$275 million per day expense by the \$6.6 billion of cash and cash equivalents.

Table II-21
Total Postal Service Liquidity

| | FY 2015 | FY 2014 |
|--|------------------|------------------|
| Cash and cash equivalents | \$ 6,634 | \$ 4,906 |
| Current portion of debt | 10,100 | 9,800 |
| Long-term debt | 4,900 | 5,200 |
| Total debt | \$ 15,000 | \$ 15,000 |
| Statutory debt limit | 15,000 | 15,000 |
| Available debt | - | - |
| Total liquidity (cash + available debt) | \$ 6,634 | \$ 4,906 |

Source: Postal Service FY 2015 Form 10-K at 38.

Chapter 3. Volume, Revenue, and Cost Trends

Overview

This chapter provides an in-depth analysis of the volume, revenue, and cost trends for each class of mail. The first section focuses on the overall trends for Market Dominant and Competitive products and services. It also describes the calculation of attributable and institutional costs and discusses changes in the percentage of institutional cost to total cost, referred to as institutional cost share.

The second section provides a comparison of volume, revenue, and cost between FY 2014 and FY 2015. It also includes a trend analysis that highlights changes in volume, revenue, and cost that have occurred since FY 2007. FY 2007 is used as the base year because it reflects the mail reclassifications that resulted from the Postal Accountability and Enhancement Act of 2006 (PAEA). In cases where average unit attributable cost changed significantly, the Commission provides an analysis by cost segment and/or component.

Overall Volume, Revenue, and Cost Trends

Market Dominant Products and Services

As shown on the next page, Table III-1 compares total volume, revenue, attributable cost, and contribution to institutional cost for Market Dominant products and services between FY 2014 and FY 2015. As noted in Chapter II, both the originally reported FY 2014 volume and revenue and the adjusted FY 2014 volume and revenue⁴⁶ are shown.

⁴⁶ RPW methodology for Forever Stamp Usage, Stamp Breakage, and Postage in the Hands of the Public (PIHOP) was revised using the new methodology pursuant to Docket No. RM2015-9, Order on Analytical Principles Used in Periodic Reporting (Proposal One), September 24, 2015 (Order No. 2728).

**Table III-1
Market Dominant Volume, Revenue, and Cost**

| | FY 2015 | Original FY 2014 | % Variance | Adjusted FY 2014 | % Variance |
|--|----------------|-----------------------------|-----------------------|-----------------------------|-----------------------|
| Volume (Millions) | 150,198 | 151,927 | (1.1)% | 152,136 | (1.3)% |
| Revenue (\$ Millions) | 51,647 | 51,572 | 0.1 % | 51,604 | 0.1 % |
| Attributable Cost (\$ Millions) | 28,283 | 28,205 | 0.3 % | 28,205 | 0.3 % |
| Contribution to Institutional Cost (\$ Millions) | 23,364 | 23,367 | (0.0)% | 23,399 | (0.2)% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Library Reference USPS-FY15-42.

Total Market Dominant revenue increased 0.1 percent in FY 2015, the second consecutive year of revenue growth. Total attributable cost for Market Dominant products was 0.3 percent higher than in FY 2014. Increases in mail processing cost and changes in methodology for city carrier cost contributed to the increase in attributable cost for Market Dominant products.⁴⁷ The total Market Dominant contribution to institutional cost declined by \$35 million.

In FY 2015, Market Dominant products accounted for 97.4 percent of total mail volume, a drop of 1.1 percent from FY 2014. Revenue from these products as a percentage of total revenue fell from 76.1 percent to 74.9 percent. Market Dominant attributable cost as a percentage of total attributable cost fell from 71.9 percent in FY 2014 to 70.3 percent in FY 2015.

Several Market Dominant products failed to generate sufficient revenue to cover attributable cost. The total negative contribution to institutional cost from these products amounted to over \$1.2 billion, which is more than \$200 million worse than in FY 2014. Standard Mail Flats (\$520 million), Standard Mail Parcels (\$23.8 million), Periodicals (\$512 million), and Package Services Media Mail/Library Mail (\$84.6 million) accounted for 92 percent of the negative contribution. Other products that did not cover attributable costs include First-Class Mail Inbound Letter Post and Special Services Stamp Fulfillment Services.

The Commission continues to encourage the Postal Service to reduce cost and to use the pricing flexibility afforded in the PAEA to improve these products' cost coverage.⁴⁸

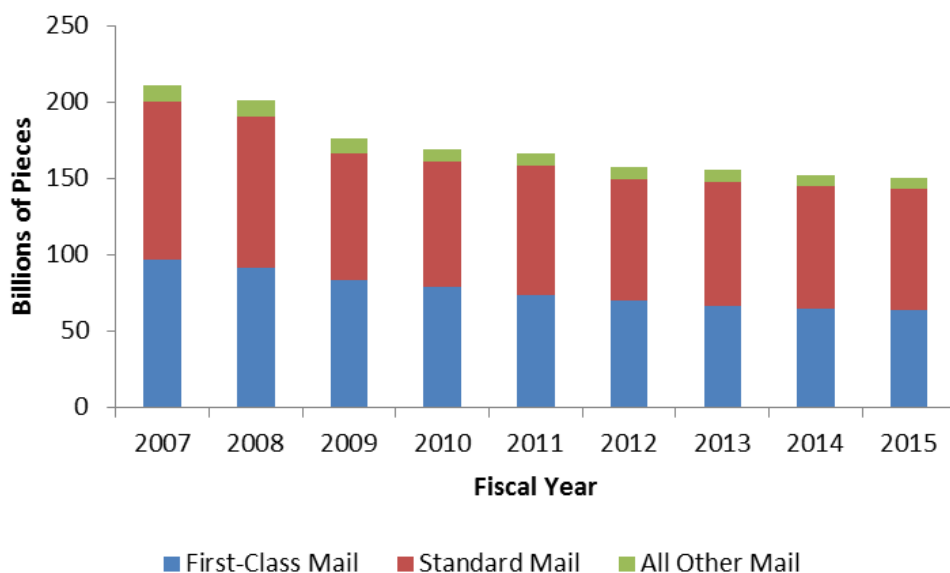
⁴⁷ See Docket No. RM2015-7, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Thirteen), October 29, 2015 (Order No. 2792). See also Docket No. RM2016-3, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Twelve), December 22, 2015 (Order No. 2915).

⁴⁸ See FY 2014 ACD at 33-57; FY 2013 ACD at 5-61; FY 2012 ACD at 15-22, 88-96, 108-117; FY 2010 ACD at 90-94, 103-108, 116-118.

Market Dominant Volume Trends

Figure III-1 shows the total volume for Market Dominant products over the last 8 years. Since FY 2007, volume has declined by 60.4 billion pieces.

Figure III-1
Market Dominant Volume, FY 2007 - FY 2015



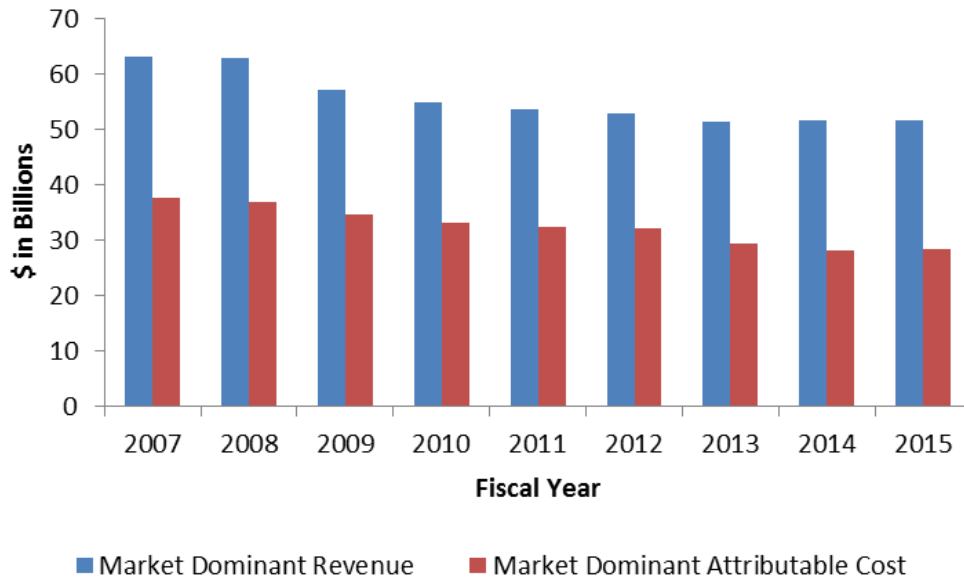
Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

First-Class Mail and Standard Mail accounted for 95.5 percent of total Market Dominant volume. First-Class Mail volume declined by 33 billion pieces since FY 2007. The rate of decline for First-Class Mail averaged 4.3 percent over the past 8 years. However, over the past 2 years, the decline in First-Class Mail volume averaged 1.8 percent. Although Standard Mail volume declined by 23 billion pieces since FY 2007, unlike First-Class Mail, Standard Mail experienced volume increases in 3 of the past 6 years. In FY 2014 and FY 2015, Standard Mail volume remained relatively steady, declining both years at a rate of less than 1.0 percent.

Market Dominant Revenue and Cost Trends

Total Market Dominant revenue and attributable cost have declined since FY 2007. Total revenue declined by 18.2 percent and total attributable cost declined by 24.6 percent. Figure III-2 compares revenue and attributable cost since FY 2007.

**Figure III-2
Market Dominant Revenue and Attributable Cost, FY 2007 - FY 2015**

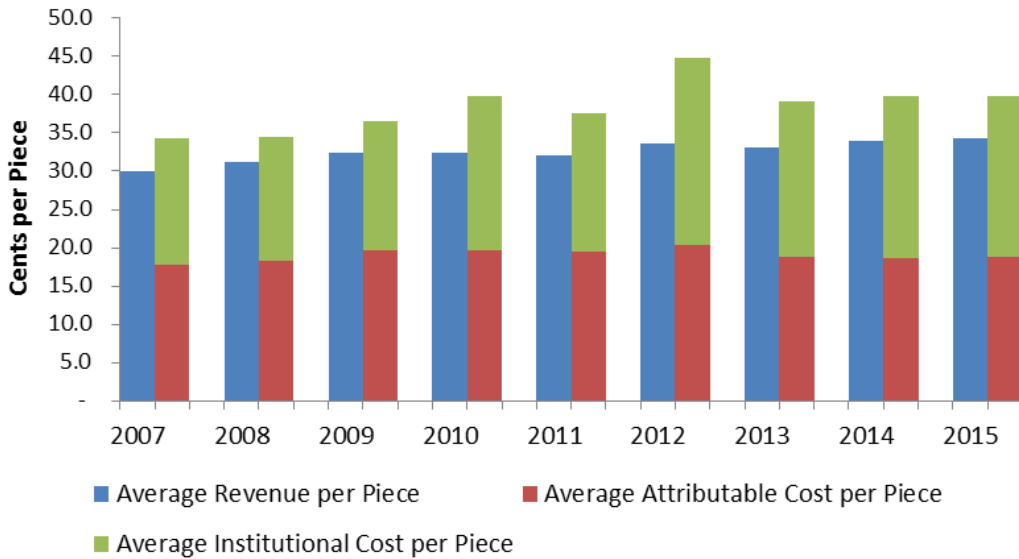


Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

Total Market Dominant revenue declined significantly until FY 2014. The Market Dominant exigent surcharge added \$1.4 billion in additional revenue in FY 2014 and \$2.1 billion in additional revenue in FY 2015. This revenue offset much of the loss of revenue due to the declining Market Dominant volume. Except for FY 2015, Market Dominant attributable cost has steadily declined since FY 2007. In FY 2015, total Market Dominant attributable cost increased slightly compared to FY 2014.

As shown on the next page in Figure III-3, on a unit basis, average revenue and cost increased since FY 2007. Market Dominant average unit revenue increased 4.0 cents and Market Dominant average unit attributable cost increased 0.8 cents. While the unit attributable cost steadily declined since FY 2009, unit attributable cost increased 0.3 cents in FY 2015. Despite the increase, the FY 2015 unit attributable cost was almost 1 cent lower than in FY 2009. Comparatively, Market Dominant average total cost increased 3.1 cents since FY 2009.

**Figure III-3
Market Dominant Average Unit Revenue and Cost, FY 2007 - FY 2015**



Source: The Postal Regulatory Commission derived from Postal Service *Cost and Revenue Analysis (CRA) Reports*, FY 2007 - FY 2015.

Competitive Products and Services

Both volume and revenue for Competitive products increased in FY 2015. Table III-2 compares the total volume, revenue, and cost of these products and services between FY 2014 and FY 2015. As noted in Chapter II, both the originally reported FY 2014 volume and revenue and the adjusted FY 2014 volume and revenue⁴⁹ are shown.

**Table III-2
Competitive Volume, Revenue, and Cost**

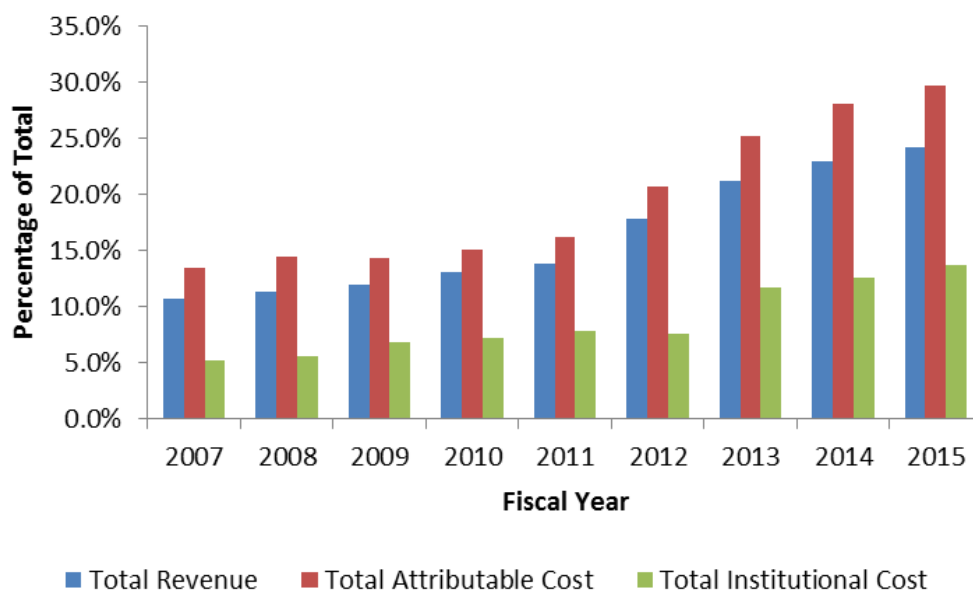
| | FY 2015 | Original FY 2014 | % Variance | Adjusted FY 2014 | % Variance |
|--|---------|------------------|------------|------------------|------------|
| Volume (Millions) | 3,959 | 3,448 | 14.8% | 3,403 | 16.3% |
| Revenue (\$ Millions) | 16,428 | 15,280 | 7.5% | 15,087 | 8.9% |
| Attributable Cost (\$ Millions) | 11,905 | 10,970 | 8.5% | 10,970 | 8.5% |
| Contribution to Institutional Cost (\$ Millions) | 4,523 | 4,310 | 4.9% | 4,117 | 9.9% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014 Library Reference PRC-LR-ACR2014/1; Library Reference USPS-FY15-42.

⁴⁹ RPW methodology for Forever Stamp Usage, Stamp Breakage, and Postage in the Hands of the Public (PIHOP) was revised using the new methodology pursuant to Order No. 2728.

Volume grew 14.8 percent in FY 2015. Total revenue growth was 7.5 percent in FY 2015, with over \$1.0 billion in new revenue. Attributable cost and institutional cost contribution were also higher in FY 2015, growing 8.5 percent and 4.9 percent, respectively. As shown in Figure III-4, the Competitive products' share of total Postal Service revenue, attributable cost, and contribution to institutional cost continues to grow with each more than doubling since FY 2007.

Figure III-4
Competitive Percentage Share of Total Postal Service Revenue, Cost,
and Contribution to Institutional Cost, FY 2007 - FY 2015



Source: Postal Service *Cost and Revenue Analysis (CRA) Reports*, FY 2007 - FY 2015.

Figure III-5 illustrates the changes in average unit revenue and cost from FY 2007 to FY 2015. Since FY 2007, average unit revenue for Competitive products and services exceeded both the average unit attributable cost and the required average unit institutional cost.⁵⁰ The decline in average unit revenue in FY 2012 was the result of transfers of Market Dominant parcels from First-Class Mail⁵¹, Standard Mail⁵², and Package Services⁵³ to the Competitive product list. After implementation of an average 2.4 percent price increase in

⁵⁰ The current minimum required contribution to institutional cost for Competitive products is 5.5 percent of total institutional cost. See 39 U.S.C. § 3633(a)(3); 39 C.F.R. § 3015.7(c). The “required average unit institutional cost” is the minimum contribution divided by the total volume of Competitive products.

⁵¹ See Docket No. MC2011-22, Order No. 710, Order Adding Lightweight Commercial Parcels to the Competitive Product List, April 6, 2011.

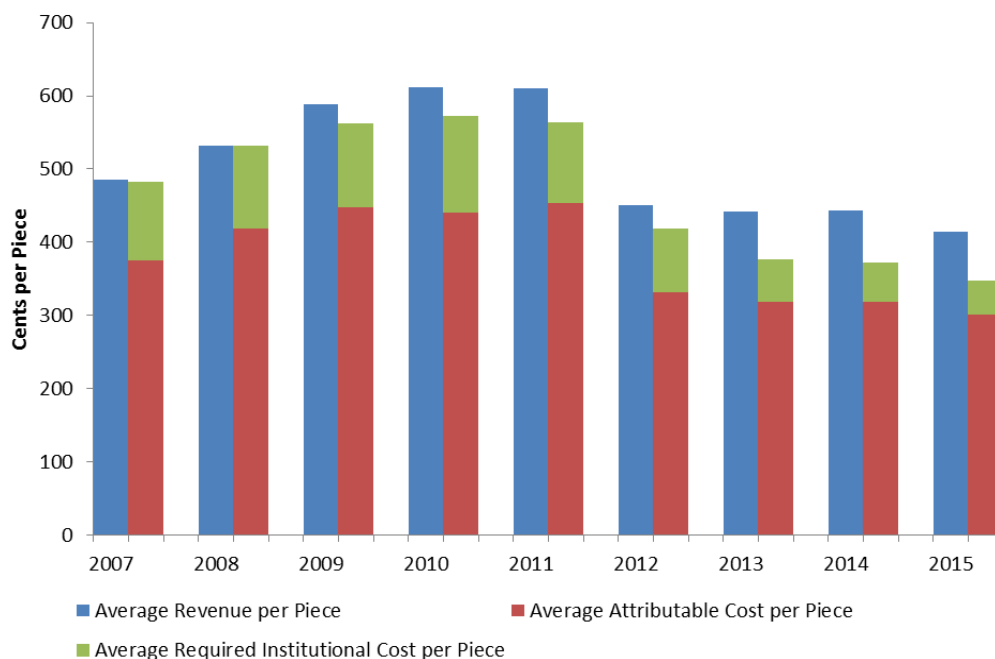
⁵² See Docket No. MC2010-36, Order No. 689, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011.

⁵³ See Docket No. MC2012-13, Order No. 1411, Order Conditionally Granting Request to Transfer Parcel Post to the Competitive Product List, July 19, 2012.

January 2014, the average unit revenue increased 0.2 percent. In FY 2015, the average unit revenue decreased again, declining 6.3 percent. The primary causes for the decline in the average revenue per piece were changes in the pricing structure of Priority Mail approved by the Commission in August 2014⁵⁴ and reductions in the average unit revenue from both Inbound and Outbound International NSAs. The Postal Service implemented an average 3.5 percent price increase for Competitive products in May 2015.⁵⁵

The average unit attributable cost declined 5.5 percent, and the average unit contribution declined 8.7 percent in FY 2015.

Figure III-5
Competitive Average Unit Revenue and Cost, FY 2007 - FY 2015



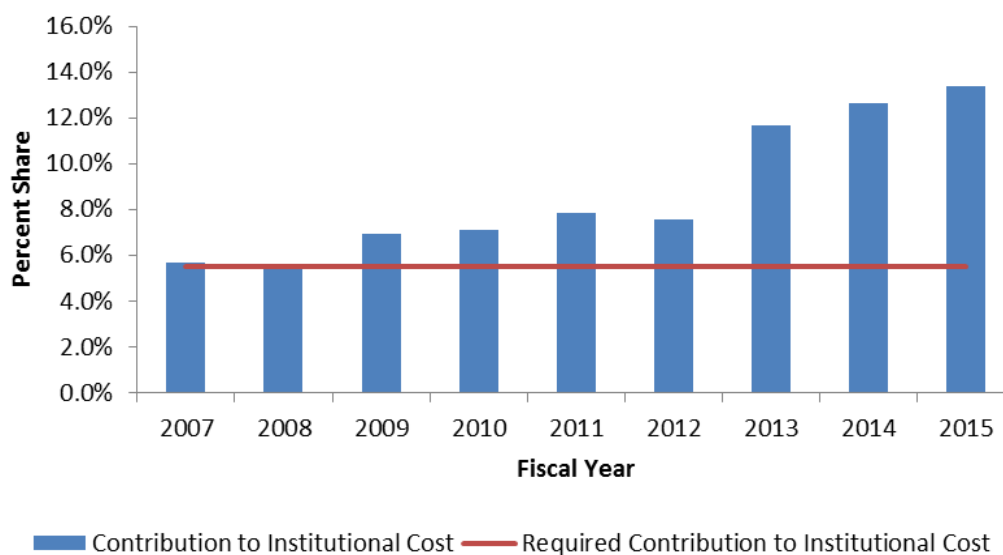
Source: Postal Service CRA Reports, FY 2007 - FY 2015.

The significant increase in Competitive product volume has resulted in total attributable cost for Competitive products increasing in every cost segment, doubling since FY 2008. Total contribution to institutional cost from Competitive products continues to increase, exceeding the required contribution level of 5.5 percent each year. As shown in Figure III-6, Competitive products' contribution has increased significantly over the past 4 years.

⁵⁴ See Docket No. CP2014-55, Order Approving Changes in Rates of General Applicability for Priority Mail August 15, 2014 (Order No. 2156).

⁵⁵ See Docket No. CP2015-33, Order No. 2366, Order Approving Changes in Rates of General Applicability for Competitive Products, February 25, 2015; see also Docket No. CP2015-33, Order No. 2473, Notice of New Implementation Date for Changes in Rates of General Applicability for Competitive Products, May 7, 2015.

**Figure III-6
Competitive Contribution to Institutional Cost, FY 2007 - FY 2015**



Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

Attributable and Institutional Cost Relationships

39 U.S.C. § 3622(c)(2) defines attributable cost as the “direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type[.]” Attributable cost includes volume-variable cost (which increase or decrease as volume increases or decreases) and product-specific cost (which are caused by a specific product but do not vary with volume). Institutional cost is the cost that remains after attributable cost is determined.

Attributable cost is distributed to products using distribution keys that reflect the underlying cost driver. The Postal Service calculates attributable cost for each product according to methodologies approved by the Commission. Changes to those methodologies are reviewed by the Commission, and members of the general public are encouraged to comment in such dockets.

In FY 2015, the Commission approved several changes to cost attribution. These changes are reflected in the cost allocated to products in the Cost and Revenue Analysis model

described in Docket No. ACR2015, Library References USPS-FY15-31 and USPS-FY15-32.⁵⁶ Approved changes in cost attribution methodology for FY 2015 include:

- Replacement of the Imputed and Booked versions of the International Cost and Revenue Analysis Report (ICRA) with a unified version of the ICRA. *See* Docket No. RM2015-10, Proposal Two, September 3, 2015 (Order No. 2695).
- Changes to the distribution of attributable costs to International Money Transfer Service – Outbound and Inbound products. *See* Docket No. RM2015-13, Proposal Five, November 19, 2015 (Order No. 2825).
- Changes to Cost Segment 6, City Delivery Carriers In-Office and Cost Segment 7, City Delivery Carriers Street. *See* Docket No. RM2015-7, Proposal Thirteen, October 29, 2015 (Order No. 2792).
- Changes to Cost Segment 12, Motor Vehicle Service, and Cost Segment 20, Depreciation and Other Costs. The approved proposal changed the treatment of cost for vehicles used on city carrier letter routes to re-align the cost allocations with the city carrier cost changes approved in Docket No. RM2015-7. *See* Docket No. RM2016-3, Proposal Twelve, December 22, 2015 (Order No. 2915).
- Combination of Cost Segment 4, Clerks, CAG K-L, with Cost Segment 3, Clerks and Mail Handlers, CAG A-J. The approved proposal eliminated Cost Segment 4 and moved those costs to Cost Segment 3 Mail Processing and Window Service. *See* Docket No. RM2015-19, Proposal Ten, November 24, 2015 (Order No. 2837).

Table III-3 illustrates the calculation of volume-variable and institutional costs. Total volume-variable cost is calculated by multiplying total cost by the volume variability ratio.⁵⁷ Average unit attributable cost is calculated by adding the volume-variable cost to the product specific cost and dividing this total by total volume. Institutional cost is total cost minus total attributable cost.

⁵⁶ The non-public versions of these library references are Library References USPS-FY15-13 and USPS-FY15-14.

⁵⁷ The volume variability ratio and the method used to determine it varies depending on the cost segment and the cost drivers.

**Table III-3
Calculation of Attributable and Institutional Costs**

| | [1] | [2] | [3] | [4] | [5] | [6] | [7] | [8] |
|---------------------------|---------------------------|-------------------------------|--------------------------------|---|--|--|--|---------------------------|
| | | | | [2] x [3] | | [4] + [5] | [6] / [1] | [2] - [6] |
| | Total Volume (000) | Total Cost (\$ in 000) | Percent Volume Variable | Volume Variable Cost (\$ in 000) | Product Specific Cost (\$ in 000) | Total Attributable Cost (\$ in 000) | Attributable Cost per Piece (Cents) | Institutional Cost |
| Postmasters | 154,156,980 | 1,681,615 | 17.6% | 296,285 | - | 296,285 | 0.002 | 1,385,330 |
| Supervision | 154,156,980 | 3,182,463 | 53.9% | 1,716,888 | 20 | 1,716,908 | 0.011 | 1,465,555 |
| Mail Processing | 154,156,980 | 10,927,649 | 93.9% | 10,263,868 | - | 10,263,868 | 0.067 | 663,782 |
| City Carrier In-Office | 154,156,980 | 3,563,127 | 84.1% | 2,995,397 | - | 2,995,397 | 0.019 | 567,730 |
| City Carrier Street | 154,156,980 | 12,007,514 | 36.3% | 4,360,615 | 2,543 | 4,363,158 | 0.028 | 7,644,356 |
| Rural Carriers | 154,156,980 | 7,189,736 | 33.9% | 2,440,884 | - | 2,440,884 | 0.016 | 4,748,852 |
| Custodial and Maintenance | 154,156,980 | 3,144,991 | 71.2% | 2,240,595 | - | 2,240,595 | 0.015 | 904,396 |
| Transportation | 154,156,980 | 6,579,078 | 87.5% | 5,755,460 | - | 5,755,460 | 0.037 | 823,618 |
| Administration | 154,156,980 | 12,492,338 | 25.2% | 3,150,361 | 59,053 | 3,209,414 | 0.021 | 9,282,925 |
| Other Segments | 154,156,980 | 13,242,375 | 51.1% | 6,772,339 | 205,401 | 6,977,740 | 0.045 | 6,264,635 |
| Total | 154,156,980 | 74,010,886 | | 39,992,691 | 267,017 | 40,259,708 | 0.261 | 33,751,178 |

Source: Library Reference USPS-FY15-31.

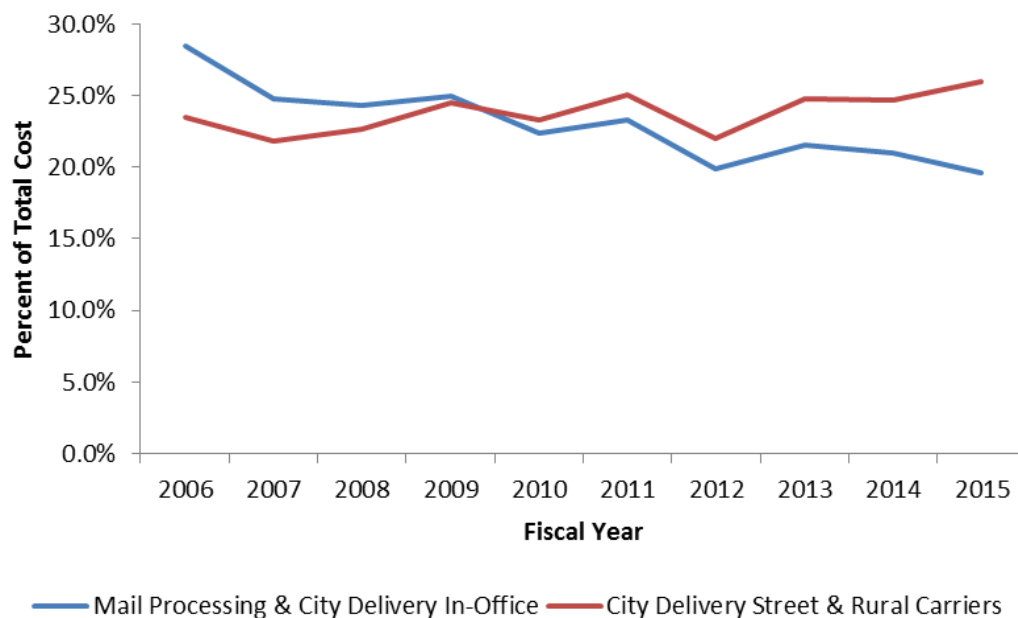
Prior to FY 2015, mail processing cost, which is 94.0 percent volume-variable, had declined over 30 percent from FY 2006. The contributing factors to this decline included declining mail volume, increased presorted volume as a share of the mail mix, and cost reduction programs directed primarily at mail processing cost. However, mail processing cost increased in FY 2015, despite continuing declines in volume. Several factors contributed to this change. One factor was a methodological change mentioned above, where Cost Segment 4 clerk cost was combined into Cost Segment 3 mail processing and window service. Another factor was the continuing increase in the cost of processing flat mail. Also, total mail processing work hours increased for the first time since FY 2006. This increase was primarily due to the increase in Competitive product parcel volume, which, as the Postal Service noted, is more labor intensive to process and deliver.⁵⁸

City carrier street time cost, which is 36.3 percent volume-variable, has increased 10.6 percent since FY 2006. City carrier street time cost does not vary significantly with volume because carriers must travel the same delivery route regardless of the amount of mail they are carrying. Increases in delivery points were a significant driver of increased city carrier street cost. City carrier in-office cost is 84.1 percent volume-variable, and has decreased 32.4 percent since FY 2006. This mostly represents cost related to time spent sorting mail for delivery, an activity more akin to mail processing than street delivery. This cost decreased due to the change in mail mix (as more mail was delivery-point sequenced and required less carrier time sorting) and the Postal Service's emphasis on carriers spending

⁵⁸ Postal Service FY 2015 Form 10-K at 20.

more time on the street delivering the mail. Figure III-7 shows mail preparation and delivery costs as a share of total cost.⁵⁹ It shows that the proportion of mail processing cost to total cost has continued to decrease, despite the recent increase in costs for Segment 3 mail processing, primarily due to reductions in city carrier in-office cost. The proportion of delivery cost to total cost continued to increase.

Figure III-7
Comparison of Mail Preparation and Delivery Costs to Total Costs, FY 2006 - FY 2015



Source: U.S. Postal Service *Cost Segments and Components Reports*, FY 2006 - FY 2015.

Institutional cost cannot be attributed to a specific product or service. Sometimes referred to as “fixed cost,” it includes costs for carrier network travel time, the payment to the Postal Service Retirement Health Benefits Fund, and various administrative costs. Holding all else equal, a higher mail volume results in a lower institutional cost share and a lower mail volume results in a higher institutional cost share.

The Commission presented three examples in its FY 2014 *Financial Analysis Report* of how institutional cost share changes as volume increases and decreases.⁶⁰ Also in the report, the Commission cited a Commission sponsored paper (Variability Paper), which reviewed

⁵⁹ For purposes of this analysis, mail preparation includes mail processing and city carrier in-office costs. Delivery includes city carrier street costs and rural carrier costs.

⁶⁰ Postal Regulatory Commission Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2014, April 1, 2015, at 35-37 (FY 2014 Postal Regulatory Commission *Financial Report*).

changes in the ratio of attributable and institutional costs over time.⁶¹ According to the authors, several factors affect the attributable/institutional cost ratio and can be classified into either operational or non-operational factors. The “operational factors” include total volume, volume mix, and weighted volume, which is volume weighted by the average attributable cost of individual products. There were also “non-operational” factors, which are generally exogenous factors affecting costs. Non-operational factors include Generally Accepted Accounting Principles (GAAP) changes, changes in the law, and changes in Commission-approved cost methodologies.⁶²

In FY 2015, total attributable cost increased despite continuing declines in total volume. As a result, institutional cost as a percent of total cost declined almost 1.0 percentage point, from 46.5 percent to 45.6 percent. This was a result of several of the factors noted in the FY 2014 Postal Regulatory Commission *Financial Analysis Report* and the Variability Paper. Table III-4 shows the change in attributable cost by major cost segment and component.

Table III-4
Changes in Attributable Cost by Segment and Component (\$ in Millions)

| | FY 2015 | FY 2014 | Variance |
|---------------------------|---------------|---------------|--------------|
| Mail Processing | 17,402 | 16,984 | 419 |
| Window Service | 1,336 | 1,240 | 97 |
| City Carriers | 10,004 | 9,829 | 175 |
| Rural Carriers | 3,097 | 2,960 | 137 |
| Domestic Transportation | 4,983 | 4,797 | 186 |
| Other Segments | 3,438 | 3,424 | 14 |
| Total Attributable | 40,260 | 39,234 | 1,026 |

Source: Library Reference USPS-FY15-24; Library Reference USPS-FY15-31; Docket No. ACR2014, Library Reference USPS-FY14-24; Library Reference USPS-FY14-31.

Mail processing accounted for over 40.0 percent of the total increase in attributable cost for FY 2015. The overall average attributable mail processing cost per piece increased, primarily due to the change in the mix of mail. Parcel volume increased as letter and flat volume declined. As the Postal Service noted in the FY 2015 Form 10-K filing, parcel volume is more labor intensive.⁶³

⁶¹ FY 2014 Postal Regulatory Commission *Financial Report* at 36 (citing “The Postal Service Variability Ratio and Some Implications” by Robert Cohen and John Waller, October 7, 2014).

⁶² FY 2014 Postal Regulatory Commission *Financial Report*, at 36-38.

⁶³ Postal Service FY 2015 Form 10-K at 19.

The majority of parcel products are classified Competitive. Table III-5 shows the change in total attributable mail processing cost, which includes both direct and indirect costs,⁶⁴ for both Market Dominant and Competitive products in FY 2015. Market Dominant volumes and total attributable mail processing cost decreased while Competitive product volumes and total attributable mail processing cost increased. The volume growth in Competitive products outpaced the increase in mail processing cost, leading to a 3-cent reduction in unit attributable mail processing cost. For Market Dominant products, the volume and cost reductions cancelled each other out, leaving unit attributable mail processing cost unchanged from last year.

Table III-5
Mail Processing Attributable Cost (\$ in Millions)

| Mail Processing: | FY 2015 | FY 2014 | Variance |
|------------------------------|---------------|---------------|------------|
| Market Dominant Cost | 12,592 | 12,745 | (154) |
| Competitive Cost | 4,192 | 3,678 | 515 |
| International Cost | 619 | 561 | 58 |
| Total Mail Processing | 17,402 | 16,984 | 419 |

Source: Library Reference USPS-FY15-24; Docket No. ACR2014, Library Reference USPS-FY14-24.

The increase in total attributable cost for Cost Segment 3 Window Service was due to methodology changes rather than volume increases or mail mix changes. The methodology changes stemmed from implementation of the Post Office Structure Plan (POStPlan).⁶⁵ As part of that plan, the Postal Service offered retirement incentives to small post office postmasters and reduced hours of operation. A union agreement required staffing many of the POStPlan post offices with career or non-career clerks rather than postmasters.⁶⁶ After the union agreement was finalized, the Postal Service proposed a change in cost methodology that combined Cost Segments 3 and 4 and increased work hours and costs for window service clerks.

⁶⁴ Mail processing direct cost is the cost of clerks and mailhandlers in the mail processing function as shown in Cost Segment 3. The indirect costs include supervision, mail processing equipment maintenance and depreciation, building occupancy cost, and labor related benefits. See Library Reference USPS-FY15-24.

⁶⁵ POStPlan matches Post Office retail hours with workload. It is intended to achieve cost savings with limited reductions in access and service. See Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012, at 2.

⁶⁶ Memorandum of Understanding between the United States Postal Service and the American Postal Workers Union, AFL-CIO, Re: POStPlan: Staffing of Offices, Filling of Assignments, PSE Usage and Conversions, September 22, 2014.

Market Dominant Volume, Revenue, and Cost Trends by Class

First-Class Mail

Six products are assigned to First-Class Mail: Single-Piece Letters/Postcards; Presorted Letters/Postcards; Flats; Parcels; Outbound Single-Piece First-Class Mail International; and Inbound Letter Post. For comparison purposes in this report, the products have been grouped into letters, flats, and “all others.”

FIRST-CLASS MAIL LETTERS COMPARED WITH FY 2014

Table III-6 summarizes the FY 2015 change in total volume and revenue for First-Class Mail letters. First-Class Mail letters volume continued to decline in FY 2015, although the rate of decline for presorted volume was the lowest since FY 2008. Overall, First-Class Mail letters revenue was about the same as last year.

**Table III-6
First-Class Mail Letters Volume and Revenue**

| | Mail Volume (Millions) | | | | Mail Revenue (\$ in Millions) | | | |
|----------------------|------------------------|---------------|----------------------|----------------|-------------------------------|---------------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| Single-Piece | 19,737 | 20,599 | (862) | -4.2% | 10,039 | 10,243 | (204) | -2.0% |
| Presorted | 38,005 | 38,098 | (93) | -0.2% | 15,035 | 14,691 | 344 | 2.3% |
| Total Letters | 57,742 | 58,697 | (955) | -1.6% | 25,074 | 24,934 | 140 | 0.6% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Table III-7 summarizes the FY 2015 change in total attributable cost for First-Class Mail letters. Total attributable cost for First-Class Mail letters declined in FY 2015. Continued volume losses contributed to an overall reduction in attributable cost and the overall unit attributable cost for letters declined slightly in FY 2015.

Table III-7
First-Class Mail Letters Attributable Cost and Average Unit Attributable Cost

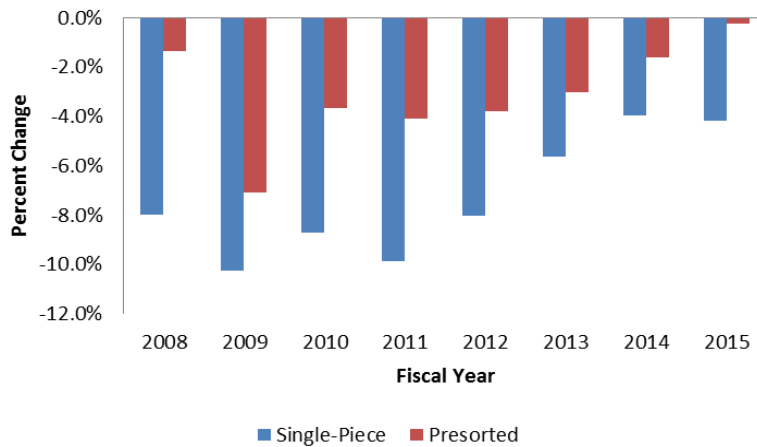
| | Attributable Cost (\$ in Millions) | | | | Unit Attributable Cost (Cents per Piece) | | | |
|----------------------|------------------------------------|---------------|----------------------|----------------|--|-------------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| Single-Piece | 5,304 | 5,710 | (406) | -7.1% | 26.9 | 27.7 | (0.8) | -3.1% |
| Presorted | 4,703 | 4,573 | 130 | 2.9% | 12.4 | 12.0 | 0.4 | 3.1% |
| Total Letters | 10,007 | 10,283 | (276) | -2.7% | 17.3 | 17.5 | (0.2) | -1.1% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

TRENDS IN FIRST-CLASS MAIL LETTERS

Changes in the use of postal services continued to erode First-Class Mail volume as consumers switched to electronic channels for banking and payment of services.⁶⁷ Figure III-8 illustrates the rate of decline for First-Class Mail volume. The rate of decline for First-Class Mail letters diminished since FY 2011. Over the last 2 years, the rate of decline for First-Class Mail Single-Piece Letters has remained the same, while the rate of decline for First-Class Mail Presorted Letters volume continues to improve. The improvement in First-Class Mail Presorted Letters volume may be attributed to increased economic activity and employment.

Figure III-8
First-Class Letters Percentage Change in Volume, FY 2008 - FY 2015



Source: Postal Service Revenue, Pieces and Weight (RPW) Reports , FY 2008 - FY 2015.

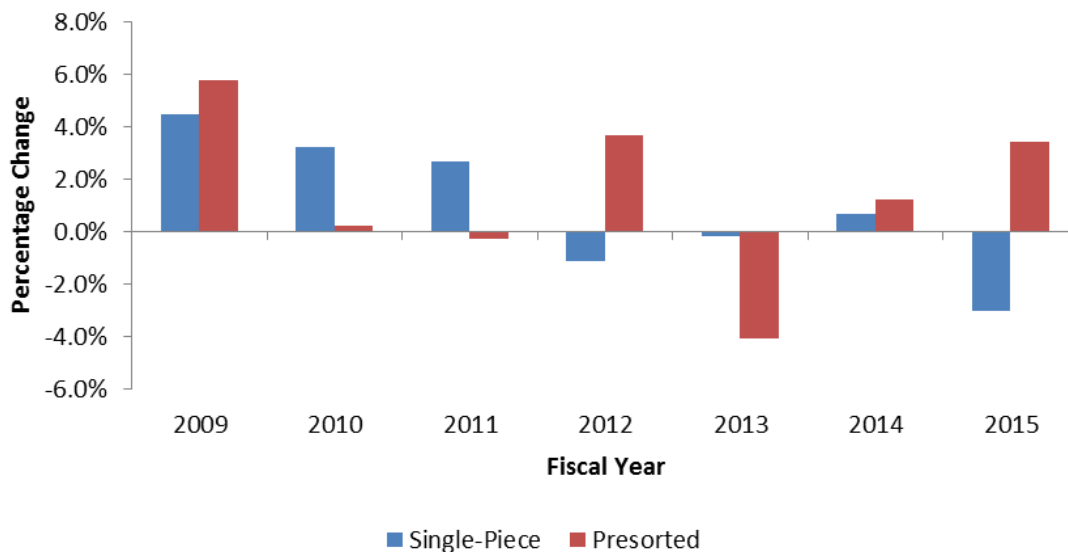
Figure III-9 shows the change in the average unit attributable cost for First-Class Mail letters. The average unit attributable cost for all cost segments except window service in Cost Segment 3, motor vehicle service in Cost Segment 12, and credit and debit card service

⁶⁷ Postal Service FY 2015 Form 10-K at 16.

in Cost Segment 13, declined in FY 2015. There was a significant decline, almost 1 cent, in the average unit attributable city carrier cost (both in-office and street) as well as declines in the average unit attributable mail processing cost.

The FY 2014 *Financial Analysis Report* noted the erratic nature of the unit attributable cost for First-Class Mail Presorted Letters.⁶⁸ The unit attributable cost has increased 3 of the last 4 years, increasing 3.7 percent in FY 2012, 1.2 percent in FY 2014, and 3.1 percent in FY 2015. FY 2013 unit attributable cost declined 4.1 percent.

Figure III-9
First-Class Mail Letters Percentage Change in Average Unit Attributable Cost
FY 2009 - FY 2015



Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

Table III-8 compares the average unit attributable cost for presorted letters, by cost component or segment, for FY 2010 through FY 2015. In FY 2015, unit attributable cost for every category except for City Carrier street cost increased. Mail processing and transportation average unit attributable costs increased more than 5.0 percent over last year. FY 2015 was the second consecutive year of decreases in City Carrier street average unit attributable cost and the decline was twice as large as the previous year.

⁶⁸ FY 2014 Postal Regulatory Commission *Financial Report* at 43.

Table III-8
First-Class Mail Presorted Letters Unit Attributable Cost by Segment
FY 2010 - FY 2015

| Cost Segment or Component | Unit Attributable Cost | | | | | | Change in Unit Attributable Cost | | | | |
|---------------------------|------------------------|------|------|------|------|------|----------------------------------|-------|--------|-------|-------|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2015 | 2014 | 2013 | 2012 | 2011 |
| Mail Processing | 5.87 | 5.55 | 5.49 | 5.78 | 5.51 | 5.73 | 5.7% | 1.2% | -5.0% | 4.9% | -3.9% |
| City Carrier In-Office | 1.63 | 1.52 | 1.40 | 1.48 | 1.51 | 1.55 | 7.2% | 8.7% | -5.6% | -2.1% | -2.6% |
| City Carrier Street | 2.21 | 2.38 | 2.41 | 2.37 | 2.19 | 2.14 | -7.2% | -1.6% | 2.1% | 8.0% | 2.5% |
| Rural Carriers | 0.82 | 0.81 | 0.78 | 0.90 | 0.93 | 0.90 | 2.1% | 4.1% | -14.2% | -2.7% | 2.8% |
| Transportation | 1.27 | 1.17 | 1.22 | 1.23 | 1.16 | 1.02 | 8.4% | -4.3% | -0.4% | 6.0% | 13.5% |
| All Other | 0.45 | 0.49 | 0.53 | 0.62 | 0.62 | 0.64 | -7.2% | -7.2% | -14.4% | -0.1% | -3.8% |

Source: The Postal Regulatory Commission derived from Postal Service *Cost Segment and Component Reports*, FY 2010 to FY 2015.

FIRST-CLASS MAIL FLATS COMPARED WITH FY 2014

Table III-9 shows the total volume and revenue for First-Class Mail flats. Total flats volume has been declining every year; however, First-Class Mail Presorted Flats volume increased for the first time in several years. Total flats revenue declined as the rate increase and the Market Dominant exigent surcharge did not sufficiently offset First-Class Mail Single-Piece Flats' revenue loss due to declines in volume.

Table III-9
First-Class Mail Flats Volume and Revenue

| | Mail Volume (Millions) | | | | Mail Revenue (\$ in Millions) | | | |
|---------------------|------------------------|---------|----------------------|----------------|-------------------------------|---------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| Single-Piece | 1,057 | 1,184 | (127) | -10.7% | 1,736 | 1,905 | (169) | -8.9% |
| Presorted | 611 | 599 | 13 | 2.1% | 627 | 594 | 33 | 5.5% |
| Total Flats | 1,669 | 1,783 | (114) | -6.4% | 2,363 | 2,499 | (136) | -5.5% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Table III-10 summarizes the FY 2015 change in attributable cost. Total attributable cost for First-Class Mail flats remained essentially unchanged from FY 2014 despite volume declines. As a result, the average unit attributable cost increased over 6.0 percent in FY 2015.

Table III-10
First-Class Mail Flats Attributable Costs and Average Unit Attributable Cost

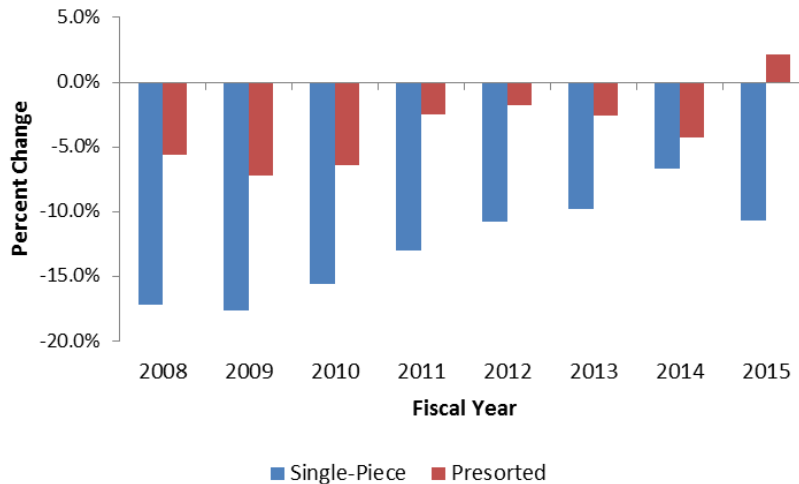
| | Attributable Cost (\$ in Millions) | | | | Unit Attributable Cost (Cents per Piece) | | | |
|--------------------|------------------------------------|--------------|----------------------|----------------|--|-------------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| Single-Piece | 1,000 | 1,053 | (53) | -5.1% | 94.6 | 89.0 | 5.6 | 6.3% |
| Presorted | 559 | 513 | 47 | 9.1% | 91.5 | 85.7 | 5.8 | 6.8% |
| Total Flats | 1,559 | 1,566 | (7) | -0.4% | 93.4 | 87.9 | 5.6 | 6.4% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

TRENDS IN FIRST-CLASS MAIL FLATS

Figure III-10 compares the percentage change in First-Class Mail flats volume from FY 2008 to FY 2015. While overall flats volume continues to decline, First-Class Mail Presorted Flats volume increased. This increase may be attributable to increased business activity and an improving economic climate.

Figure III-10
Percentage Change in First-Class Mail Flats Volume, FY 2008 - FY 2015

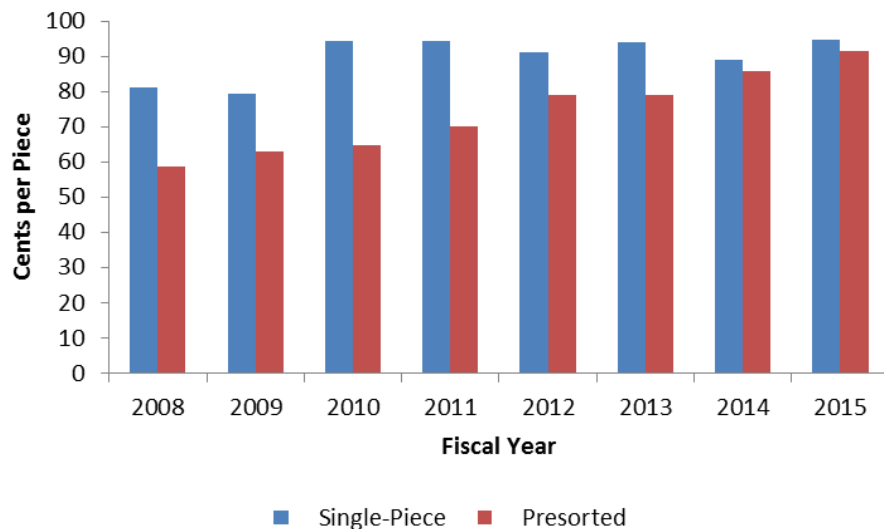


Source: Postal Service *RPW Reports*, FY 2008 - FY 2015.

Figure III-11 compares the average unit attributable cost for both First-Class Mail Single-Piece and Presorted Flats since FY 2008. Beginning in FY 2010, the average unit attributable cost for First-Class Mail Single-Piece Flats has remained relatively steady. However, average unit attributable cost for First-Class Mail Presorted Flats has increased each year. The cost difference between First-Class Mail Single-Piece Flats and First-Class

Mail Presorted Flats was greatest in FY 2010 at 29.6 cents and shrunk to 3.1 cents in FY 2015.

Figure III-11
First-Class Mail Flats Average Unit Attributable Cost, FY 2008 - FY 2015



Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

Table III-11 compares the average unit attributable cost by cost segment or component of First-Class Mail Single-Piece Flats and First-Class Mail Presorted Flats for FY 2010 and FY 2015. This unit attributable cost includes all of the indirect cost that is piggybacked to the direct cost.⁶⁹ During this period, the largest increases in First-Class Mail Presorted Flats unit attributable cost has been in the mail processing, City Carrier In-Office, transportation, and All Other. The mail processing unit cost of First-Class Mail Presorted Flats rose 18.6 cents, while the unit cost of First-Class Mail Single-Piece Flats declined 5.8 cents. The same type of changes in unit cost occurred in City Carrier In-Office cost.

Total unit attributable cost for First-Class Mail Single-Piece Flats remained relatively static between FY 2010 and FY 2015, while First-Class Mail Presorted Flats unit attributable cost rose 26.6 cents over the same period. This result is counter-intuitive, as the average unit attributable cost of First-Class Mail Presorted Flats should be lower than First-Class Mail Single-Piece Flats due to the reduced handling required for workshared mail. This is particularly true for mail processing cost.

⁶⁹ In addition to the direct costs, there are other “indirect” costs associated with the direct costs component or cost segment. Some examples of these indirect costs are Cost Segment 3 Administrative Clerks, Cost Segment 12 Vehicle Service Costs, Cost Segment 15 Rents and Fuel and Utilities, and Cost Segment 18 Servicewide Labor Costs (such as, workers’ compensation, etc.). These “indirect” costs are referred to as “piggybacked” costs and are developed in Library Reference USPS-FY15-24.

The Commission questioned the Postal Service about this anomaly and the Postal Service responded by noting that Presorted Flats' mail processing cost are "unexpectedly higher than the corresponding Single[-]Piece cost."⁷⁰ The Postal Service also noted that the cost difference in mail processing (Cost Segment 3.1) is anomalous and that the Postal Service will be investigating the potential causes.⁷¹

Regarding City Carrier In-Office cost, the Postal Service notes that a higher proportion of First-Class Mail Presorted Flats volume than First-Class Mail Single-Piece Flats volume is delivered by city carriers; however, it notes that the magnitude of the difference is unexpectedly large and it will be investigating the reasons for the large difference.⁷²

Table III-11
First-Class Mail Flats Unit Attributable Cost by Segment or Component, FY 2010 and FY 2015

| Cost Segment or Component | 2010 | | | 2015 | | |
|---------------------------|--------------|-------------|-------------|--------------|-------------|------------|
| | Single-Piece | Presort | Diff. | Single-Piece | Presort | Diff. |
| Mail Processing | 57.1 | 37.8 | 19.3 | 51.3 | 56.4 | (5.1) |
| City Carrier In-Office | 11.5 | 11.4 | 0.2 | 8.6 | 15.4 | (6.8) |
| City Carrier Street | 5.8 | 3.0 | 2.8 | 6.7 | 3.7 | 3.0 |
| Rural carriers | 2.2 | 2.4 | (0.2) | 3.5 | 2.8 | 0.7 |
| Transportation | 11.0 | 8.3 | 2.7 | 15.7 | 10.2 | 5.4 |
| All Other | 6.9 | 2.0 | 4.9 | 8.8 | 3.0 | 5.8 |
| Total | 94.5 | 64.9 | 29.6 | 94.6 | 91.5 | 3.1 |

Source: The Postal Regulatory Commission derived from Postal Service *Cost Segment and Component Reports*, FY 2010 and FY 2015.

OTHER FIRST-CLASS MAIL COMPARED WITH FY 2014

Table III-12 shows the volume and revenue for First-Class "all others" with the exception of Inbound Letter Post, volume in every category of First-Class Mail "all others" declined from last year. The largest declines were in First-Class Mail postcards and Parcels. Overall, total revenue increased over the last year, primarily due to increases in revenue for International First-Class Mail. The volume loss in First-Class Mail postcards and Parcels

⁷⁰ Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 16, February 29, 2016, question 4.a (Responses to CHIR No. 16).

⁷¹ *Id.*

⁷² *Id.*

resulted in revenue declines despite the rate increase implemented in May 2015⁷³ and the Market Dominant exigent surcharge.⁷⁴

Table III-12
All Other First-Class Mail Volume and Revenue

| | Mail Volume (Millions) | | | | Mail Revenue (\$ in Millions) | | | |
|--|------------------------|--------------|----------------------|----------------|-------------------------------|--------------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| | | | | | | | | |
| Total Cards | 3,008 | 3,123 | (115) | -3.7% | 872 | 885 | (12) | -1.4% |
| Parcels | 200 | 233 | (33) | -14.2% | 546 | 593 | (48) | -8.0% |
| Outbound Single-Piece First-Class Mail International | 212 | 216 | (3) | -1.6% | 315 | 308 | 7 | 2.3% |
| Inbound Letter Post | 318 | 242 | 76 | 31.4% | 251 | 175 | 76 | 43.6% |
| Inbound International NSAs | 155 | 159 | (3) | -2.0% | 177 | 164 | 12 | 7.5% |
| Total Other First-Class Mail | 3,894 | 3,973 | (78) | -2.0% | 2,161 | 2,125 | 36 | 1.7% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Table III-13 presents the changes in total attributable cost and average unit attributable cost for “all others” First-Class Mail between FY 2014 and FY 2015. As seen in the table, First-Class Mail Parcels average unit attributable cost increased 10.2 cents over FY 2014. Inbound Letter Post and Inbound International NSAs costs also increased significantly. The average unit attributable cost for the class as a whole remained the same as in FY 2014.

Table III-13
Other First-Class Mail Attributable Cost and Average Unit Attributable Cost

| | Attributable Cost (\$ in Millions) | | | | Unit Attributable Cost (Cents per Piece) | | | |
|--|------------------------------------|--------------|----------------------|----------------|--|-------------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| | | | | | | | | |
| Total Cards | 384 | 451 | (67) | -14.9% | 12.8 | 14.4 | (1.7) | -11.7% |
| Parcels | 486 | 543 | (56) | -10.4% | 243.0 | 232.8 | 10.2 | 4.4% |
| Outbound Single-Piece First-Class Mail International | 169 | 188 | (19) | -10.1% | 79.8 | 87.4 | (7.6) | -8.7% |
| Inbound Letter Post | 349 | 249 | 99 | 39.8% | 109.6 | 102.9 | 6.6 | 6.4% |
| Inbound International NSAs | 154 | 143 | 11 | 7.4% | 98.8 | 90.2 | 8.6 | 9.5% |
| Total Other First-Class Mail | 1,542 | 1,575 | (33) | -2.1% | 39.6 | 39.6 | (0.0) | -0.1% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Standard Mail

Standard Mail is comprised of seven products: Letters; Flats; Parcels; Carrier Route; High Density and Saturation Letters; High Density and Saturation Flats/Parcels; and Every Door

⁷³ Docket No. R2015-4, Order No. 2365, Order on Price Adjustments for First-Class Mail Products and Related Mail Classification Changes, February 24, 2015.

⁷⁴ Docket No. R2013-11, Order No. 1926, Order Granting Exigent Price Increase, December 24, 2013.

Direct Mail-Retail. For comparison purposes, the products have been grouped into letters and flats.⁷⁵

STANDARD MAIL LETTERS COMPARED WITH FY 2014

Table III-14 summarizes the FY 2015 change in volume and revenue of letter-shaped Standard Mail. High Density and Saturation Letters volume increased in FY 2015, offsetting the decline in volume from Standard Mail Letters. Despite the decline in volume for Standard Mail Letters, revenue increased by 1.0 percent due to a May 2015⁷⁶ rate increase. In addition, there was one more quarter of Market Dominant exigent surcharge revenue collected in FY 2015 than in FY 2014. The increase in High Density and Saturation Letter volume was almost double the increase reported in FY 2014.

Table III-14
Standard Mail Letters Volume and Revenue

| | Mail Volume (Millions) | | | | Mail Revenue (\$ in Millions) | | | |
|-----------------------------------|------------------------|---------------|----------------------|----------------|-------------------------------|---------------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| Letters | 47,721 | 48,072 | (351) | -0.7% | 10,057 | 9,956 | 101 | 1.0% |
| High Density & Saturation Letters | 6,478 | 5,970 | 508 | 8.5% | 995 | 884 | 111 | 12.6% |
| Total Letters | 54,199 | 54,042 | 157 | 0.3% | 11,052 | 10,840 | 212 | 2.0% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Table III-15 summarizes the FY 2015 change in attributable cost. Total attributable cost for letter-shaped Standard Mail increased 1.3 percent in FY 2015 after declining in FY 2014. The largest increase was for High Density and Saturation Letters. Increased volume led to higher total attributable cost for the mail processing, city delivery in-office and street time, and rural carriers. Additionally, the methodological change in city carrier costing, noted earlier, contributed significantly to the increase in High Density and Saturation Letters' average unit attributable cost.

⁷⁵ Since the majority of the former Standard Mail Parcels product was moved to the Competitive product list, the remaining parcel volume comprises only 0.1 percent of total Standard Mail volume. Consequently, that volume is not discussed separately. See Docket No. MC2010-36, Order No. 689, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011.

⁷⁶ Docket No. R2015-4, Order No. 2472, Order on Revised Price Adjustments for Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, May 7, 2015.

**Table III-15
Standard Mail Letters Attributable Cost and Average Unit Attributable Cost**

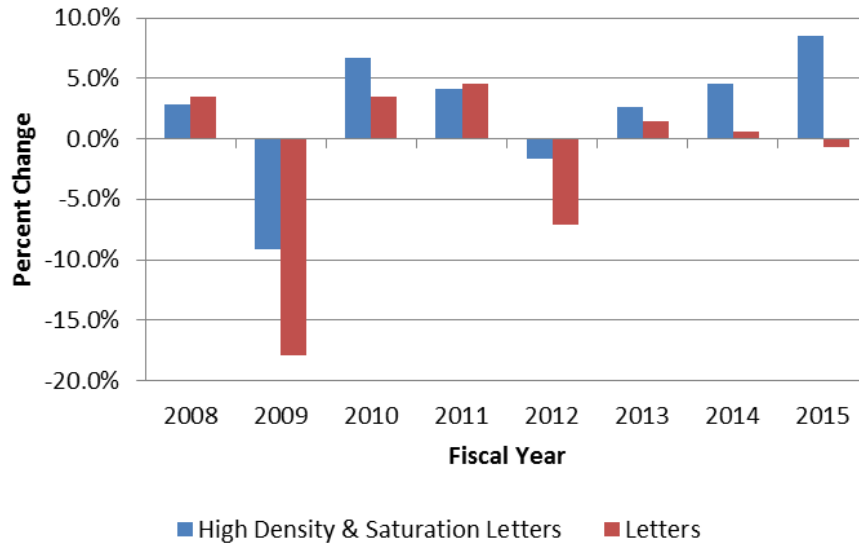
| | Attributable Cost (\$ in Millions) | | | | Unit Attributable Cost (Cents per Piece) | | | |
|-----------------------------------|------------------------------------|--------------|----------------------|----------------|--|------------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| Letters | 4,930 | 4,948 | (17) | -0.3% | 10.3 | 10.3 | 0.0 | 0.4% |
| High Density & Saturation Letters | 454 | 370 | 84 | 22.7% | 7.0 | 6.2 | 0.8 | 13.1% |
| Total Letters | 5,384 | 5,317 | 67 | 1.3% | 9.9 | 9.8 | 0.1 | 1.0% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

TRENDS IN STANDARD MAIL LETTERS

As shown in Figure III-12, Standard Mail Letters volume declined in FY 2015 after 2 years of minimal growth. The rate of growth of High Density and Saturation Letters volume increased each year since FY 2012 and consistently exceeded the rate of growth of Standard Mail Letters.

**Figure III-12
Standard Mail Letters Volume Percent Change**

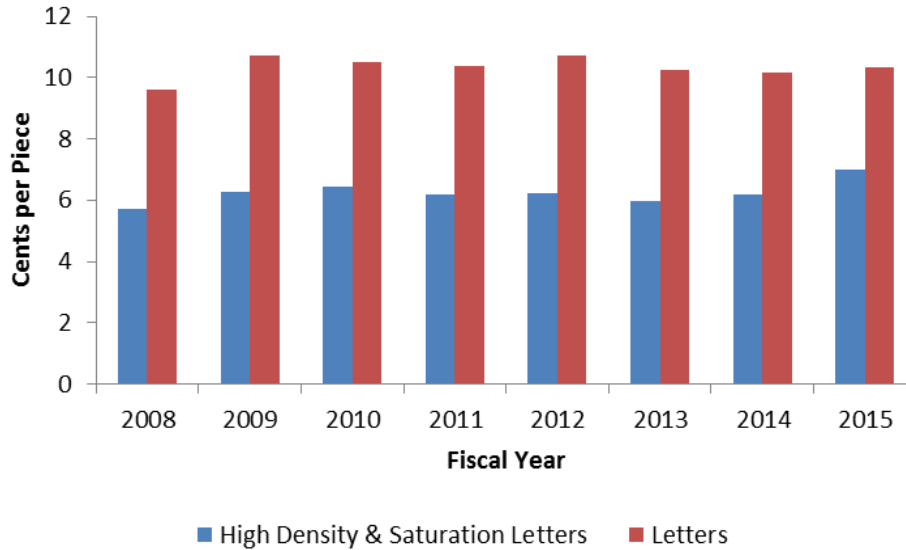


Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

As shown in Figure III-13, the average unit attributable cost for Standard Mail Letters increased since FY 2008 but remained relatively stable since FY 2009. FY 2015 unit

attributable cost for High Density and Saturation Letters rose significantly. As noted earlier, this increase is primarily driven by increases in delivery cost.

Figure III-13
Standard Mail Letters Unit Attributable Cost



Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

STANDARD MAIL FLATS COMPARED WITH FY 2014

Table III-16 summarizes the FY 2015 changes in volume and revenue for flat-shaped Standard Mail. Volume declined for every category except for Flats, which increased 4.1 percent over last year. The largest decline in volume was in Carrier Route Flats, which declined 7.1 percent. Total revenue for flat-shaped Standard Mail decreased in FY 2015 despite the rate increase that was implemented in May 2015. The decrease in Carrier Route Flats volume accounted for the entirety of the flats revenue decline, more than offsetting slight increases in revenue from Standard Mail Flats and Standard Mail High Density and Saturation Flats/Parcels.

**Table III-16
Standard Mail Flats Volume and Revenue**

| | Mail Volume (Millions) | | | | Mail Revenue (\$ in Millions) | | | |
|---|------------------------|---------------|-------------------------|-------------------|-------------------------------|--------------|-------------------------|-------------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| | | | | | | | | |
| High Density & Saturation Flats/Parcels | 11,277 | 11,295 | (18) | -0.2% | 2,049 | 2,013 | 35 | 1.8% |
| Carrier Route | 8,389 | 9,030 | (641) | -7.1% | 2,265 | 2,381 | (116) | -4.9% |
| Flats | 5,260 | 5,054 | 206 | 4.1% | 2,113 | 2,041 | 72 | 3.5% |
| Every Door Direct Mail - Retail | 833 | 890 | (58) | -6.5% | 149 | 149 | (0) | 0.0% |
| Total Flats & Parcels | 25,758 | 26,270 | (511) | -1.9% | 6,576 | 6,585 | (9) | -0.1% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Total attributable cost for flat-shaped Standard Mail increased in FY 2015 after declining in the previous year. This increase was primarily due to methodological cost changes in city carrier street time, as well as increased maintenance cost for delivery vehicles. Table III-17 compares the attributable cost and average unit attributable cost for flat-shaped Standard Mail between FY 2014 and FY 2015. The largest increases in attributable cost were for High Density and Saturation Flats/Parcels and Every Door Direct Mail-Retail, each increasing by more than 30 percent in FY 2015. Also, despite the overall decline in volume, total attributable cost increased for flat-shaped mail.

**Table III-17
Standard Flats Attributable Cost and Average Unit Attributable Cost**

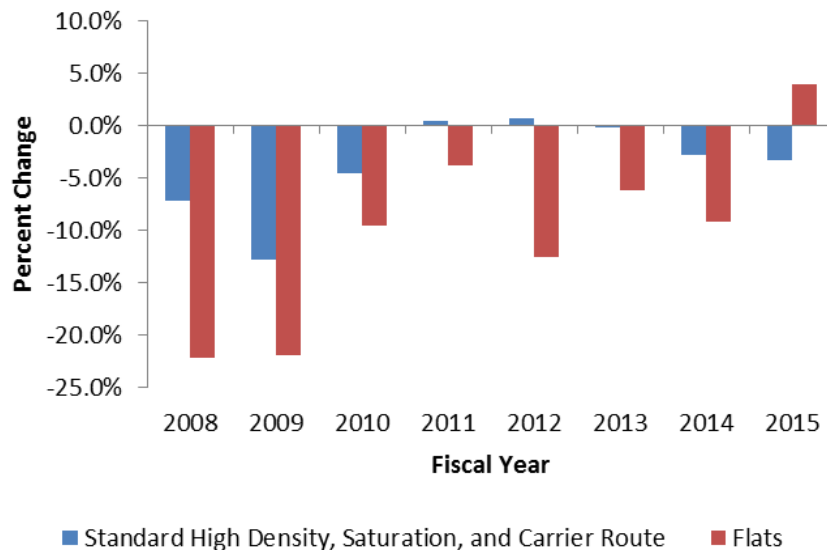
| | Attributable Cost (\$ in Millions) | | | | Unit Attributable Cost (Cents per Piece) | | | |
|---|------------------------------------|--------------|-------------------------|-------------------|--|-------------|-------------------------|-------------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| | | | | | | | | |
| High Density & Saturation Flats/Parcels | 1,181 | 886 | 295 | 33.3% | 10.5 | 7.8 | 2.6 | 33.6% |
| Carrier Route | 1,727 | 1,726 | 1 | 0.0% | 20.6 | 19.1 | 1.5 | 7.7% |
| Flats | 2,633 | 2,452 | 181 | 7.4% | 50.1 | 48.5 | 1.5 | 3.2% |
| Every Door Direct Mail - Retail | 52 | 39 | 12 | 31.1% | 6.2 | 4.4 | 1.8 | 40.2% |
| Total Flats & Parcels | 5,592 | 5,103 | 489 | 9.6% | 21.7 | 19.4 | 2.3 | 11.8% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

TRENDS IN STANDARD MAIL FLATS

Total volume for flat-shaped Standard Mail continued to decline in FY 2015, decreasing by over 600 million pieces. As shown in Figure III-14, Flats increased in volume, growing 3.8 percent in FY 2015. The volume of this product had been in decline since FY 2009, averaging volume losses of almost 10 percent per year over the last 4 years. All other categories of flat-shaped Standard Mail continued to lose volume in FY 2015.

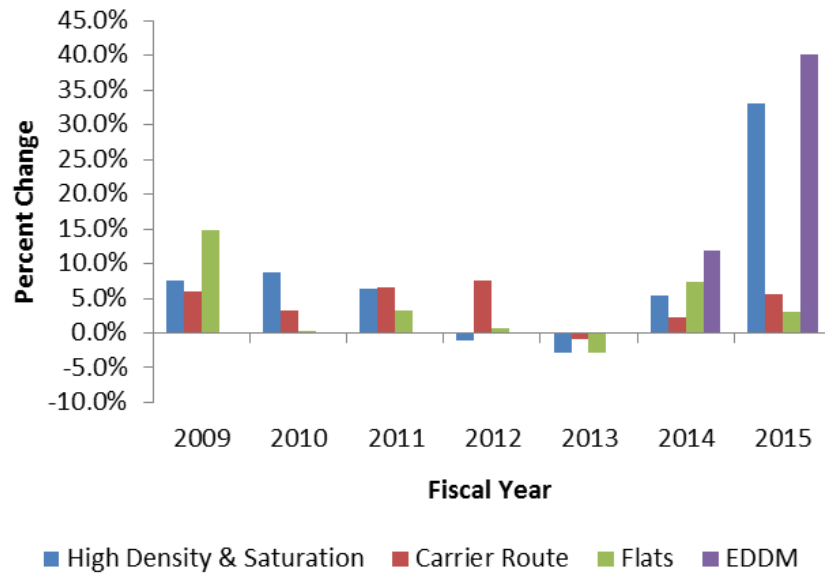
Figure III-14
Standard Mail Flat Percent Change in Volume
FY 2008 - FY 2015



Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

The average unit attributable cost for all flat-shaped Standard Mail products increased significantly over the last 8 years. This growth in the unit attributable cost is illustrated in Figure III-15. Since FY 2008, the average unit attributable cost of Flats has increased 30.5 percent, 34.6 percent for Carrier Route, and 70.1 percent for High Density and Saturation Flats. The average unit attributable cost for High Density and Saturation Flats increased 33 percent in FY 2015 alone.

Figure III-15
Standard Mail Flats Percent Change in Average Unit Attributable Cost, FY 2009 - FY 2015



Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

Table III-18 on the following page compares the change in the average unit attributable cost by cost segment or component for FY 2015 from FY 2014. Mail Processing unit cost for all flat-shaped Standard Mail declined in FY 2015, with Every Door Direct Mail-Retail (EDDM-R) experiencing the largest decrease. This was only the second year in which cost has been reported for EDDM-R, so the large decrease could be a result of more consistent capturing of In-office cost system (IOCS) tallies for this type of Standard Mail.

In FY 2015, the city carrier street average attributable unit cost for all flat-shaped Standard Mail increased significantly. This large increase was due to the change in cost methodology for city carrier street time and motor vehicle service costs. New cost pools were defined, and new variabilities were estimated for letters, flats, in-receptacle parcels, deviation parcels, collection, and accountables, to determine the amount of street time cost attributable to each shape. While the changes were focused on street time cost, a slight alteration of the split between in-office and street time affected the distribution of in-office time cost.

One of the main impacts of the methodology change was a decrease in cost attributed to letter-shaped mail and an increase in cost attributed to flat-shaped and parcel-shaped mail. The change in methodology affected the average unit attributable cost for High Density and Saturation Flats. In fact, the city carrier street time average unit attributable cost almost doubled for this product. The city carrier street average unit attributable cost for Flats increased 37.2 percent and 20.7 percent for Carrier Route Flats.

In Docket No. RM2015-7 (Proposal Thirteen) the Postal Service estimated the impact of the proposed change on unit costs as they had been reported for FY 2013. The estimates showed that Standard Mail would experience the largest increases in unit costs, particularly for High Density and Saturation Flats (2.2 cents per piece), Carrier Route (1 cent per piece), and Flats (0.9 cents per piece).⁷⁷ These increases did not take into account the related change in cost methodology for Cost Segment 12, Motor Vehicle Service, which was proposed later by the Postal Service in Docket No. RM2016-3 (Proposal Twelve).⁷⁸ The actual increase in unit costs for Standard Mail for FY 2015, including the effects of implementation of both Proposal Thirteen and Proposal Twelve, were higher than estimated by the Postal Service. However, other cost-driving factors changed between FY 2013 and FY 2015, and therefore, this comparison does not perfectly isolate the impact of Proposals Thirteen and Twelve.

Table III-18
Change in Standard Flat-Shaped Mail Unit Attributable Cost by Cost Segment

| | High Density & Saturation | Carrier Route | Flats | EDDM |
|------------------------|------------------------------|------------------|---------|--------|
| Mail Processing | | | | |
| FY 2015 | 1.1600 | 6.0814 | 27.9516 | 0.0357 |
| FY 2014 | 1.1718 | 6.2403 | 28.0879 | 0.2184 |
| % Change | -1.0% | -2.5% | -0.5% | -83.6% |
| City Carrier In-Office | | | | |
| FY 2015 | 1.3396 | 5.4662 | 10.0017 | 1.2814 |
| FY 2014 | 1.0033 | 4.8687 | 9.8477 | 1.0087 |
| % Change | 33.5% | 12.3% | 1.6% | 27.0% |
| City Carrier Street | | | | |
| FY 2015 | 4.4615 | 3.9730 | 4.8891 | 3.9724 |
| FY 2014 | 2.2667 | 3.2912 | 3.5624 | 2.3404 |
| % Change | 96.8% | 20.7% | 37.2% | 69.7% |
| Rural Carriers | | | | |
| FY 2015 | 2.7543 | 3.4649 | 2.9070 | 0.4640 |
| FY 2014 | 2.7094 | 3.0990 | 3.0842 | 0.4390 |
| % Change | 1.7% | 11.8% | -5.7% | 5.7% |

Source: The Postal Regulatory Commission derived from Library Reference USPS-FY15-24; Docket No. ACR2014, Library Reference USPS-FY14-24.

⁷⁷ Docket No. RM2015-7, Library Reference USPS-RM2015-7/4, June 11, 2015, "ChIR_No_4_Resp_Q2" folder, "Prop13.CHIR.No.4.Resp.Q2.Cost_Impacts.xlsx" file.

⁷⁸ Order No. 2915.

Periodicals

The Periodicals class is comprised of two products: Within County and Outside County. Within County is typically used by newspapers with smaller weekly circulations for distribution within the county of publication. Outside County consists of publications with a wide variety of circulation sizes, distribution patterns, and frequencies.

PERIODICALS COMPARED WITH FY 2014

Table III-19 summarizes the FY 2015 changes in volume and revenue for Periodicals. In FY 2015, Periodicals volume declined by 207 million pieces, or 3.4 percent, with most of the decrease occurring in Outside County publications. Total revenue for Periodicals declined 2.2 percent in FY 2015. The loss in revenue due to volume losses exceeded the increase in revenue due to increased unit revenues resulting from the May 2015 rate increase and the Market Dominant exigent surcharge.

Table III-19
Periodicals Volume and Revenue

| | Mail Volume (Millions) | | | | Mail Revenue (\$ in Millions) | | | |
|----------------|------------------------|--------------|----------------------|----------------|-------------------------------|--------------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| Within County | 571 | 586 | (15) | -2.6% | 67 | 67 | (0) | -0.7% |
| Outside County | 5,267 | 5,459 | (191) | -3.5% | 1,522 | 1,558 | (36) | -2.3% |
| Total | 5,838 | 6,045 | (207) | -3.4% | 1,589 | 1,625 | (36) | -2.2% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Table III-20 compares Periodicals total attributable cost and average unit attributable cost for FY 2014 and FY 2015. As shown in the table, total Periodicals attributable cost declined by \$33 million, or 1.6 percent. The entire reduction occurred in Outside County, as Within County cost increased slightly. The average unit attributable cost for Within County and Outside County grew 6.2 percent and 1.8 percent, respectively.

**Table III-20
Periodicals Attributable and Average Unit Attributable Cost**

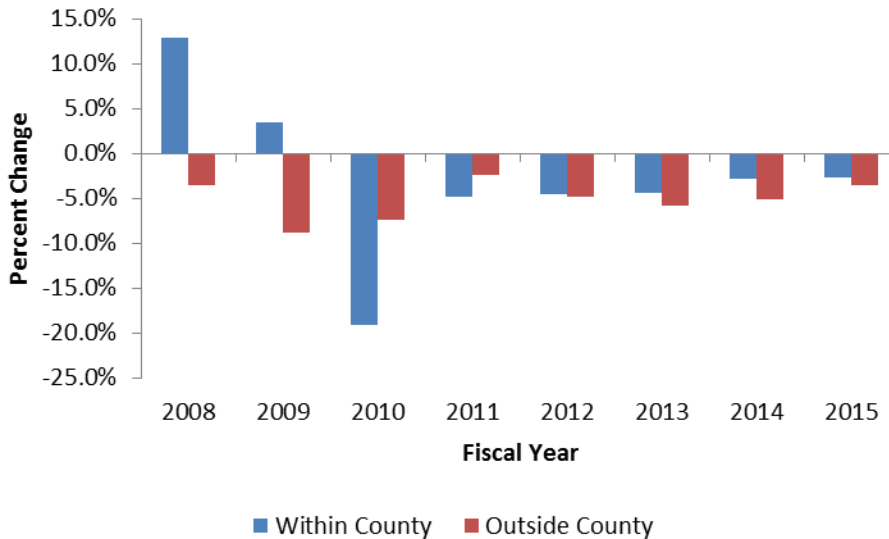
| | Attributable Cost (\$ in Millions) | | | | Unit Attributable Cost (Cents per Piece) | | | |
|-----------------------|------------------------------------|---------|----------------------|----------------|--|---------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| Within County | 89 | 86 | 3 | 3.4% | 15.5 | 14.6 | 0.9 | 6.2% |
| Outside County | 2,012 | 2,048 | (36) | -1.8% | 38.2 | 37.5 | 0.7 | 1.8% |
| Total | 2,101 | 2,134 | (33) | -1.6% | 36.0 | 35.3 | 0.7 | 1.9% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

TRENDS IN PERIODICALS

As shown in Figure III-16, the volume of Periodicals has continued to decline, in large part due to the availability of electronic alternatives. Additionally, advertising migrated from Periodicals to less costly electronic media, further depressing volume.⁷⁹

**Figure III-16
Periodicals Percent Change in Volume
FY 2008 - FY 2015**



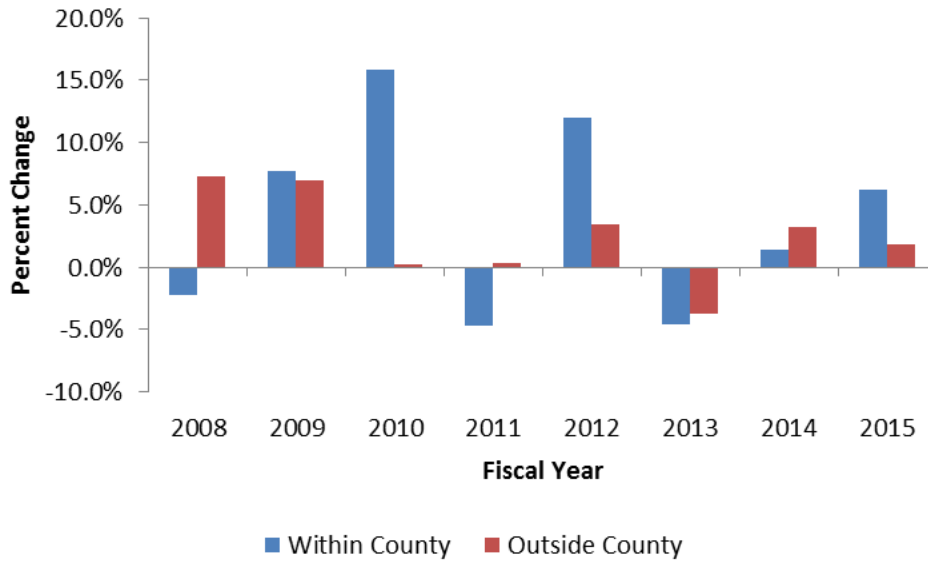
Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

The percentage change in the average unit attributable cost for Within County and Outside County Periodicals is shown in Figure III-17. Within County average unit attributable cost

⁷⁹ Postal Service FY 2015 Form 10-K at 18.

increased each of the past 2 years and 5 out of the last 8 years. The average unit attributable cost for Outside County has increased each year since FY 2008 except for FY 2013.

Figure III-17
Periodicals Percent Change in Average Unit Attributable Cost, FY 2008 – FY 2015



Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

Table III-21 disaggregates the average unit attributable cost for Outside County Periodicals for FY 2013 to FY 2015. As shown in the table, the unit cost for city carriers increased significantly in FY 2015, mostly due to the change in the cost methodology for city carrier street time. Transportation cost, primarily in highway transportation, increased for Outside County Periodicals in FY 2015 after declining the previous year. Changes in transportation schemes due to the second phase of the Network Realignment program may be part of the cause for the increase, as most of the increased cost are in Inter-SCF and Inter-NDC highway transportation costs.

Table III-21
Outside County Periodicals Average Unit Attributable Cost by Segment, FY 2013 - FY 2015

| Cost Segment | Average Unit Attributable Cost | | | Change in Average Unit Attributable Cost | |
|------------------------|--------------------------------|-------|-------|--|-------|
| | 2013 | 2014 | 2015 | 2014 | 2015 |
| Mail Processing | 11.69 | 12.25 | 11.26 | 4.8% | -8.1% |
| City Carrier In-Office | 4.63 | 4.69 | 4.75 | 1.2% | 1.4% |
| City Carrier Street | 2.24 | 2.30 | 2.90 | 2.6% | 26.1% |
| Rural Carriers | 2.51 | 2.65 | 2.64 | 5.5% | -0.3% |
| Transportation | 3.52 | 3.46 | 4.31 | -1.9% | 24.5% |
| All Other | 11.76 | 12.19 | 12.35 | 3.6% | 1.3% |

Source: The Postal Regulatory Commission derived from Postal Service *Cost Segment and Component Reports*, FY 2010 to FY 2015.

Package Services

The Package Services class consists of four products: Alaska Bypass Service; Bound Printed Matter (BPM) Flats; Bound Printed Matter (BPM) Parcels; and Media Mail/Library Mail. Inbound Surface Parcel Post (at Universal Postal Union (UPU) rates) was transferred to the Competitive product list in FY 2015.⁸⁰

Table III-22 summarizes the FY 2015 changes in volume and revenue for Package Services. Overall, Package Services volume increased in FY 2015. Volumes of both BPM Flats and BPM Parcels increased and accounted for the total increase in volume. The volume of Media Mail/Library Mail continued to decline.

The increase in BPM Flats and BPM Parcels volume resulted in increased revenue for both products, but was not enough to offset the decrease in revenue for Media Mail/Library Mail. The transfer of Inbound Surface Parcel Post (at UPU rates) to the Competitive product list accounted for almost half of the total revenue loss.

⁸⁰ See Docket No. MC2014-28, Order No. 2160, Order Approving Product List Transfer, August 19, 2014. While the transfer occurred at the end of FY 2014, the Postal Service's accounting systems started accounting for the change in FY 2015.

**Table III-22
Package Services Volume and Revenue**

| | Mail Volume (Millions) | | | | Mail Revenue (\$ in Millions) | | | |
|--|------------------------|------------|-------------------------|-------------------|-------------------------------|------------|-------------------------|-------------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| | | | | | | | | |
| Alaska Bypass | 1 | 1 | (0) | -0.6% | 34 | 33 | 1 | 1.8% |
| Bound Printed Matter Flats | 260 | 250 | 11 | 4.3% | 213 | 203 | 10 | 5.0% |
| Bound Printed Matter Parcels | 228 | 212 | 16 | 7.5% | 284 | 273 | 11 | 4.0% |
| Media Mail/Library Mail | 75 | 86 | (11) | -13.2% | 274 | 308 | (34) | -11.0% |
| Inbound Surface Parcel Post (at UPU Rates) | - | 1 | (1) | -100.0% | - | 18 | (18) | -100.0% |
| Total | 565 | 550 | 14 | 2.6% | 806 | 836 | (30) | -3.6% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

As shown in Table III-23, attributable cost for Package Services grew 3.4 percent, or \$25 million, in FY 2015. The largest increase was for Media Mail/Library Mail, despite a decrease in volume. Alaska Bypass Service cost, which consists entirely of Cost Segment 14 transportation, also increased significantly. This cost is determined by a new methodology instituted in FY 2014, which uses operational data from the Postal Service's Surface Air Management System – Alaska and the Transportation Cost System to calculate the ratio of hypothetical highway cost to air cost for Alaska Air transportation.⁸¹ This ratio varies from year to year and increased in FY 2015. The large increase in Media/Library Mail was due to higher mail processing and transportation costs.

**Table III-23
Package Services Attributable Costs and Average Unit Attributable Cost**

| | Attributable Cost (\$ in Millions) | | | | Unit Attributable Cost (Cents per Piece) | | | |
|--|------------------------------------|------------|-------------------------|-------------|--|--------------|-------------------------|-------------|
| | FY 2015 | FY 2014 | Increase or Decrease | % Change | FY 2015 | FY 2014 | Increase or Decrease | % Change |
| | | | | | | | | |
| Alaska Bypass | 19 | 16 | 3 | 16.9% | 1,493.5 | 1,269.8 | 223.7 | 17.6% |
| Bound Printed Matter Flats | 151 | 134 | 17 | 12.5% | 58.0 | 53.8 | 4.2 | 7.9% |
| Bound Printed Matter Parcels | 239 | 251 | (12) | -4.9% | 104.8 | 118.5 | (13.7) | -11.6% |
| Media/Library Mail | 359 | 328 | 31 | 9.4% | 479.5 | 380.2 | 99.3 | 26.1% |
| Inbound Surface Parcel Post (at UPU Rates) | - | 13 | (13) | -100.0% | - | 1,419.9 | (1,419.9) | -100.0% |
| Total | 768 | 743 | 25 | 3.4% | 136.0 | 135.0 | 1.1 | 0.8% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Table III-24 shows the FY 2015 percent change in unit costs for selected cost segments. As shown in this table, increases in mail processing cost, transportation, and vehicle service drivers were the primary causes of the increase in Media Mail/Library Mail costs, although overall delivery cost declined. The transportation cost increase can be traced to higher

⁸¹ FY 2014 Postal Regulatory Commission *Financial Report* at 57; see also Docket No. RM2013-6, Order No. 1983, Order on Analytical Principles Used in Periodic Reporting (Proposals One Through Five), February 4, 2014, at 4-6.

intra- and inter-SCF highway transportation costs. BPM Flats and BPM Parcels' mail processing unit cost declined from last year, but city carrier in-office cost increased significantly. The increase in delivery cost for BPM Flats and BPM Parcels was largely due to the change in the costing methodology for city carrier street time.

Table III-24
Package Services Percent Change in Unit Attributable Cost by Segment and Component

| | BPM Flats | BPM Parcels | Media Mail/ Library Mail |
|------------------------|-------------|--------------|-----------------------------|
| Mail Processing | -0.2% | -14.8% | 31.8% |
| City Carrier In-Office | 83.2% | 24.0% | -28.8% |
| City Carrier Street | 4.0% | -4.1% | -5.6% |
| Vehicle Service Driv. | 23.4% | -18.7% | 18.2% |
| Rural Carriers | 2.3% | -0.3% | 5.8% |
| Motor Vehicle Service | 18.2% | 10.6% | 8.6% |
| Transportation | 5.2% | -19.6% | 31.9% |
| All Other | 0.9% | -7.6% | 25.8% |
| Total Cost | 7.9% | -8.9% | 26.1% |

Source: The Postal Regulatory Commission derived from Library Reference USPS-FY15-31; Docket No. ACR2014, Library Reference USPS-FY14-31.

Market Dominant Special Services

The Special Services class consists of 12 products, including Ancillary Services, 8 domestic “stand-alone” products, and 3 international products. Although it comprises several services,⁸² Ancillary Services is classified as a single product.

Special Services include Certified Mail, Insurance, Money Orders, Post Office Box, and other services that enhance Market Dominant products. As shown in Table III-25, total revenue for Special Services declined \$117 million in FY 2015, with the largest decreases occurring in Certified Mail, Post Office Box, and Other Ancillary Services.

⁸² Other Ancillary Services consists of USPS Tracking, Return Receipts, Restricted Delivery, Signature Confirmation, Bulk Parcel Return Service, and Special Handling.

**Table III-25
Market Dominant Special Services Revenue**

| | Revenue (\$ in Millions) | | | |
|---------------------------|--------------------------|--------------|-------------------------|-------------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| Certified Mail | 659 | 687 | (28) | -4.1% |
| COD | 3 | 4 | (0) | -13.4% |
| Insurance | 89 | 92 | (2) | -2.7% |
| Registered Mail | 38 | 35 | 3 | 8.5% |
| Stamped Envelopes & Cards | 12 | 12 | 1 | 7.2% |
| Other Ancillary Services | 493 | 525 | (32) | -6.2% |
| Money Orders | 161 | 165 | (5) | -2.9% |
| Post Office Box | 311 | 365 | (54) | -14.9% |
| Other Services | 177 | 175 | 2 | 1.1% |
| Total Services | 1,943 | 2,060 | (117) | -5.7% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Table III-26, shows that attributable cost for Special Services declined \$148 million, or 11.1 percent, in FY 2015. The reduction in cost reflected the continued reduction in demand for these services, especially for Certified Mail and Other Ancillary Services (mostly for USPS Tracking). Additional transfers of some categories of Market Dominant Post Office Box to the Competitive product list were the primary reason for the reduction in Post Office Box cost.

**Table III-26
Market Dominant Special Services Attributable Cost**

| | Attributable Cost (\$ in Millions) | | | |
|---------------------------|------------------------------------|--------------|----------------------|----------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| Certified Mail | 485 | 542 | (57) | -10.5% |
| COD | 3 | 3 | 0 | 13.2% |
| Insurance | 50 | 63 | (13) | -20.8% |
| Registered Mail | 27 | 29 | (1) | -5.2% |
| Stamped Envelopes & Cards | 8 | 8 | (0) | -3.4% |
| Other Ancillary Services | 222 | 260 | (37) | -14.3% |
| Money Orders | 105 | 100 | 5 | 5.5% |
| Post Office Box | 228 | 282 | (53) | -19.0% |
| Other Services | 54 | 45 | 9 | 20.0% |
| Total Services | 1,184 | 1,331 | (148) | -11.1% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Competitive Volume, Revenue, and Cost by Product

Competitive Products consist of both domestic and international products. Domestic Competitive products include Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; First-Class Package Service; Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards and Stationery; Competitive Ancillary Services; Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies. There were also a total of 200 Domestic Competitive NSA products in effect during FY 2015.

International Competitive products include Outbound International Expedited Services; Outbound Priority Mail International; Inbound Air Parcel Post (at UPU rates); Outbound Single-Piece First-Class Package International Service; International Surface Air Lift; International Priority Airmail; International Direct Sacks – M-Bags; International Money Transfer Service – Outbound; International Money Transfer Service – Inbound; and International Ancillary Services. In FY 2015, there were also 250 International Outbound NSAs and 19 International Inbound NSAs.

To facilitate comparison, the products have been grouped into several broad categories. Table III-27 summarizes the FY 2015 changes in volume and revenue for Competitive products and services. Total volume for Competitive products increased almost 15 percent

in FY 2015 as every category except Priority Mail Express and Competitive International mail experienced volume growth. The products with the two largest increases in volume were First-Class Package Service, which increased 11.6 percent, and ground parcels,⁸³ which increased 25 percent. Priority Mail volume also increased 7.8 percent from the prior year.

Total Competitive product revenue increased 7.5 percent, or \$1.1 billion, in FY 2015. Every Competitive category, except International, had increased revenue, with ground parcels, Priority Mail, and First-Class Package Service providing the bulk of the increased revenue. Increased volume was the primary reason for the significant increase in revenue. Changes in rates for Priority Mail, implemented at the beginning of FY 2015, lowered the revenue per piece,⁸⁴ and resulted in a revenue decrease of approximately \$144 million for Priority Mail. However, the volume increase in Priority Mail added approximately \$692 million in revenue.

**Table III-27
Competitive Volume and Revenue**

| | Mail Volume (Millions) | | | | Mail Revenue (\$ in Millions) | | | |
|-----------------------------|------------------------|--------------|-------------------------|-------------------|-------------------------------|---------------|-------------------------|-------------------|
| | FY 2015 | FY 2014 | Increase or Decrease | Percent Change | FY 2015 | FY 2014 | Increase or Decrease | Percent Change |
| | | | | | | | | |
| Priority Mail Express | 36 | 36 | (1) | -1.5% | 779 | 760 | 19 | 2.5% |
| First-Class Package Service | 708 | 635 | 74 | 11.6% | 1,689 | 1,462 | 227 | 15.5% |
| Priority Mail | 992 | 920 | 72 | 7.8% | 7,276 | 6,884 | 392 | 5.7% |
| Ground Parcels | 1,969 | 1,576 | 393 | 25.0% | 3,925 | 3,160 | 765 | 24.2% |
| International | 254 | 281 | (28) | -9.8% | 1,970 | 2,319 | (349) | -15.1% |
| Domestic Services | | | | | 789 | 695 | 94 | 13.5% |
| Total Competitive | 3,959 | 3,448 | 511 | 14.8% | 16,428 | 15,280 | 1,148 | 7.5% |

Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Table III-28 summarizes the FY 2015 changes in attributable cost. Total attributable cost for Competitive products increased 8.5 percent, or \$935 million, in FY 2015. The rapidly increasing volume resulted in higher total cost for almost every cost segment and component. The largest increases in attributable costs were in Priority Mail, ground parcels, and First-Class Package Service. The average unit attributable cost increased for every category except for ground parcels and International. After increasing for the past 2 years, the average unit attributable cost for ground parcels declined almost 10 percent in FY 2015. Total attributable costs increased for ground parcels in every function except for Transportation.

⁸³ Ground parcels include Standard Post, Parcel Select, and Parcel Return Service.

⁸⁴ See Order No. 2156.

**Table III-28
Competitive Attributable Costs**

| | Attributable Cost (\$ in Millions) | | | | Unit Attributable Cost (Cents per Piece) | | | |
|-----------------------------|------------------------------------|---------------|-------------------------|-------------|--|--------------|-------------------------|--------------|
| | FY 2015 | FY 2014 | Increase or Decrease | % Change | FY 2015 | FY 2014 | Increase or Decrease | % Change |
| Priority Mail Express | 364 | 366 | (1.0) | -0.3% | 1,020.7 | 1,008.8 | 11.9 | 1.2% |
| First-Class Package Service | 1,369 | 1,155 | 214.0 | 18.5% | 193.2 | 182.0 | 11.2 | 6.2% |
| Priority Mail | 5,766 | 5,234 | 531.6 | 10.2% | 581.1 | 568.9 | 12.2 | 2.1% |
| Ground Parcels | 2,783 | 2,472 | 310.7 | 12.6% | 141.3 | 156.9 | (15.6) | -9.9% |
| International | 1,195 | 1,385 | (190.2) | -13.7% | 470.6 | 492.0 | (21.4) | -4.3% |
| Domestic Services | 428 | 359 | 69.7 | 19.4% | | | | |
| Total Competitive | 11,905 | 10,970 | 934.6 | 8.5% | 300.7 | 318.2 | (17.5) | -5.5% |

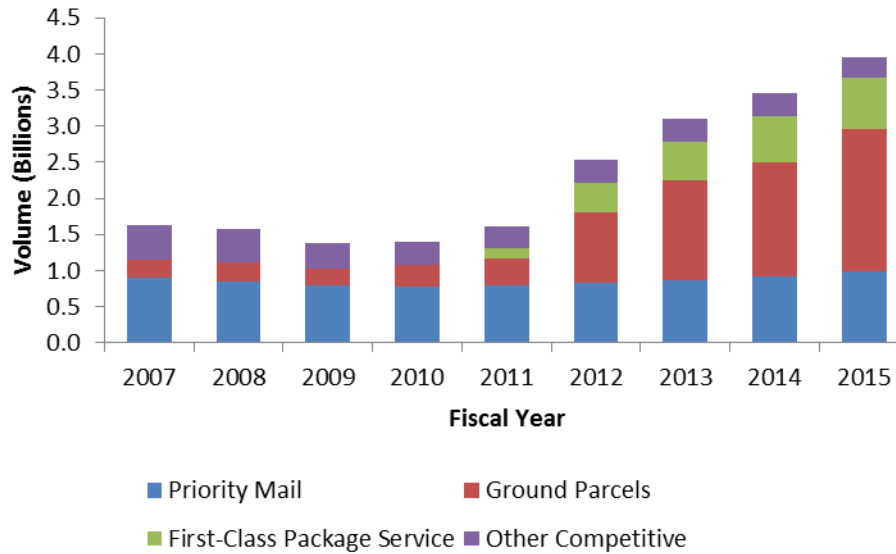
Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1.

Trends in Competitive Products

Competitive product volume growth has exceeded 10 percent each of the last 2 years. The growth in purchases of retail e-commerce has been the primary driver of volume increases for these products.⁸⁵ The Postal Service's marketing of Competitive products, especially Priority Mail, has also contributed to this growth. Figure III-18 highlights the growth in Competitive categories since FY 2007.

⁸⁵ Postal Service FY 2015 Form 10-K at 17-18.

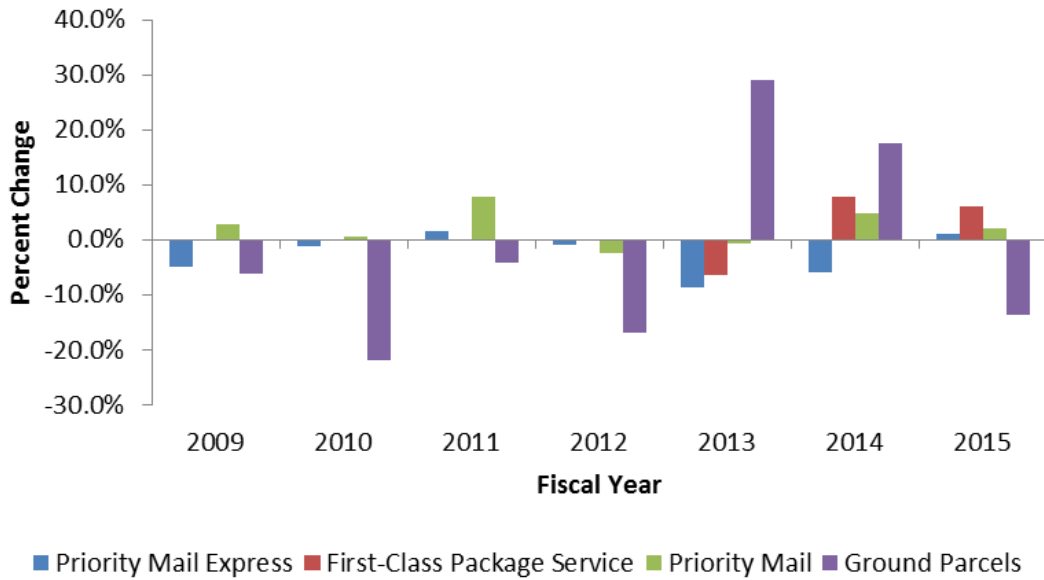
**Figure III-18
Competitive Volume by Product, FY 2007 - FY 2015**



Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2007- FY 2013 ACD; Library Reference PRC-LR-1.

As the volume of Competitive products has grown, so has the attributable cost, which now comprises 30 percent of total attributable cost. This was double the percentage of total Competitive attributable cost in FY 2008. Figure III-19 shows the average unit attributable cost from FY 2009 to FY 2015. Average unit attributable cost remained relatively stable until the transfer of Standard Mail lightweight parcels to the Competitive ground parcels category, which significantly lowered the average unit attributable cost of that product. The growth of the average unit attributable cost for ground parcels in FY 2013 and FY 2014 was primarily due to the transfer of Single-Piece Parcel Post from Market Dominant products to the Competitive Standard Post product. These pieces have a high unit attributable cost. After 2 consecutive years of growth in the average unit attributable cost of ground parcels, the average unit attributable cost declined significantly in FY 2015. This was due to declines in transportation cost for ground parcels. The average unit attributable cost for Priority Mail were fairly stable until FY 2013 when they began to decline due to a change in the volume mix of Priority Mail.

Figure III-19
Competitive Percent Change in Unit Attributable Cost by Category, FY 2009 - FY 2015



Source: Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2009- FY 2013 ACD; Library Reference PRC-LR-1.

Chapter 4. Sustainability, Liquidity, Activity, and Financial Solvency

Introduction

This chapter analyzes the Postal Service's financial status in terms of sustainability, liquidity, and performance using accounting ratios. It can be used as a strategic management tool that provides the public with a concise and systematic way to organize the data in financial statements (*e.g.*, Balance Sheets, Income Statements, and Statements of Cash Flows) into meaningful information. The information derived from these financial statements can provide the information needed to evaluate an entity's financial condition.

The Commission acknowledges that financial analyses used in the private sector are not exactly the same for Federal Government entities because revenue streams, equity structures, and management incentives differ. Due to these and other ways Federal Government entities differ from the private sector, the standard measurements used to assess the financial health of private sector firms generally are not directly applicable to Federal Government entities. Additionally, in the private sector, stakeholders use financial analysis to make investment and credit decisions, and success is often measured by the company's stock valuation. In contrast Federal Government entities are mission-oriented and measure success through the provision of service and do not have direct shareholders. Another useful part of a financial analysis for a Federal Government entity is financial performance. Although not a primary indicator of success, financial performance influences the ability of service-related entities, such as the Postal Service, to fulfill their missions and objectives.

The objectives of this chapter are:

- Compare and analyze the financial statements for the past 10 fiscal years, from FY 2006 to FY 2015
- Measure the sustainability and liquidity of the Postal Service
- Analyze the annual growth rate of the Postal Service's income through trend analyses
- Analyze the Postal Service's overall financial performance

The financial sustainability of the Postal Service is affected by a combination of environmental, economic, and organizational factors, including the decisions and actions of management and the Postal Service Board of Governors. For example, the expiration of the

Market Dominant exigent surcharge is expected to result in a significant decline in revenue in FY 2016.⁸⁶ Beginning in FY 2017, the Postal Service will be required to pay annually the actuarially determined cost for retiree health benefits for current employees into the PSRHBF and amortization payments of the unfunded obligation as set by OPM, while the annual "pay-as-you go" premiums for the Postal Service's annuitants and survivors will be paid out of the PSRHBF.⁸⁷ In FY 2018 the Postal Service will also begin making amortized payments for any unfunded liability for CSRS pensions.⁸⁸

Postal Service management's response to these changes will affect the financial condition of the Postal Service.

Financial ratios are used to interpret accounting information. Accounting information used in ratio analysis is not adjusted for inflation. Forecasts of an entity's future revenue may not reflect its actual future revenues and cash flows because of changing demographics, industry dynamics, and Federal Government regulation unless these factors are explicitly accounted for in the development of the forecast.

The ratios provide an objective, quantitative measure of an entity's financial health, and its ability to satisfy its financial obligations. Ratio analysis helps assess profitability and informs stakeholders of an entity's performance based on its current earnings. For example, computing a solvency ratio, such as debt ratio, reveals the correlation between assets and liabilities. Both the ability to meet its short-term financial obligation (liquidity) and the ability to meet its long-term financial obligations (solvency) are critical in evaluating the Postal Service's current financial situation.

Comparing ratios for the current fiscal year to previous years and historic averages also provides valuable insight when analyzing past performance and can help identify weaknesses and highlight improvements.

The PAEA mandated fixed annual RHBF prefunding payments for FY 2007 to FY 2016. As shown in Table IV-1, as of FY 2015, the Postal Service has defaulted on \$28.1 billion of prefunding RHBF payments.

⁸⁶ Postal Service 2016 Integrated Financial Plan at 2.

⁸⁷ 5 U.S.C §§ 8909a (3)(B) and 8906 (g)(2)(A).

⁸⁸ 5 U.S.C. § 8348 (2)(B).

**Table IV-1
Statutory Prefunding RHBFB Payments, FY 2007 - FY 2015 (\$ in Billions)**

| Fiscal Year | 5 U.S.C § 8909(d)(3)(A) payments due (\$ in billions) | Paid (\$ in billions) | Defaulted (\$ in billions) | Notes |
|------------------|---|-----------------------|----------------------------|---|
| 2007 | \$ 5.4 | \$ 5.4 | \$ - | |
| 2008 | 5.6 | 5.6 | - | |
| 2009 | 5.4 | 1.4 | - | FY 2009 payment \$5.4 billion reduced to \$1.4 billion (5 U.S.C § 8909a(d)(3)(A)(iii)). |
| 2010 | 5.5 | 5.5 | - | |
| 2011 | 5.5 | - | 5.5 | FY 2011 payment due delayed to August 1, 2012 (5 U.S.C. § 8909a(d)(3)(A)(v)). |
| 2012 | 5.6 | - | 5.6 | |
| 2013 | 5.6 | - | 5.6 | |
| 2014 | 5.7 | - | 5.7 | |
| 2015 | 5.7 | - | 5.7 | |
| Subtotals | \$ 50.0 | \$ 17.9 | \$ 28.1 | |

Source: Postal Service Form 10-K and USPS Annual Report, FY 2007-FY 2015; 5 U.S.C. § 8909(d)(3)(A).

In FY 2017, OPM is required to calculate the Postal Service’s total retiree health benefits obligation and set the annual payment amounts required to liquidate the unfunded portion by FY 2056.⁸⁹ The missed RHBFB payments recorded as current liabilities on the Postal Service’s Balance Sheet will be consolidated into the total retiree health benefit obligation. As of FY 2015, the defaulted RHBFB payments constitute 57 percent of the Postal Service’s overall current liabilities. The inclusion of missed RHBFB payments substantially impacts the results of the ratios.

Beginning in FY 2017, the defaulted RHBFB payments will not be categorized as current liabilities as the Postal Service will be required to pay the annual amortized portion of the unfunded retiree health benefits obligation set by OPM. To provide clarity, ratios affected by the defaulted RHBFB payments are computed in this report both with and without the cumulative defaulted RHBFB payments.

Financial Sustainability Analysis

Key Ratios

This section focuses on three key financial ratios to analyze the Postal Service’s overall financial health: debt ratio, fixed asset to net worth ratio, and current liability ratio.

Table IV-2 shows three sustainability ratios calculated using the reported amounts on the Postal Service’s Balance Sheets, and compares them to the previous year’s value and the historical 10-year average.

⁸⁹ 5 U.S.C § 8909(d)(2)(B)).

**Table IV-2
Sustainability Ratio Analysis of Postal Service Financial Statements**

| Ratios | 9/30/2015 Value | 9/30/2014 Value | Change | Description of ratio | Postal Service Historic 10 Year Average Value |
|-----------------------------------|-----------------|-----------------|--------|---|---|
| Debt ratio (debt to assets ratio) | 3.10 | 2.97 | 0.12 | This ratio is calculated by dividing total liabilities (i.e. long-term and short-term liabilities) by total assets. It shows how much the company relies on debt to finance assets. | 1.78 |
| Fixed assets to Net worth ratio | (0.31) | (0.36) | 0.05 | This ratio is calculated by dividing fixed assets by net worth. It shows how much of the entity's cash is frozen in the form of fixed assets, such as property, plant, and equipment. | 0.58 |
| Current liability ratio | 0.66 | 0.62 | 0.03 | This ratio is calculated by dividing current liabilities by total (i.e. current and noncurrent) liabilities. It shows the percentage of the entity's liabilities due within 1 year. | 0.54 |

Negative amount is denoted by ().

Numbers may not add across due to rounding.

Source: Ratios computed from amounts reported on Postal Service FY 2015 Form 10-K at 38.

Table IV-3 shows two sustainability ratios calculated in the same manner as Table IV-2 after excluding missed payments to the RHBF. This table isolates the impact of the accrual of missed payments to the RHBF on the Postal Service liabilities. The fixed assets to net worth ratio has not been included in Table IV-3 as this ratio is not affected by the accrual related to RHBF.

**Table IV-3
Sustainability Ratio Analysis of Postal Service Financial Statements
Excluding Defaulted RHBF Payments**

| Ratios | 9/30/2015 Value | 9/30/2014 Value | Change | Description of ratio | Postal Service Historic 10 Year Average Value |
|-----------------------------------|-----------------|-----------------|--------|---|---|
| Debt ratio (debt to assets ratio) | 1.93 | 2.00 | (0.07) | This ratio is calculated by dividing total liabilities (i.e. long-term and short-term liabilities) by total assets. It shows how much the company relies on debt to finance assets. | 1.47 |
| Current liability ratio | 0.45 | 0.44 | 0.01 | This ratio is calculated by dividing current liabilities by total (i.e. current and noncurrent) liabilities. It shows the percentage of the entity's liabilities due within 1 year. | 0.48 |

Negative amount is denoted by ().

Numbers may not add across due to rounding.

Source: Ratios computed from amounts reported on Postal Service FY 2015 Form 10-K at 38.

Debt Ratio

Debt ratio is the amount of debt the entity has on its balance sheets in comparison to its assets and is one of the primary ratios used to assess financial stability. The higher the ratio, the greater the risk that the entity's debt level may impede its ability to effectively respond to challenges and opportunities. A low debt ratio indicates assets are available to secure future financing, which allows for greater flexibility to take on additional debt in the future at no significant financial risk.

The Postal Service's debt ratio provides information about its ability to absorb reductions in asset value that may arise from the sale, disposition, or depreciation of assets. The ratio

generally indicates the relationship between two main sources of capital: equity and borrowed capital. It generally calculates the relationship between liabilities and the overall capital (*i.e.*, the sum of equity and liabilities).

As shown in Table IV-2, at the end of FY 2015, the debt ratio for the Postal Service rose to 3.10, slightly higher than the debt ratio for FY 2014. The Postal Service's FY 2015 debt ratio of 3.10 was nearly twice as high as the average 10-year value of 1.78. The ratio indicates that the Postal Service does not possess sufficient capital because it has maximized its statutory borrowing capacity to raise funds beyond basic earnings.

The accruing nonpayment of the RHBFB and the long-term workers' compensation obligations artificially skew the Postal Service's liabilities in relation to its assets. This can be seen in the comparatively lower debt ratio in Table VI-3, which shows a FY 2015 debt ratio of 1.93 when the missed payments into the RHBFB are excluded. The debt ratio excluding the missed RHBFB payments was also a 0.07 decrease from the prior year. To reduce its debt ratio to historic averages, the Postal Service would have to increase its current cash position or investments in capital assets and reduce its obligations.

Fixed Asset to Net Worth Ratio

The fixed asset to net worth ratio analyzes fixed assets as a percentage of net worth to determine liquidity. Net worth is the residual amount representing the excess of an entity's assets over its liabilities. The Postal Service's fixed assets consist primarily of buildings and equipment, which cannot be easily converted into cash. The Postal Service accumulated deficits in excess of its fixed assets, resulting in a negative fixed asset to net worth ratio. This signifies an inability to respond to financial emergencies rapidly or obtain cash easily for further investment and growth. As shown in Table IV-2, the ratio improved slightly over the prior year. This is the second consecutive year that this ratio improved.⁹⁰

Current Liability Ratio

The current liability ratio indicates the amount of current debt required to be paid within 1 year. As of September 30, 2015, the Postal Service's short-term liabilities were 66.0 percent of total liabilities, an increase of 3.0 percent from the prior year.

The accrual of the unpaid statutory RHBFB prefunding payments is included in current obligations and accounts for the vast majority of the increase in current liabilities. Current liabilities include the \$28.1 billion in statutory prefunding accruals to the RHBFB and \$10.1 billion of the \$15.0 billion in outstanding debt.

⁹⁰ FY 2014 Financial Analysis Report at 65.

Financial Liquidity Analysis

Liquidity-related ratios are one of the most widespread indicators of an entity's solvency.⁹¹ There are three liquidity-related ratios: current ratio, quick ratio, and cash ratio. All three ratios for the Postal Service are calculated in Table IV-4.

Table IV-4
Liquidity Ratio Analysis of Postal Service Financial Statements

| Ratios | 9/30/2015 Value | 9/30/2014 Value | Change | Description of ratio | Postal Service Historic 10 Year Average Value |
|---------------|-----------------|-----------------|--------|--|---|
| Current ratio | 0.16 | 0.15 | 0.02 | This ratio is calculated by dividing current assets by current liabilities. It shows how much of an entity's short term assets are available to cover its short term debt obligations. | 0.16 |
| Quick ratio | 0.16 | 0.14 | 0.02 | This ratio is calculated by dividing liquid assets (cash, cash equivalents, short term investments, current receivables) by current liabilities. It shows how much of an entity's current assets which can be immediately converted to cash are available to cover its short term obligations. | 0.15 |
| Cash ratio | 0.14 | 0.12 | 0.02 | This ratio is calculated by dividing cash and cash related assets current liabilities. It shows how much of an entity's cash or cash related assets are available to cover its short term liabilities. | 0.10 |

Numbers may not add across due to rounding.

Source -Ratios computed from amounts reported on Postal Service FY 2015 Form 10-K at 38.

Table IV-5 calculates the three liquidity ratios in the same manner as Table IV-4, excluding missed payments to the RHBF. This table isolates the impact of the accrual of missed payments to the RHBF on the Postal Service's liquidity.

Table IV-5
Liquidity Ratio Analysis of Postal Service Financial Statements
Excluding Defaulted RHBF Payments

| Ratios | 9/30/2015 Value | 9/30/2014 Value | Change | Description of ratio | Postal Service Historic 10 Year Average Value |
|---------------|-----------------|-----------------|--------|--|---|
| Current ratio | 0.38 | 0.31 | 0.07 | This ratio is calculated by dividing current assets by current liabilities. It shows how much of an entity's short term assets are available to cover its short term debt obligations. | 0.21 |
| Quick ratio | 0.37 | 0.30 | 0.07 | This ratio is calculated by dividing liquid assets (cash, cash equivalents, short term investments, current receivables) by current liabilities. It shows how much of an entity's current assets which can be immediately converted to cash are available to cover its short term obligations. | 0.20 |
| Cash ratio | 0.33 | 0.26 | 0.07 | This ratio is calculated by dividing cash and cash related assets current liabilities. It shows how much of an entity's cash or cash related assets are available to cover its short term liabilities. | 0.14 |

Numbers may not add across due to rounding.

Source -Ratios computed from amounts reported on Postal Service FY 2015 Form 10-K at 38.

⁹¹ Jamie Pratt, *Financial Accounting in an Economic Context Eighth Edition* 246 part 3 (2011), states that "Dun & Bradstreet, a widely used service that rates the creditworthiness of a large number of U.S. businesses, includes both the current ratio and the quick ratio as solvency measures" and "Working capital, the current ratio and the quick ratio are also used by auditors. For example, an AICPA list of 'red flags' alerting auditors to possible management fraud includes 'inadequate working capital.'"

Current Ratio

The current ratio indicates the degree to which current assets are meeting current liabilities. At the end of FY 2015, the current ratio was 0.16. That level is an improvement of 0.02 from the end of the prior fiscal year and at the same level as the 10-year historic average. Accrual of the current fiscal year's defaulted payment into the RHBF increased current liabilities by 15.0 percent. At the same time, the Postal Service's current assets increased by 28.0 percent, primarily due to the growth of cash and cash equivalents.

Table IV-5 shows the higher current ratio of 0.38 when calculated excluding the missed payments into the RHBF. This was an improvement of 0.07 over the prior fiscal year, but remained lower than the historic 10-year average of 0.21.

Quick Ratio

The quick ratio is an indication of the liquidity of the entity in the near future and reflects whether sufficient funds are available to meet short term obligations to creditors. At the close of FY 2015, the quick ratio equaled 0.16, an increase of 0.02 from FY 2014 and 0.01 above the 10-year historic average. This means that the Postal Service's cash and accounts receivables grew at a faster rate than its current liabilities.

Cash Ratio

The cash ratio measures the amount of cash, cash equivalents, or short term investments available to cover current liabilities. The cash ratio is calculated by dividing total liquid assets by current liabilities. The FY 2015 cash ratio had a value of 0.14, an improvement over FY 2014, but like the two previous ratios, the cash ratio indicates that the Postal Service does not have enough cash and/or cash equivalents (the most liquid assets) to meet all current liabilities.

The improved liquidity-related ratios were largely a result of the increased amount of cash on hand held by the Postal Service. Along with the improvement in the Postal Service liquidity ratios, its working capital also improved. However, the decelerating erosion of the value of current assets was the result of assets reaching full depreciation rather than an indication of new capital investment.

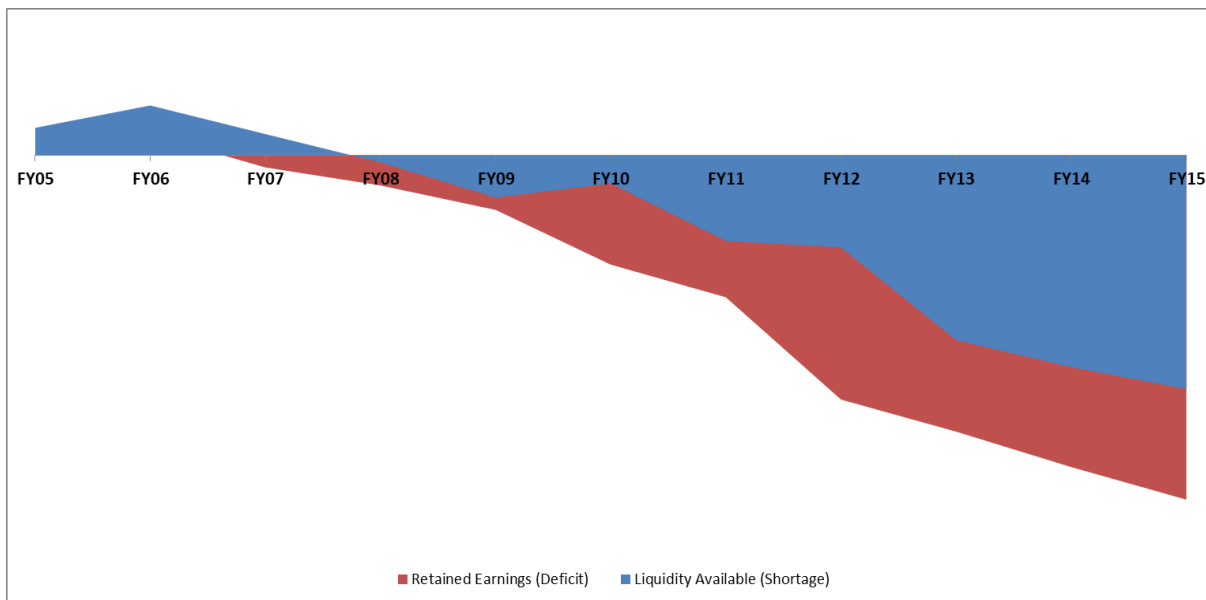
Working Capital Analysis

The Postal Service's FY 2015 working capital was negative \$40.9 billion. Working capital is the amount by which the value of current assets exceeds current liabilities and is a liquid financial cushion available for emergencies and other unplanned needs. The Postal Service had no working capital at the end of FY 2015. The net deterioration of \$4.6 billion in working capital from the prior fiscal year was largely due to the growth in employee-

related liabilities, including the statutory accruals for payments into the RHBF. Working capital, excluding the missed payments into the RHBF, was negative \$12.8 billion. This represents an improvement of \$1.0 billion over the prior fiscal year.

Figure IV-1 highlights the increasing deficit in retained earnings that began in FY 2007. Available liquidity is calculated as a combination of working capital and remaining borrowing capacity.

Figure IV-1
Postal Service Liquidity and Retained Deficit Trends



Source: Postal Service Form 10-K and USPS Annual Report, FY 2005-FY 2015.

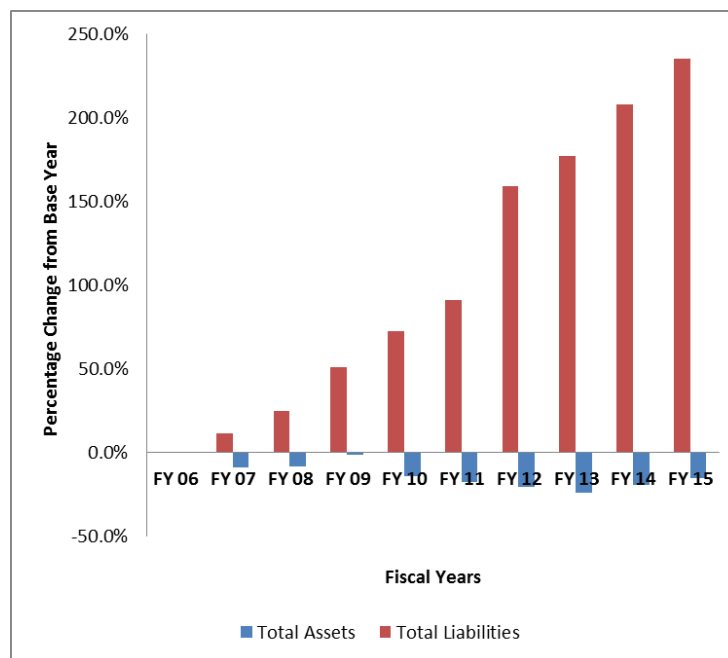
Financial Activity Analysis

Trend Analysis

Trend analysis compares the Postal Service’s financial statements over a number of years to evaluate its performance and the changes over a period of time from a base year. FY 2006 is used as the base year as it is the first year within the past 10-year period in which the Postal Service reported a net operating income. Figure IV-2 shows the trends for assets and liabilities since the base year. For each fiscal year, the total change from the base year is expressed as a percentage.

Figure IV-2 shows that the Postal Service’s liabilities have risen steadily since the base year FY 2006 and far outweigh the Postal Service’s assets. The Postal Service’s liabilities in FY 2015 more than tripled since the base year. Current assets (primarily cash and cash equivalents) increased from the base year as the safety net of available borrowing was depleted. After taking depreciation into account, FY 2015 net property, plant, and equipment values decreased 32.1 percent from the base year, primarily due to a lack of capital investments and fully depreciated assets that have not been replaced.

Figure IV-2
Change in Assets and Liabilities since FY 2006

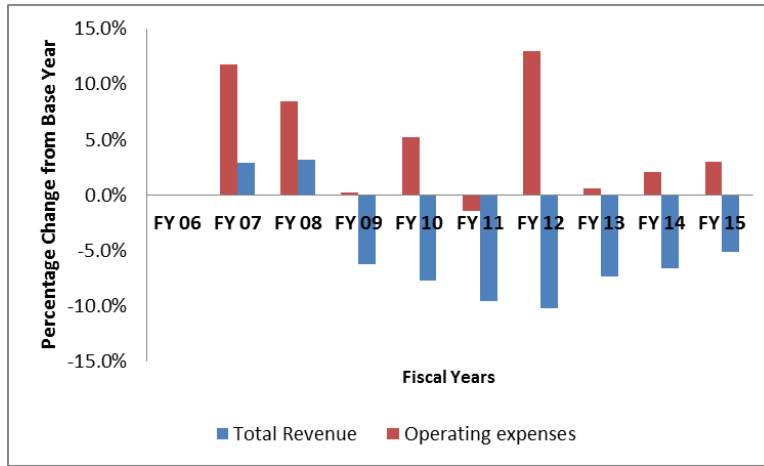


Source: Postal Service Form 10-K and USPS Annual Report, FY 2006-FY 2015.

Current and non-current liabilities trended upwards from the base year, largely due to increasing balances in employee-related liabilities such as mandatory RHBFB payments and future workers’ compensation obligations.

Figure IV-3 shows the trends for revenues and expenses from the base year FY 2006. Revenue decreased 5.1 percent from the base year while operating expenses increased 3.0 percent from the base year. The FY 2015 percentages reflect an unfavorable impact on net income because operating expenses increased and revenue decreased when compared to the base year. However, total revenue has been increasing since FY 2012. The accrual of the RHBFB payments contributed to the 438.2 percent increase in retiree health benefit expenses. Compensation and benefits decreased by 11.0 percent from the base year.

Figure IV-3
Change in Revenues and Expenses since FY 2006



Source: Postal Service Form 10-K and USPS Annual Report, FY 2006-FY 2015.

Financial Solvency Analysis

Altman Z-Score

The financial strength of an entity can be evaluated through the use of a variety of metrics. In conjunction with financial ratios, these metrics are used to gauge an entity’s long-term viability. New York University Professor Edward Altman developed the Altman Z-Score in 1968 as a tool to examine the likelihood that a company may file for bankruptcy. It has since become widely accepted by management accountants and auditors as a measure of an entity’s financial health and has also been used to analyze the financial health of state and local governments.⁹² Although the Postal Service has reached its borrowing limit, it is ineligible for Federal Government bankruptcy protection under current law.⁹³

The Postal Service’s Altman Z-Score gives insight into the Postal Service’s financial health in light of the fact that the Postal Service has reached its maximum statutory borrowing limit of \$15 billion accessed from the Federal Financing Bank, and cash generated from operations is the only source of income available to satisfy daily operating expenses and invest in capital assets.

A quantitative model designed to predict the financial distress of a business, the Altman Z-Score uses a blend of four traditional financial ratios and a statistical method known as

⁹² The Postal Service, as a governmental unit, is not considered a “person” who may be a debtor under the Bankruptcy Code. See 11 U.S.C. §§109(d); 101(41). The Altman Z-Score is used as a metric that may be instructive in comparing the Postal Service with other business entities who may be subject to bankruptcy. Use of the Altman Z-Score does not suggest that the Postal Service has the potential to file for bankruptcy.

⁹³ See 11 U.S.C. §§ 101(41), 109.

multiple discriminant analysis. The Altman Z-Score is interpreted against discrimination ranges, which provide context to what an individual Altman Z-Score means to an entity's financial health. A lower Altman Z-Score reflects higher odds of bankruptcy and financial distress. In particular, the discrimination ranges divide Altman Z-Scores into three zones:

- 1.1 or Less = Distress Zone
- 1.1 to 2.6 = Grey Zone
- 2.6 or More = Safe Zone

As shown in Table IV-6, the Postal Service's Altman Z-Score was negative 6.1 at the end of FY 2015. The Postal Service's FY 2015 Altman Z-Score was slightly worse than the FY 2014 score of negative 5.7.

**Table IV-6
Altman Z-Score – FY 2015**

| Ratio | Calculation | Ratio value on 9/30/2015 | Weighting factor | Product (col. 3 * col. 4) |
|-----------------------|--------------------------------|-----------------------------|---------------------|---------------------------------|
| 1 | 2 | 3 | 4 | 5 |
| T1 | Working Capital/Total Assets | (1.7) | 1.2 | (2.0) |
| T2 | Retained Earnings/Total Assets | (2.1) | 1.4 | (2.9) |
| T3 | Earnings/Total Assets | (0.2) | 3.3 | (0.7) |
| T4 | Capital/Total Liabilities | (0.7) | 0.6 | (0.4) |
| Altman Z-score | | | | (6.1) |

Negative amount is denoted by ().

Numbers may not add across due to rounding.

Source: Ratios computed from amounts reported on Postal Service FY 2015 Form 10-K at 38.

In FY 2005, the Postal Service had a positive Altman Z-Score of 0.3 and positive scores for all ratio values except for the Working Capital/Total Assets ratio.

**Table IV-7
Altman Z-Score – FY 2005**

| Ratio | Calculation | Ratio value on 9/30/2005 | Weighting factor | Product (col. 3 * col. 4) |
|-----------------------|--------------------------------|-------------------------------------|-----------------------------|--|
| 1 | 2 | 3 | 4 | 5 |
| T1 | Working Capital/Total Assets | (0.3) | 1.2 | (0.3) |
| T2 | Retained Earnings/Total Assets | 0.2 | 1.4 | 0.3 |
| T3 | Earnings/Total Assets | 0.1 | 3.3 | 0.2 |
| T4 | Capital/Total Liabilities | 0.3 | 0.6 | 0.2 |
| Altman Z-score | | | | 0.3 |

Negative amount is denoted by ().

Numbers may not add across due to rounding.

Source: Ratios computed from amounts reported on *United States Postal Service Annual Report 2005*, at 42, 43.

While all ratios declined from FY 2005 to FY 2015, the Retained Earnings/Total Asset and Working Capital/Total Assets ratios declined the most. The reduction in the Retained Earnings/Total Asset ratio was due to the erosion of retained earnings caused by consecutive net losses and the RHBF prefunding obligation. The decline in the Working Capital/Total Assets ratio was the result of constricted capital spending and the inability to add new investments to its almost fully depreciated existing assets. The significant drop in these two ratios was the most significant contributor to the decline in the Postal Service's Altman Z-Score between FY 2005 and FY 2015.

Appendix A.

FY 2015 Volume, Revenue, Cost, and Cost Coverage by Class, Current Classification (Products)

This appendix presents Postal Service financial results for FY 2015 using the mail classification system in place since the passage of the PAEA. Prior to the PAEA, mail classes were subdivided into subclasses and the financial reports reflected that organization. The PAEA uses the term product, defined as “a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied.” 39 U.S.C. 102(6). Within classes, the Postal Service reports data by product, not by subclass.

Appendix A
Fiscal Year 2015 Volume, Revenue, Cost, and Cost Coverage by Class
Current Classification (Products)

| | Volume | Revenue | Attributable Cost | Contribution to Institutional Cost | Rev./Pc. | Cost/Pc. | Contribution to Institutional Cost/Pc. | Cost Coverage |
|--|--------------------|-------------------|-------------------|------------------------------------|----------------|----------------|--|---------------|
| | (000) | (\$ 000) | (\$ 000) | (\$ 000) | (Cents) | (Cents) | (Cents) | |
| COMPETITIVE MAIL | | | | | | | | |
| Priority Mail Express | 35,705 | 779,067 | 364,456 | 414,612 | 2,181.954 | 1,020.740 | 1,161.214 | 213.8% |
| Priority Mail | 992,190 | 7,276,239 | 5,765,951 | 1,510,287 | 733.352 | 581.134 | 152.218 | 126.2% |
| Ground Parcels | 1,968,761 | 3,925,117 | 2,782,680 | 1,142,437 | 199.370 | 141.342 | 58.028 | 141.1% |
| First-Class Package Service | 708,423 | 1,689,112 | 1,368,755 | 320,357 | 238.433 | 193.211 | 45.221 | 123.4% |
| Competitive International Mail | 253,858 | 1,969,606 | 1,194,563 | 775,044 | 775.868 | 470.563 | 305.306 | 164.9% |
| Competitive Domestic Services | | 778,424 | 419,295 | 359,129 | | | | 185.7% |
| Competitive International Services | | 10,252 | 8,902 | 1,349 | | | | 115.2% |
| Total Competitive Mail and Services | 3,958,937 | 16,427,817 | 11,904,603 | 4,523,214 | 414.955 | 300.702 | 114.253 | 138.0% |
| MARKET DOMINANT MAIL | | | | | | | | |
| First-Class Mail | | | | | | | | |
| Single-Piece Letters and Cards | 20,576,128 | 10,338,880 | 5,514,455 | 4,824,425 | 50.247 | 26.800 | 23.447 | 187.5% |
| Presort Letters and Cards | 40,174,244 | 15,607,770 | 4,876,363 | 10,731,407 | 38.850 | 12.138 | 26.712 | 320.1% |
| Flats | 1,668,897 | 2,362,895 | 1,559,381 | 803,513 | 141.584 | 93.438 | 48.146 | 151.5% |
| Parcels | 200,100 | 545,504 | 486,326 | 59,178 | 272.616 | 243.042 | 29.574 | 112.2% |
| Outbound Single-Piece Mail Intl | 212,184 | 315,356 | 169,418 | 145,938 | 148.624 | 79.845 | 68.779 | 186.1% |
| Inbound Single-Piece Mail Intl | 473,692 | 427,322 | 502,184 | (74,862) | 90.211 | 106.015 | (15.804) | 85.1% |
| Total First-Class Mail | 63,305,244 | 29,597,726 | 13,108,127 | 16,489,599 | 46.754 | 20.706 | 26.048 | 225.8% |
| Standard Mail | | | | | | | | |
| High Density & Saturation Letters | 6,478,281 | 994,697 | 453,730 | 540,968 | 15.354 | 7.004 | 8.350 | 219.2% |
| High Density & Saturation Flats & Parcels | 11,276,702 | 2,048,542 | 1,180,754 | 867,788 | 18.166 | 10.471 | 7.695 | 173.5% |
| Carrier Route | 8,461,441 | 2,283,195 | 1,741,801 | 541,395 | 26.984 | 20.585 | 6.398 | 131.1% |
| Letters | 47,720,675 | 10,057,057 | 4,930,233 | 5,126,824 | 21.075 | 10.331 | 10.743 | 204.0% |
| Flats | 5,260,186 | 2,113,331 | 2,633,377 | (520,046) | 40.176 | 50.062 | (9.886) | 80.3% |
| Parcels | 60,420 | 65,638 | 89,402 | (23,765) | 108.636 | 147.968 | (39.332) | 73.4% |
| Every Door Direct Mail - Retail | 832,566 | 148,926 | 51,542 | 97,384 | 17.888 | 6.191 | 11.697 | 288.9% |
| Inbound NSA Mail Intl | 0 | 0 | 0 | 0 | | | | |
| Total Standard Mail | 80,090,273 | 17,711,387 | 11,080,838 | 6,630,549 | 22.114 | 13.835 | 8.279 | 159.8% |
| Periodicals | | | | | | | | |
| Within County | 570,817 | 66,783 | 88,627 | (21,844) | 11.699 | 15.526 | (3.827) | 75.4% |
| Outside County | 5,267,358 | 1,522,438 | 2,012,450 | (490,012) | 28.903 | 38.206 | (9.303) | 75.7% |
| Total Periodicals | 5,838,175 | 1,589,220 | 2,101,077 | (511,857) | 27.221 | 35.989 | (8.767) | 75.6% |
| Package Services | | | | | | | | |
| Alaska Bypass | 1,282 | 33,737 | 19,147 | 14,590 | 2,631.541 | 1,493.528 | 1,138.013 | 176.2% |
| Inbound Surface Parcel Post (at UPU Rates) | 0 | 0 | 0 | 0 | 0.000 | 0.000 | 0.000 | 0.0% |
| Bound Printed Matter Flats | 260,492 | 212,968 | 151,082 | 61,886 | 81.756 | 57.999 | 23.757 | 141.0% |
| Bound Printed Matter Parcels | 227,911 | 284,350 | 238,770 | 45,581 | 124.764 | 104.764 | 19.999 | 119.1% |
| Media and Library Mail | 74,890 | 274,471 | 359,083 | (84,612) | 366.497 | 479.477 | (112.980) | 76.4% |
| Total Package Services | 564,576 | 805,527 | 768,082 | 37,445 | 142.678 | 136.046 | 6.632 | 104.9% |
| U.S. Postal Service Mail | 354,628 | | | | | | | |
| Free Mail | 45,135 | | 41,294 | (41,294) | | 91.490 | | |
| Total Market Dominant Mail | 150,198,030 | 49,703,860 | 27,099,418 | 22,604,442 | 33.092 | 18.042 | 15.050 | 183.4% |

Appendix A
Fiscal Year 2015 Volume, Revenue, Cost, and Cost Coverage by Class
Current Classification (Products) (continued)

| | Volume (000) | Revenue (\$ 000) | Attributable Cost (\$ 000) | Contribution to Institutional Cost (\$ 000) | Rev./Pc. (Cents) | Cost/Pc. (Cents) | Contribution to Institutional Cost/Pc. (Cents) | Cost Coverage |
|---------------------------------------|--------------------|---------------------|----------------------------------|--|---------------------|---------------------|---|------------------|
| Market Dominant Services | | | | | | | | |
| Ancillary Services | | | | | | | | |
| Certified Mail | | 659,186 | 485,361 | 173,825 | | | | 135.8% |
| COD | | 3,116 | 3,026 | 90 | | | | 103.0% |
| Insurance | | 89,116 | 50,265 | 38,851 | | | | 177.3% |
| Registered Mail | | 37,892 | 27,146 | 10,746 | | | | 139.6% |
| Stamped Envelopes | | 11,233 | 7,267 | 3,966 | | | | 154.6% |
| Stamped Cards | | 1,216 | 867 | 349 | | | | 140.2% |
| Other Ancillary Services | | 492,829 | 222,433 | 270,396 | | | | 221.6% |
| Money Orders | | 160,534 | 105,108 | 55,426 | | | | 152.7% |
| Post Office Box Service | | 310,928 | 228,481 | 82,447 | | | | 136.1% |
| Caller Service | | 98,788 | 27,256 | 71,532 | | | | |
| Other Special Services | | 38,582 | 12,617 | 25,965 | | | | |
| International Services | | 39,996 | 13,697 | 26,300 | | | | 292.0% |
| Total Market Dominant Services | | 1,943,415 | 1,183,524 | 759,892 | | | | |
| Other Income | | 790,132 | | 790,132 | | | | |
| Other International Mail Attributable | | | 63,491 | | | | | |
| Total Mail and Services | 154,156,967 | 68,865,224 | 40,251,035 | 28,677,679 | 44.672 | 26.110 | 18.603 | 171.1% |
| Institutional Costs | | | 33,759,851 | | | | | |
| Appropriations: Revenue Forgone | | 62,600 | | | | | | |
| Investment Income | | 23,358 | | | | | | |
| Total Revenues | | 68,951,181 | | | | | | |
| Total Costs | | | 74,010,886 | | | | | |
| Net Income (Loss) | | (5,059,705) | | | | | | |

Source: Library Reference PRC-ACR2015\NP1

Appendix B.

Revenue, Pieces, Weight Report Adjustments

The Public reports filed by the Postal Service which include volumes and revenues usually contain data from the current year and the prior year for comparison purposes. The previous year's data are sometimes revised to reflect corrections resulting from audits and reviews and are also restated due to methodological changes approved by the Commission and implemented by the Postal Service in the reporting year.

In FY 2015, the Commission approved a methodological change requested by the Postal Service for the estimation of revenue, volume, and weight as reported in the quarterly and annual Revenue, Pieces, and Weight (RPW) report.⁹⁴ The approved change allowed the Postal Service to use ODIS-RPW estimates for products bearing Forever Stamp data as census data instead of sampling estimates adjusted by the Book Revenue Adjustment Factor (BRAAF). Additionally, a portion of the stamps sold will either never be used (referred to as breakage) or will be held for future use (Postage in the Hands of the Public or PIHOP). This portion used to be allocated back to the products using two distribution keys, stamped volume, and meter volume.⁹⁵ The new methodology allocates breakage revenue to "Market Dominant Other Revenue" and does not allocate annual PIHOP adjustments.

The result of this change on the comparative FY 2014 volume and revenue data shows significant changes in revenue for Market Dominant Other Revenue with additional adjustments for several products, notably, First-Class Single Piece Letters, Priority Mail, First-Class Package Services, and Competitive International Mail. Appendix B of this financial report shows a comparison of the adjusted FY 2014 volume and revenue by product as reported in the FY 2015 RPW report with the originally reported FY 2014 volume and revenue.

For the purposes of this financial analysis report, the comparisons of volumes and revenues are based on the data reported in the FY 2015 RPW and the Postal Service's FY 2015 Form 10-K filing. The comparative figures, FY 2014, in those reports reflect the methodological change, as approved by the Commission, from the previous year's reporting subsequent to the issuance of the Commission's FY 2014 Financial Analysis Report.⁹⁶ This affects year-to-year comparisons because the revised FY 2014 RPW figures are not reflected in the FY

⁹⁴ Order No. 2728, Docket No. RM2015-9, September 24, 2015.

⁹⁵ Order No. 816, Docket No. RM2011-11 (Proposal Three), August 19, 2011 at 3, 5.

⁹⁶ Library Reference USPS-FY15-42, Filename "FY2015_RPWsummaryreport_Public.XLS", fn. 4.

2014 financial report. For longer run comparisons, like the data presented in Chapter 3, the revised RPW figures are valid to use because the historic RPW data reflect any revisions based on corrections or methodological changes. Thus, for consistency, trend analyses in this report are based on the historic data with revisions. However, for the year-to-year revenue and volume comparisons the Commission cannot restate the figures in the previous financial report to reflect after-the-fact Postal Service revisions. Therefore, in Chapter 3, current year volume and revenue by product are compared to the data as originally reported in the FY 2014 financial report. Chapter 2 volume and revenue comparisons by class will include both the original FY 2014 report data and the adjusted FY 2014 data.

APPENDIX B. COMPARISON OF ADJUSTED FY 2014 VOLUME AND REVENUE WITH ORIGINAL REPORTED
FY 2014 VOLUME AND REVENUE

| | Revenue | | | Volume | | |
|---|-------------------|-------------------|----------------|-------------------|-------------------|----------------|
| | Adj. 2014 | Orig. 2014 | Difference | Adj. 2014 | Orig. 2014 | Difference |
| First-Class Mail: | | | | | | |
| Single-Piece Letters | 10,243,261 | 10,128,812 | 114,449 | 20,860,427 | 20,599,377 | 261,049 |
| Single-Piece Cards | 318,654 | 319,123 | (468) | 923,418 | 924,941 | (1,523) |
| Total Single-Piece Letters and Cards | 10,561,916 | 10,447,934 | 113,981 | 21,783,845 | 21,524,319 | 259,526 |
| Presort Letters | 14,630,387 | 14,630,387 | 0 | 37,994,999 | 37,994,999 | 0 |
| Presort Cards | 558,757 | 558,757 | 0 | 2,198,318 | 2,198,318 | 0 |
| Total Presort Letters and Cards | 15,189,144 | 15,189,144 | 0 | 40,193,317 | 40,193,317 | 0 |
| Flats | 2,452,575 | 2,491,587 | (39,012) | 1,758,477 | 1,782,673 | (24,196) |
| Parcels | 584,647 | 590,871 | (6,224) | 230,525 | 233,115 | (2,590) |
| Domestic Negotiated Serv. Agreement Mail | 38,975 | 38,975 | 0 | 103,014 | 103,014 | 0 |
| Outbound First-Class Mail International | 305,318 | 307,871 | (2,552) | 214,128 | 215,536 | (1,408) |
| Inbound International Letter Post | 173,710 | 173,710 | 0 | 242,539 | 242,539 | 0 |
| Inbound Intl. Negotiated Serv. Agreement Mail | 163,929 | 163,929 | 0 | 157,961 | 157,961 | 0 |
| First-Class Mail Fees | 166,717 | 167,255 | (537) | - | - | - |
| First-Class Dom. NSA Mail Fees | - | - | - | - | - | - |
| Total First-Class Mail | 29,636,932 | 29,571,276 | 65,656 | 64,683,808 | 64,452,475 | 231,332 |
| Standard Mail: | | | | | | |
| High Density and Saturation Letters | 879,737 | 879,737 | 0 | 5,970,133 | 5,970,133 | 0 |
| High Density and Saturation Flats & Parcels | 2,005,555 | 2,005,555 | 0 | 11,278,630 | 11,278,630 | 0 |
| Carrier Route | 2,364,040 | 2,364,040 | 0 | 8,980,119 | 8,980,119 | 0 |
| Letters | 9,811,478 | 9,811,478 | 0 | 47,571,876 | 47,571,876 | 0 |
| Flats | 2,037,354 | 2,037,354 | 0 | 5,054,395 | 5,054,395 | 0 |
| Parcels | 67,967 | 67,967 | 0 | 65,846 | 65,846 | 0 |
| Every Door Direct Mail Retail | 147,089 | 149,000 | (1,911) | 886,857 | 890,148 | (3,291) |
| Domestic Negotiated Serv. Agreement Mail | 124,454 | 124,454 | 0 | 566,251 | 566,251 | 0 |
| Inbound Intl. Negotiated Serv. Agreement Mail | 83 | 83 | 0 | 154 | 154 | 0 |
| Standard Mail Fees | 56,713 | 57,085 | (372) | - | - | - |
| Standard Mail Dom. NSA Mail Fees | - | - | - | - | - | - |
| Total Standard Mail | 17,494,470 | 17,496,754 | (2,284) | 80,374,260 | 80,377,552 | (3,291) |
| Periodicals Mail: | | | | | | |
| In-County | 66,607 | 66,607 | 0 | 586,130 | 586,130 | 0 |
| Outside County | 1,552,223 | 1,552,223 | 0 | 5,458,584 | 5,458,584 | 0 |
| Periodicals Mail Fees | 6,496 | 6,511 | (15) | - | - | - |
| Total Periodicals Mail | 1,625,325 | 1,625,340 | (15) | 6,044,715 | 6,044,715 | 0 |

APPENDIX B. COMPARISON OF ADJUSTED FY 2014 VOLUME AND REVENUE WITH ORIGINAL REPORTED
FY 2014 VOLUME AND REVENUE (continued)

| | Revenue | | | Volume | | |
|--|-------------------|-------------------|-----------------|--------------------|--------------------|----------------|
| | Adj. 2014 | Orig. 2014 | Difference | Adj. 2014 | Orig. 2014 | Difference |
| Package Services Mail: | | | | | | |
| Parcel Post / Alaska Bypass | 33,133 | 33,133 | (1) | 1,290 | 1,290 | 0 |
| Inbound Intl. Surface Parcel Post (at UPU Rates) | 19,449 | 19,449 | 0 | 980 | 980 | 0 |
| Inbound Intl. Negotiated Service Agreement Mail | 0 | 0 | 0 | 0 | 0 | 0 |
| Bound Printed Matter Flats | 201,907 | 201,907 | 0 | 249,745 | 249,745 | 0 |
| Bound Printed Matter Parcels | 272,313 | 272,314 | (1) | 211,977 | 211,977 | 0 |
| Media and Library Mail | 301,612 | 307,788 | (6,177) | 84,478 | 86,304 | (1,826) |
| Package Services Mail Fees | 2,661 | 2,672 | (11) | - | - | |
| Total Package Services Mail | 831,074 | 837,264 | (6,189) | 548,470 | 550,296 | (1,826) |
| U.S. Postal Service Mail | - | - | | 438,643 | 454,258 | (15,615) |
| Free Mail | - | - | | 45,989 | 47,386 | (1,398) |
| Total Market Dominant Mail | 49,587,802 | 49,530,633 | 57,168 | 152,135,884 | 151,926,682 | 209,202 |
| Ancillary Services: | | | | | | |
| Certified Mail | 672,455 | 687,317 | (14,862) | 207,795 | 212,519 | (4,724) |
| Collect on Delivery | 3,595 | 3,598 | (3) | 364 | 364 | (0) |
| USPS Tracking | 83,809 | 83,809 | 0 | 2,930,584 | 2,930,584 | 0 |
| Insurance | 91,613 | 91,613 | 0 | 19,634 | 19,633 | 1 |
| Registered Mail | 36,717 | 34,933 | 1,783 | 2,333 | 2,186 | 148 |
| Return Receipts | 361,900 | 369,405 | (7,504) | 153,920 | 156,840 | (2,920) |
| Stamped Envelopes and Cards | 11,608 | 11,608 | 0 | - | - | |
| Other Domestic Ancillary Services | 70,636 | 72,016 | (1,380) | 26,935 | 27,447 | (512) |
| International Ancillary Services | 40,570 | 40,577 | (8) | 24,925 | 24,926 | (1) |
| Total Ancillary Services | 1,372,903 | 1,394,876 | (21,973) | 3,366,489 | 3,374,498 | (8,009) |
| Special Services: | | | | | | |
| Money Orders | 164,156 | 164,156 | 0 | 97,401 | 96,963 | 438 |
| Post Office Box Service 3/ | 362,714 | 365,287 | (2,572) | 6,134 | 7,333 | (1,199) |
| Other Domestic Special Services | 116,809 | 116,809 | 0 | 1,914 | 1,914 | 0 |
| Other International Special Services | 9 | 9 | 0 | 871 | 871 | 0 |
| Total Additional Special Services | 643,688 | 646,260 | (2,572) | 106,320 | 107,081 | (761) |
| Total Market Dominant Services | 2,016,591 | 2,041,136 | (24,545) | 3,472,809 | 3,481,579 | (8,770) |
| Total Market Dominant Mail and Services | 51,604,393 | 51,571,769 | 32,623 | | | |
| Other Market Dominant Revenue | 1,162,137 | 916,012 | 246,125 | | | |
| Total Market Dominant Revenue | 52,766,529 | 52,487,781 | 278,748 | 152,135,884 | 151,926,682 | 209,202 |

APPENDIX B. COMPARISON OF ADJUSTED FY 2014 VOLUME AND REVENUE WITH ORIGINAL REPORTED
FY 2014 VOLUME AND REVENUE (continued)

| | Revenue | | | Volume | | |
|--|-------------------|-------------------|------------------|--------------------|--------------------|-----------------|
| | Adj. 2014 | Orig. 2014 | Difference | Adj. 2014 | Orig. 2014 | Difference |
| Competitive Products: | | | | | | |
| Domestic Priority Mail Express | 759,843 | 759,843 | 0 | 36,231 | 36,231 | 0 |
| First-Class Package Service Mail | 1,417,618 | 1,461,842 | (44,223) | 616,280 | 634,615 | (18,335) |
| Standard Post Mail | 503,804 | 492,374 | 11,430 | 36,306 | 36,024 | 282 |
| Domestic Priority Mail | 6,729,485 | 6,883,898 | (154,413) | 897,900 | 920,083 | (22,183) |
| Parcel Select | 2,528,944 | 2,529,344 | (400) | 1,482,669 | 1,483,922 | (1,253) |
| Parcel Return Service Mail | 138,619 | 138,619 | 0 | 55,650 | 55,650 | 0 |
| International Mail: | | | | | | |
| Outbound Priority Mail International | 768,269 | 853,036 | (84,767) | 14,960 | 17,133 | (2,172) |
| Outbound International Expedited Services | 291,341 | 290,495 | 847 | 4,834 | 4,815 | 19 |
| Other Outbound International Mail | 937,149 | 952,050 | (14,901) | 244,022 | 245,684 | (1,662) |
| Inbound International | 214,549 | 214,359 | 190 | 13,937 | 13,893 | 43 |
| International Mail Fees | 51 | 51 | (0) | | | |
| Total International Mail | 2,211,359 | 2,309,991 | (98,631) | 277,753 | 281,525 | (3,772) |
| Total Competitive Mail | 14,289,673 | 14,575,911 | (286,238) | 3,402,788 | 3,448,050 | (45,262) |
| Ancillary Services: | | | | | | |
| Other Domestic Ancillary Services | 1,822 | 1,886 | (64) | 334 | 347 | (13) |
| International Ancillary Services | 7,113 | 7,121 | (8) | 1,456 | 1,457 | (1) |
| Total Ancillary Services | 8,935 | 9,007 | (72) | 1,790 | 1,804 | (14) |
| Special Services: | | | | | | |
| Premium Forwarding Service | 24,284 | 24,284 | 0 | 1,311 | 1,311 | 0 |
| Intl. Money Orders & Money Transfer Service | 1,124 | 1,124 | 0 | 170 | 156 | 14 |
| Other Domestic Special Services | 675,676 | 668,927 | 6,749 | 89,957 | 86,852 | 3,104 |
| Other International Special Services | - | - | 0 | - | - | |
| Total Special Services | 701,084 | 694,334 | 6,749 | 91,438 | 88,320 | 3,118 |
| Total Competitive Services | 710,018 | 703,341 | 6,677 | 93,228 | 90,124 | 3,104 |
| Total Competitive Mail and Services | 14,999,691 | 15,279,252 | (279,561) | | | |
| Other Competitive Revenue | 87,287 | 88,100 | (813) | | | |
| Total Competitive Revenue | 15,086,978 | 15,367,352 | (280,374) | 3,402,788 | 3,448,050 | (45,262) |
| | | | | | | |
| Total Market Dominant and Competitive | | | | | | |
| Total All Mail | 63,877,475 | 64,106,544 | (229,070) | 155,538,672 | 155,374,732 | 163,940 |
| Total All Services | 2,726,609 | 2,744,477 | (17,868) | 3,566,038 | 3,571,703 | (5,666) |
| Total All Mail and Services | 66,604,084 | 66,851,022 | (246,938) | | | |
| Total All Other Revenue | 1,250,237 | 1,003,299 | 246,938 | | | |
| Total All Revenue | 67,854,320 | 67,854,320 | (0) | | | |