



Financial Analysis of
United States Postal Service
Financial Results and 10-K Statement
Fiscal Year 2018

April 19, 2019

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Appendix A—Fiscal Year 2018 Volume, Revenue, Incremental Cost, and Cost Coverage by Class, Current Classification (Products)

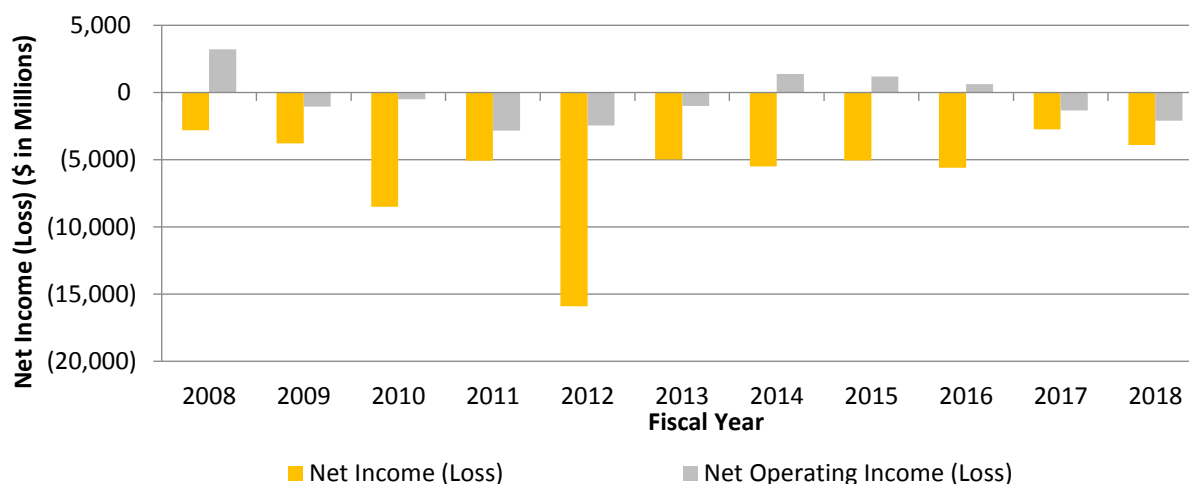
Chapter I. Report Overview

Financial Changes

In FY 2018, the Postal Service recorded a net loss from operations¹ of \$2.1 billion. The net loss from operations is largely due to declining Market Dominant volume and higher operating expenses. The net operating loss is nearly \$748 million more than the FY 2017 \$1.3 billion operating loss. However, when the Non-operating Expenses (NOEs) are included,² the FY 2018 total net loss is \$3.9 billion—a decline of \$1.2 billion compared to FY 2017. This decline results from a \$1.8 billion increase in operating expenses and an \$823 million increase in the non-cash change to workers’ compensation expense, offset by a \$1 billion increase in operating revenue and a combined \$400 million decrease in retirement-related expenses.

Figure I-1 shows net income (loss) and net operating income (loss) results for the last 10 years.

Figure I-1
Postal Service Income/(Loss), FY 2008 – FY 2018
(\$ in Millions)



Source: Postal Service FY 2008 to FY 2018 Forms 10-K and USPS Annual Reports.

These continuing losses have negatively affected the financial position of the Postal Service, creating a substantial gap between the Postal Service’s assets and liabilities. During FY 2018, total assets decreased by \$0.7 billion while total liabilities increased by \$3.2 billion.

¹ Net income or loss from operations is also referred to as net operating income (loss).

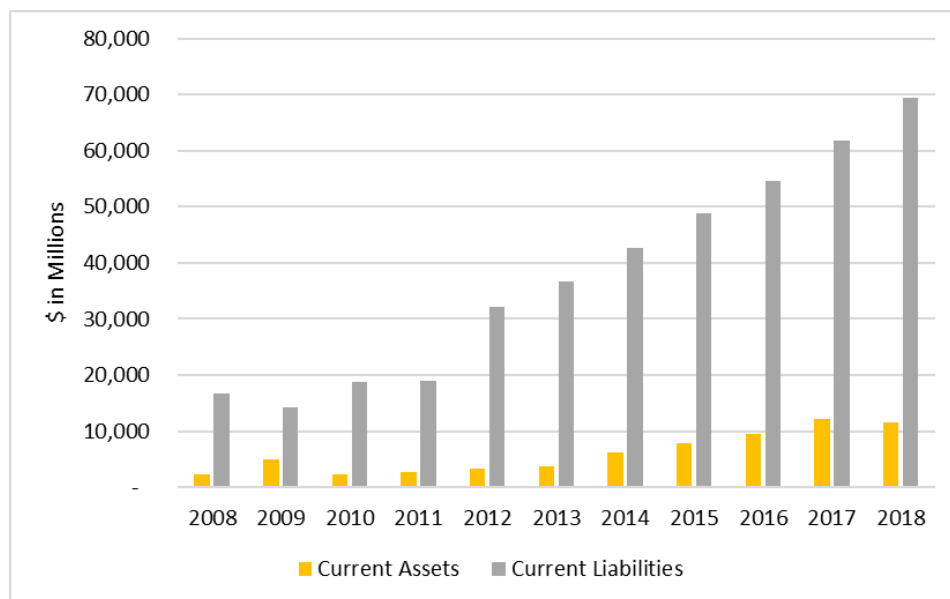
² NOEs include all non-cash workers’ compensation costs, accruals to retirement accounts, and one-time adjustments.

At the end of FY 2018 the Postal Service recorded total assets of \$26.7 billion and total liabilities of \$89.3 billion.

Total assets and liabilities are comprised of current and noncurrent portions. Current assets are the sum of cash and cash equivalents, receivables, and supplies and prepayments, which can be easily converted to cash for financing operations. Non-current assets are mainly buildings and equipment and are more difficult to convert to cash in the short term. Current liabilities are obligations that will come due within one year while noncurrent liabilities are long-term financial obligations. Current liabilities consist largely of missed payments for statutorily required prefunding of the Retirement Health Benefits Fund (RHBF) and amortization of unfunded RHB obligations, defaulted payments for amortization of unfunded CSRS and FERS obligations and short-term borrowing. In FY 2018 the Postal Service continued to accrue unpaid RHB expenses. At the end of FY 2018 the unpaid amount, which includes accruals for FY 2012 through FY 2018, amortization payments on the unfunded obligation and normal costs, totaled \$42.6 billion.

In FY 2018, the Postal Service had current assets of \$11.6 billion and current liabilities of \$69.5 billion. If current assets are insufficient to meet its short-term liabilities the Postal Service could have problems paying its creditors in the short term. As seen in Figure I-2, the gap between current assets and current liabilities has increased substantially since FY 2008.

Figure I-2
Current Assets and Liabilities FY 2008 – FY 2018 (\$ in Millions)



Source: Postal Service FY 2008 to FY 2018 Forms 10-K and USPS Annual Reports.

The Postal Service's liquidity continued to improve in FY 2018. For the first time since FY 2010, the Postal Service's cash balance declined by \$452 million. However, total liquidity continued to improve; for the first time since FY 2011 the Postal Service was able to pay down \$1.8 billion of its \$15 billion debt which contributed to the improvement in total liquidity. One reason for the improved liquidity is that the Postal Service has not made a payment to the RHBFB since FY 2010. In addition, beginning in FY 2017, the Postal Service has been required by statute to begin paying the amortization of the unfunded retirement benefits for FERS and CSRS. Since FY 2017 the Postal Service has incurred FERS unfunded liability amortization expenses of \$2 billion and CSRS unfunded liability expenses of \$3.2 billion. The Postal Service has not made the required payments for these unfunded pension liabilities.

The FY 2018 Integrated Financial Plan (IFP) included a capital investment budget of \$2.1 billion for facilities, mail processing equipment, vehicles, and information technology.³ Significant highlights of FY 2018 include:

- Consumer price index (CPI)-based price increases were not enough to offset revenue lost from declining volumes.
- Total Market Dominant revenue decreased 2.2 percent compared to FY 2017.
- Market Dominant products average unit revenue and average unit attributable cost remained unchanged at 0.33 cents and 0.20 cents.
- While volumes for Competitive products continued to grow in FY 2018, the rate of increase was lower than in recent years. Competitive volume increased approximately 11 percent in FY 2018 compared to 13.4 percent in FY 2017, 13.6 percent in FY 2016 and 16.3 percent in FY 2015.
- Competitive products attributable cost grew 11.4 percent and contribution to institutional cost grew 11.6 percent.
- Competitive products share of total Postal Service revenue, attributable cost, and contribution to institutional cost has nearly tripled since FY 2007.
- Total Factor Productivity (TFP) increased slightly compared to FY 2017.
- Accumulated net deficit is \$62.6 billion, resulting from several years of net losses starting in FY 2007.
- Financial sustainability continues to erode due to large personnel related liabilities and the slow replacement of fully depreciated capital assets. Overall financial condition is adversely impacted by insufficient current assets (43 percent of total assets) to cover current liabilities (78 percent of total liabilities).
- The Postal Service's FY 2018 working capital was negative \$57.9 billion.
- The Postal Service liquidity position is at the highest level since FY 2007; although cash declined during FY 2018, the Postal Service recorded its first available debt (\$1.8 billion) since FY 2011. However, significant balance sheet liabilities and off-

³ United States Postal Service, 2018 Integrated Financial Plan, November 23, 2017, at 8 (FY 2018 IFP).

balance sheet unfunded liabilities for pension and annuitant health benefits threaten the improvements in liquidity.

Chapter II. Postal Service Financial Status

Introduction

This chapter analyzes the Postal Service's overall financial status. The Commission evaluates relationships between the essential components of the Postal Service's financial statements to understand the Postal Service's viability, stability, and profitability. The Commission also discusses the Postal Service's operational status and allocation of resources.

The Commission's analysis, primarily based upon the Postal Service's Form 10-K financial statements for FY 2018 and FY 2017, provides a basis for comparison. The Commission also incorporates select key financial data from the past 10 years.

The Postal Service's Form 10-K report consists of:

- Income Statements, which review overall income and expenses and measure the Postal Service's financial performance (profit and loss) over the fiscal year
- Balance Sheets, which summarize the Postal Service's assets and liabilities held at the end of the fiscal year
- Statements of Changes in Net Deficiency, which combine the accumulated net deficit from operations and initial capital contributions and
- Statements of Cash Flows, which measure the Postal Service's inflows and outflows of cash during the fiscal year

This chapter is divided into the following sections:

Analysis of Income Statements. This section reviews overall income and expenses, and compares current revenue and expenses with those forecasted for the current year and reported during the prior fiscal year. It also compares changes in Postal Service productivity over time.

Analysis of Balance Sheets. This section begins with a summary of the Postal Service's assets and liabilities at the end of the fiscal year. The remainder of the section discusses changes in net deficiency, which occurs because Postal Service liabilities exceed its assets.

Analysis of Statements of Cash Flows. This section analyzes the Postal Service's inflows and outflows of cash and debt during the year.

Analysis of Income Statements

To facilitate a detailed financial analysis of the Postal Service's Income Statements, the Commission separately identifies elements of reported operating revenue and operating expenses.

Net operating expense excludes the payments for unfunded retirement health benefits (RHB), the supplemental contribution to the Civil Service Retirement System (CSRS) annuity, the supplemental contribution to the Federal Employees Retirement System (FERS) annuity, and the non-cash adjustments to the workers' compensation liability.⁴ These adjustments and expenses are properly recognized as accrual entries on the Postal Service's Income Statements. The Commission disaggregates them to provide an in-depth analysis of the financial results for FY 2018. Table II-1 illustrates the Commission's disaggregated version of the Income Statements.

Table II-1
Postal Service Income Statements Restated to Facilitate Analysis, FY 2018 and FY 2017
(\$ in Millions)

	FY 2018	FY 2017	\$ Variance	FY 2018 Plan	\$ Variance from Plan
Net Operating Revenue	\$70,660	\$69,636	\$1,024	\$70,092	\$568
Operating Expense as Reported by the Postal Service	74,445	72,210	2,235	75,215	(770)
Less: Amortization of RHB Unfunded Liability	(815)	(955)	140	(1,189)	374
Amortization of CSRS Unfunded Liability	(1,440)	(1,741)	301	(1,736)	296
Amortization of FERS Unfunded Liability	(958)	(917)	(41)	(917)	(41)
Non-Cash Change to Workers' Compensation Liability	1,389	2,212	(823)	-	1,389
Net Operating Expense	\$72,621	\$70,809	\$1,812	\$71,373	\$1,248
Interest Income	123	58	65	120	3
Interest Expense	251	226	25	243	8
Net Income (Loss) from Operations	\$(2,089)	\$(1,341)	\$(748)	\$(1,404)	\$(685)
Amortization of RHB Unfunded Liability	815	955	(140)	1,189	(374)
Amortization of CSRS Unfunded Liability	1,440	1,741	(301)	1,736	(296)
Amortization of FERS Unfunded Liability	958	917	41	917	41
Non-Cash Change to Workers' Compensation Liability	(1,389)	(2,212)	823	-	(1,389)
Net Loss	\$(3,913)	\$(2,742)	\$(1,171)	\$(5,246)	\$1,333

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

Numbers may not add across due to rounding.

Source: Docket No. ACR2018, Library Reference USPS-FY18-5, December 28, 2018; Docket No. ACR2017, Library Reference USPS-FY17-5, December 29, 2017; FY 2018 Plan data from USPS Preliminary Financial Information (Unaudited), September 2018, November 15, 2018.

The Postal Service incurred a net operating loss of \$2.1 billion in FY 2018. In FY 2017, the Postal Service had a net operating loss of \$1.3 billion. The FY 2018 loss represents a \$0.7

⁴ Non-cash adjustments or change to workers' compensation liability represents the impact of discount and inflation rate changes and the actuarial re-evaluation of new and existing cases.

billion decline in profitability.⁵ The FY 2018 net loss is largely due to higher operating expenses. Net operating expenses were \$1.8 billion higher than in FY 2017, primarily driven by increases in compensation and benefits and transportation costs.

After all adjustments and expenses are included, the net operating loss of \$2.1 billion becomes a total net loss of \$3.9 billion. This is a decline of \$1.2 billion compared to FY 2017. The decline is largely driven by higher operating expenses and an increase in the non-cash adjustment to workers' compensation expense resulting from a lower discount rate. Higher operating revenue of approximately \$1.0 billion is not enough to offset the increase in overall expenses. Table II-2 details unpaid retirement expenses⁶ for FY 2018 and FY 2017.

Table II-2
Postal Service Unpaid Retirement Expenses, FY 2018 and FY 2017
(\$ in Millions)

	FY 2018	FY 2017	\$ Variance
Annual Amortization of CSRS Unfunded Liability	\$1,440	\$1,741	\$(301)
Annual Amortization of FERS Unfunded Liability	958	917	41
Amortization of RHBF Unfunded Liability	815	955	(140)
Normal Costs of Retiree Health Benefits	3,666	3,305	361
Total Retirement Expense	\$6,879	\$6,918	\$(39)

Decrease in expenses is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2018 Form 10-K at 20.

During FY 2018, the Postal Service filed two requests in accordance with the Postal Accountability and Enhancement Act (PAEA) requiring the Commission to procure actuarial services to review various Office of Personnel Management (OPM) assumptions used in calculating Postal Service retirement-related liabilities. In the first request filed pursuant to Section 802(c) of the PAEA, the Postal Service asks the Commission to conduct a review of OPM's determination regarding the CSRS liability.⁷ In particular, the Postal Service asks whether it is appropriate for OPM to calculate the CSRS supplemental liability on the basis of government-wide demographic and salary-growth assumptions, rather than those specific to Postal Service CSRS employees and annuitants. The Postal Service indicates that OPM has already changed its rules going forward to use new postal-specific demographic assumptions.⁸ Thus, the Postal Service is further asking whether it would be appropriate to re-determine the CSRS supplemental liability payment due on September 30, 2017, using the new assumptions.

⁵ The Commission's calculation of net operating income (loss) differs from the controllable net income (loss) reported in Postal Service Form 10-K by \$138 million and \$527 million for FY 2018 and FY 2017, respectively. The Postal Service excludes the difference in the normal cost of RHB from its controllable income because it is the result of changes in actuarial assumptions. Postal Service FY 2018 Form 10-K at 20.

⁶ Normal cost is the present value of the estimated RHB attributable to active employees' current year of service.

⁷ Docket No. SS2018-1, Request of the United States Postal Service for Review of the Office of Personnel Management's Determination Regarding Civil Service Retirement System Liability, November 13, 2017.

⁸ See 5 C.F.R. § 831.117(a).

The Commission entered into a contract with Segal Consulting to provide an independent actuarial analysis of the assumptions used by OPM. The analysis concludes that the current government-wide assumptions produce valuation results that are within the range of reasonable outcomes based on generally accepted actuarial principles. However, it would be more appropriate to use postal-specific assumptions.⁹

In the second request filed pursuant to 5 U.S.C. § 8909a(d)(5)(A), the Postal Service asks the Commission to conduct a review of OPM's determination regarding the RHB liability.¹⁰ In particular, the Postal Service asks whether it is appropriate and consistent with the law for OPM to calculate RHB liabilities on the basis of government-wide assumptions, rather than those specific to Postal Service employees and annuitants.

The Commission entered into a contract with Segal Consulting to provide an independent actuarial analysis of the assumptions used by OPM. The analysis concludes that it was appropriate to calculate RHB liabilities on the basis of government-wide assumptions. It also concludes that it would be appropriate to use postal-specific assumptions in that this would provide a more accurate estimate of RHB liability.¹¹

In response to the RHBF Report, OPM states that it will not be revising its calculations determined as of September 30, 2016, which use government-wide assumptions. OPM states that the actuarial and economic assumptions used in these calculations were consistent with the assumptions used to determine CSRS and FERS liabilities.¹² However, OPM has issued new pension regulations that became effective October 27, 2017, which direct the use of postal-specific demographic assumptions going forward.¹³

⁹ Docket No. SS2018-1, Transmittal of the Civil Service Retirement System Demographic and Salary Assumptions Report, June 11, 2018. Postal-specific demographic assumptions are reflected in the amortization payment due in FY 2018 to liquidate CSRS and FERS unfunded liabilities shown in Table II-2.

¹⁰ Docket No. SS2018-2, Request of the United States Postal Service for the Commission to Conduct a Review of the Office of Personnel Management's Determination Regarding Retiree Health Benefits Liability, January 30, 2018.

¹¹ Docket No. SS2018-2, Transmittal of the Retiree Health Benefit Fund Liability Examination Report, August 8, 2018 (RHBF Report).

¹² See Statement of Federal Financial Accounting Standards 5: Accounting for Liabilities of the Federal Government, June 2018, at 33 ¶ 83

¹³ Docket No. SS2018-2, Letter from OPM, February 20, 2019.

MARKET DOMINANT REVENUE COMPARED TO PRIOR YEAR

This section summarizes the overall revenue by class for Market Dominant products.¹⁴ Table II-3 shows FY 2018 and FY 2017 revenue by class.¹⁵

Table II-3
Revenue by Market Dominant Class, FY 2018 and FY 2017
(\$ in Millions)

	FY 2018	FY 2017	\$ Variance	% Variance
First-Class Mail	\$26,016	\$27,122	(1,106)	(4.1%)
Marketing Mail	16,554	16,672	(117)	(0.7%)
Periodicals	1,277	1,375	(98)	(7.1%)
Package Services	828	801	27	3.3%
Ancillary and Special Services	1,725	1,792	(67)	(3.7%)
Subtotal Market Dominant Mail and Services Revenue	\$46,400	\$47,761	\$(1,361)	(2.8%)
Other	1,196	1,110	86	7.8%
Total Market Dominant Mail and Services Revenue	\$47,596	\$48,871	\$(1,275)	(2.6%)

Decrease in revenue is denoted by ().

Numbers may not add across due to rounding.

Source: Library Reference PRC-LR-ACR2018/1, April 12, 2019; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Total Market Dominant Mail and Services revenue declined 2.6 percent from the prior year. First-Class Mail revenue declined by 4.1 percent and Marketing Mail revenue declined by 0.7 percent. Periodicals revenue declined by 7.1 percent. The only Market Dominant class with increased revenue was Package Services. Package Service revenue increased by 3.3 percent compared to FY 2017. CPI-based price increases were not enough to offset revenue lost from declining volumes.

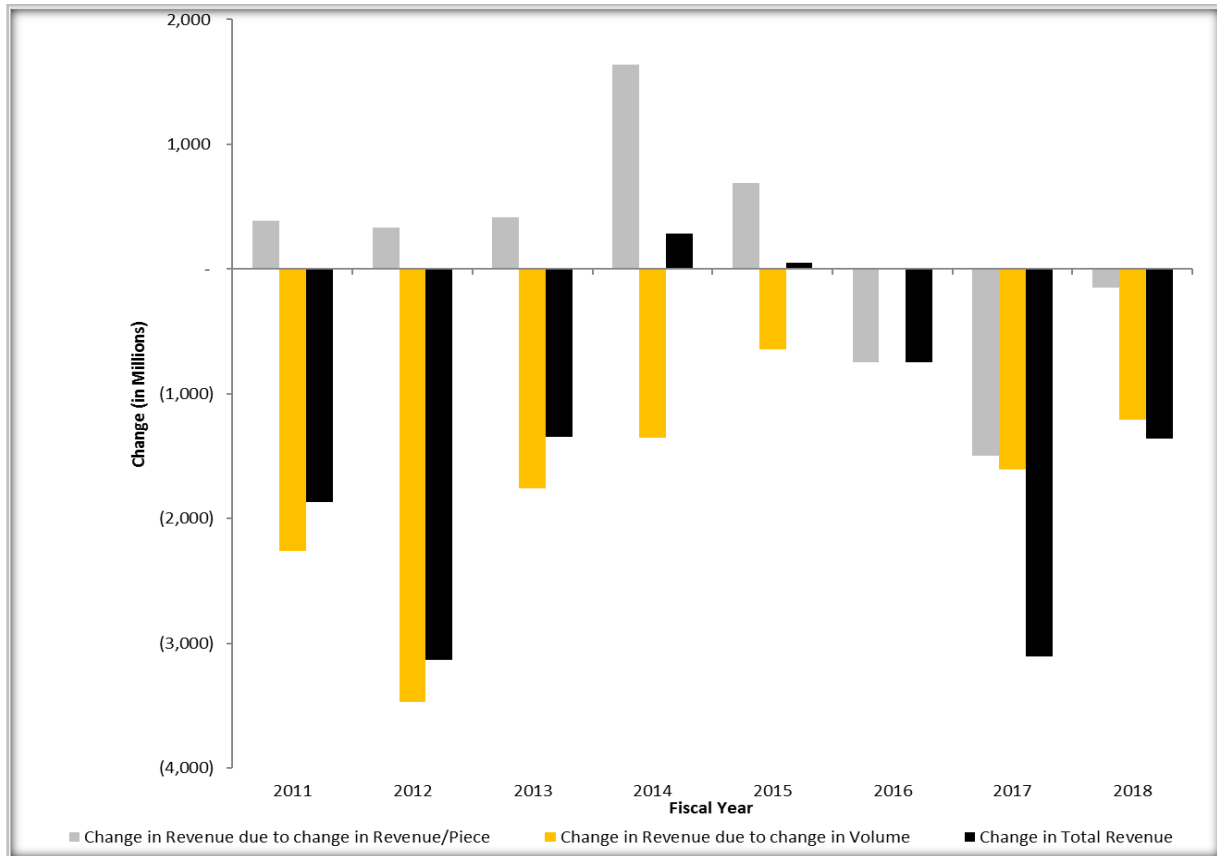
Figure II-1 isolates the change in Market Dominant revenue due to changes in average revenue per piece and changes in mail volume for each year since FY 2011.¹⁶ In FY 2018, the decline in the overall average revenue per piece for the Market Dominant category was predominantly caused by the transfer of First-Class Packages – Retail to the competitive category and the decrease in revenue per piece for Outside County Periodicals, Bound Printed Matter Flats and Ancillary Services. Changes in mail mix, average weight per piece, and—in the case of Periodicals—changes in the editorial/advertising content also influenced this decline in the average revenue per piece.

¹⁴ Chapter III presents a more detailed discussion of revenue by class and product.

¹⁵ “Other” in Table II-3 consists of appropriations, investment income, free military mail revenue and any accounting estimates and adjustments.

¹⁶ The revenue effects of volume increases are calculated using the average revenue per piece of the fiscal year being evaluated, and the revenue effects of volume decreases are calculated using the average revenue per piece of the prior fiscal year.

Figure II-1
Change in Market Dominant Revenue Due to Changes
in Average Revenue per Piece and Total Mail Volumes,
FY 2011 – FY 2018
(\$ in Millions)



Source: Postal Regulatory Commission (PRC) derived from Postal Service Revenue, Pieces and Weight Report, FY 2011-FY 2018.

Table II-4 shows that for Market Dominant products,¹⁷ declines in both revenue per piece and volumes caused total revenue to decrease by \$1.4 billion in FY 2018.¹⁸ For First-Class Mail, Marketing Mail, and Periodicals, the total revenue decline was predominantly due to reductions in volume.

¹⁷ Special Services includes Ancillary Services.

¹⁸ The \$1.4 billion decrease in Market Dominant revenue excludes "Other Income" which consists of appropriations, investment income, free military mail revenue, and any accounting estimate adjustments.

Table II-4
Disaggregation of Change in Market Dominant Revenue, FY 2018
(\$ in Millions)

	Change in Revenue from Changes in Revenue Per Piece	Change in Revenue from Changes in Volume	Net Change in Revenue
First-Class Mail	\$(77)	\$(1,029)	\$(1,106)
Marketing Mail	110	(227)	(117)
Periodicals	(18)	(80)	(98)
Package Services	0	27	27
Special Services	(165)	98	(67)
Total Market Dominant	\$(151)	\$(1,210)	\$(1,361)

Decrease in revenue is denoted by ().

Numbers may not add across due to rounding.

Source: Docket No. ACR2018, Library Reference USPS-FY18-42, December 28, 2018; Docket No. ACR2017, Library Reference USPS-FY17-42, December 28, 2017.

COMPETITIVE PRODUCT REVENUE COMPARED TO PRIOR YEAR

Table II-5 compares revenue for Competitive products between FY 2018 and FY 2017. Competitive products' overall revenue increased \$2.4 billion or 11.3 percent. The Competitive products price increase (effective January 21, 2018)¹⁹ and higher volume primarily contributed to the overall increase in revenue. The increase in First-Class Package Service revenue resulted from the transfer of First-Class Mail Retail (Single-Piece) from the Market Dominant to the Competitive category.²⁰

¹⁹ See Docket No. CP2018-8, Order Approving Price Adjustments for Competitive Products, November 7, 2017 (Order No. 4208).

²⁰ The Commission approved the transfer of the First-Class Mail Retail (Single-Piece) price category from the Market Dominant product list by adding identical services to the existing First-Class Package Service product appearing on the Competitive product list. Docket No. CP2017-230, Order Approving Price Adjustment for First-Class Package Service Product, August 9, 2017, at 4 (Order No. 4032).

Table II-5
Competitive Product Revenue, FY 2018 and FY 2017
(\$ in Millions)

	FY 2018	FY 2017	\$ Variance	% Variance
Priority Mail	\$9,103	\$8,340	\$763	9.1%
Total Ground	6,912	6,194	718	11.6%
First-Class Packages	3,871	2,787	1,084	38.9%
Priority Mail Express	751	766	(15)	(1.9%)
International	1,537	1,743	(206)	(11.8%)
Ancillary and Special Services	883	860	24	2.7%
Subtotal Competitive Products Mail and Services Revenue	\$23,057	\$20,690	\$2,367	11.4%
Other Revenue	129	134	(4)	(0)
Total Competitive Products Mail and Services Revenue	\$23,187	\$20,824	\$2,363	11.3%

Decrease in revenue is denoted by ().

Numbers may not add across due to rounding.

Source: Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2017/1; Library Reference USPS-FY18-42.

EXPENSE ANALYSIS AS COMPARED TO PRIOR YEAR

As shown in Table II-6, total expenses increased by \$2.2 billion (3.1 percent) in FY 2018. Total operating expenses increased by \$1.8 billion due to increases in personnel (\$1.2 billion) and transportation (\$0.6 billion) expenses. The significantly lower pharmaceutical compounding costs²¹ and discount rates during FY 2017 not repeated at the same level in FY 2018, resulted in an increase of \$823 million to the workers' compensation liability. These increases were partly offset by net declines in the payments related to unfunded retirement liabilities.

²¹ In 2016, the United States Department of Labor issued new rules for pharmaceutical compounding and for the year ended September 30, 2017, the Postal Service recorded a \$549 million decrease from the prior year.

Table II-6
Total Expenses, FY 2018 and FY 2017
(\$ in Millions)

	FY 2018	FY 2017	\$ Variance	% Variance	% of Total Expenses	
					FY 2018	FY 2017
Compensation & Benefits Expenses:						
Salaries and Benefits	\$49,684	\$48,793	\$891	1.8%	66.7%	67.6%
Workers' Compensation - Cash Outlays	1,393	1,415	(22)	(1.6%)	1.9%	2.0%
Retiree Health Benefits Normal Cost	3,666	3,305	361	10.9%	4.9%	4.6%
Other Personnel Related	320	315	5	1.6%	0.4%	0.4%
Subtotal Personnel Expenses Excluding Systemwide Personnel Expenses	\$55,063	\$53,828	\$1,235	2.3%	74.0%	74.5%
Transportation	7,861	7,238	623	8.6%	10.6%	10.0%
Other Expenses	9,697	9,743	(46)	(0.5%)	13.0%	13.5%
Total Operating Expenses	\$72,621	\$70,809	\$1,812	2.6%	97.5%	98.1%
Systemwide Personnel Expenses:						
Non-Cash Change to Workers' Compensation Liability	(1,389)	(2,212)	823	NM	(1.9%)	(3.1%)
Amortization of RHB Unfunded Liability	815	955	(140)	(14.7%)	1.1%	1.3%
Amortization of FERS Unfunded Liability	958	917	41	4.5%	1.3%	1.3%
Amortization of CSRS Unfunded Liability	1,440	1,741	(301)	(17.3%)	1.9%	2.4%
Total Expenses	\$74,445	\$72,210	\$2,235	3.1%	100.0%	100.0%

Decrease in expenses is denoted by (). NM denotes not meaningful.

Numbers may not add across due to rounding.

Source: PRC derived from Postal Service National Trial Balance September 2018, November 14, 2018; Postal Service National Trial Balance September 2017, November 14, 2017.

PERSONNEL EXPENSES AS SHARE OF TOTAL EXPENSES

In FY 2018, personnel expenses as a share of total expenses excluding system wide personnel costs for non-cash adjustment to workers' compensation and amortization costs of unfunded retirement liabilities was 74.0 percent. This was a decline of 0.5 percentage points from FY 2017, when these expenses constituted 74.5 percent of total expenses. In FY 2018, personnel expenses including system-wide personnel costs as a share of total expenses remain unchanged from the prior year. In FY 2018, the increase in the FERS amortization and a less favorable change in the non-cash adjustment to workers' compensation liability were slightly offset by declines in the amortization costs of the unfunded RHB and CSRS liabilities.

Other non-personnel related expenses, such as purchased transportation costs, were 10.6 percent of total expenses—an increase in share of 0.6 percentage points from FY 2017. Other Expenses²² constituted the remaining 13 percent share of total expenses, which decreased 0.5 percentage points from the prior year.

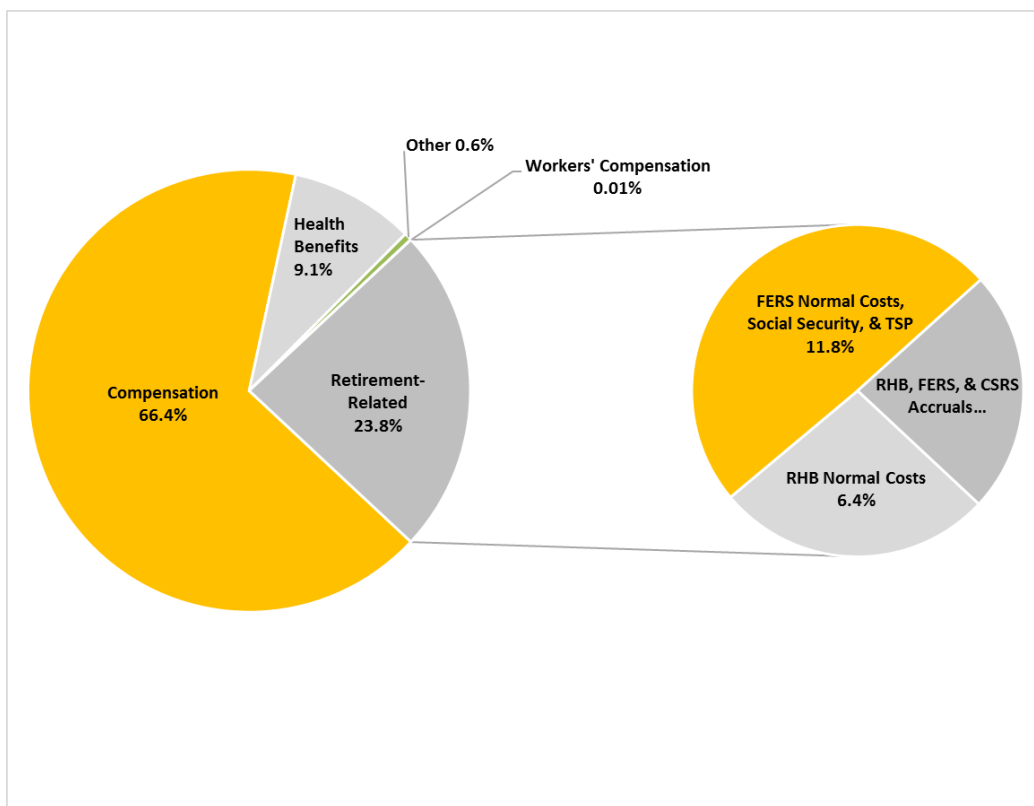
²² Other expenses are comprised of supplies and services, depreciation and amortization, rent and utilities, vehicle maintenance service, delivery vehicle fuel, information technology and communications, rural carrier equipment maintenance, and miscellaneous costs. Postal Service FY 2018 Form 10-K at 40.

PERSONNEL EXPENSES

Figure II-2 illustrates the composition of FY 2018 personnel expenses detailed in Table II-7. Compensation expenses account for the largest portion of personnel expenses, representing 66.4 percent of total personnel costs.

Retirement-related expenses are the next largest component of total personnel expenses, at 23.8 percent.

**Figure II-2
Composition of Total Personnel Expenses, FY 2018**



Source: Postal Service FY 2017 Form 10-K at 23, 25, and 36.

Table II-7 shows that the total personnel expenses for FY 2018 increased by \$1.7 billion from FY 2017. This was largely the result of increases in personnel operating expenses and less favorable non-cash adjustment to workers' compensation liability.²³ Compensation, retirement (service costs for FERS), and health benefits expenses all increased in FY 2018.

²³ Workers' compensation expense consists of cash payments, miscellaneous expenses and the net increase (decrease) in the workers' compensation liability. The non-cash adjustment to workers' compensation liability represents the impact of discount and inflation rate changes and the actuarial re-evaluation of new and existing cases.

Table II-7
Breakdown of Total Personnel Expenses, FY 2018 and FY 2017
(\$ in Millions)

	FY 2018	FY 2017	\$ Variance	% Variance
Total Compensation	\$37,795	\$37,026	\$769	2.1%
Retirement	6,720	6,604	116	1.8%
Health Benefits-Current Employees	5,169	5,163	6	0.1%
Workers' Compensation - Cash Outlays	1,393	1,415	(22)	(1.6%)
Normal Costs of Retiree Health Benefits	3,666	3,305	361	10.9%
Other Compensation	320	315	5	1.6%
Total Operating Personnel Expenses	\$55,063	\$53,828	\$1,235	2.3%
Non-Cash Change to Workers' Compensation Liability	(1,389)	(2,212)	823	NM
Amortization of Unfunded RHB Liability	815	955	(140)	(14.7%)
Amortization of Unfunded FERS Liability	958	917	41	4.5%
Amortization of Unfunded CSRS Liability	1,440	1,741	(301)	(17.3%)
Total Personnel Expenses	\$56,887	\$55,229	\$1,658	3.0%

Decrease in expenses is denoted by (). NM denotes not meaningful.

Numbers may not add across due to rounding.

Source: PRC derived from Postal Service National Trial Balance September 2018; Postal Service National Trial Balance September 2017.

Total compensation is comprised of salaries for employees (full-time career, part-time career, and non-career), overtime and leave pay, 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), number of overtime workhours, and the composition of the workforce. Total compensation increased by \$0.8 billion compared to FY 2017 primarily due to contractual salary increases,²⁴ COLAs and additional workhours, particularly hours for non-career employees and overtime hours.²⁵

The Postal Service's workforce is composed of career (full-time and part-time) and non-career employees, which include postal support employees, city carrier assistants, mailhandler assistants, and other non-career employees. Table II-8 shows the number of employees by type for FY 2016, FY 2017, and FY 2018.

²⁴ Postal Service FY 2018 Form 10-K at 27.

²⁵ *Id.*

**Table II-8
Postal Service Employee Complement, FY 2016 – FY 2018**

	FY 2018	FY 2017	Change FY 2018 over FY 2017	FY 2016	Change FY 2017 over FY 2016
Career Employees	497,157	503,103	(5,946)	508,908	(5,805)
Postal Support Employees (PSE)	26,386	26,823	(437)	26,368	455
City Carrier Assistants (CCA)	42,115	44,486	(2,371)	40,436	4,050
Mailhandler Assistants (MHA)	6,274	6,463	(189)	5,280	1,183
Other Non-Career	62,515	63,249	(734)	58,797	4,452
Total On-Roll Employees	634,447	644,124	(9,677)	639,789	4,335

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: On-Roll and Paid Employee Statistics (ORPES), PP 20-2018, September 2018, October 11, 2018; ORPES, September 2017, October 6, 2017; ORPES, September 2016, October 6, 2016.

In FY 2018, the Postal Service reduced its career workforce by approximately 6,000 employees, or 1.2 percent, and decreased its non-career workforce by approximately 3,700 employees, or 2.6 percent. According to the Postal Service, during the 2-year period of FY 2018 and FY 2017, 63,000 non-career employees converted to career status to offset attrition of career employees, primarily through retirement.²⁶

In April 2016, the Postal Service reached a 3-year agreement with the National Rural Letter Carriers' Association, which includes general wage increases of 3.8 percent over the life of the contract. The contract expired in May 2018, with both parties agreeing to an extension beyond the deadline.²⁷ A July 2016 agreement with the American Postal Workers Union includes general wage increases of 3.8 percent over the life of the contract, which expired in September 2018.²⁸ Negotiations over a new contract are in a dispute resolution process. In May 2017, the Postal Service reached a 40-month agreement with the National Association of Letter Carriers that includes general wage increases totaling 2.5 percent over the life of the contract. This contract will expire in September 2019.²⁹ Figure II-3 illustrates the change in workhours since FY 2004.

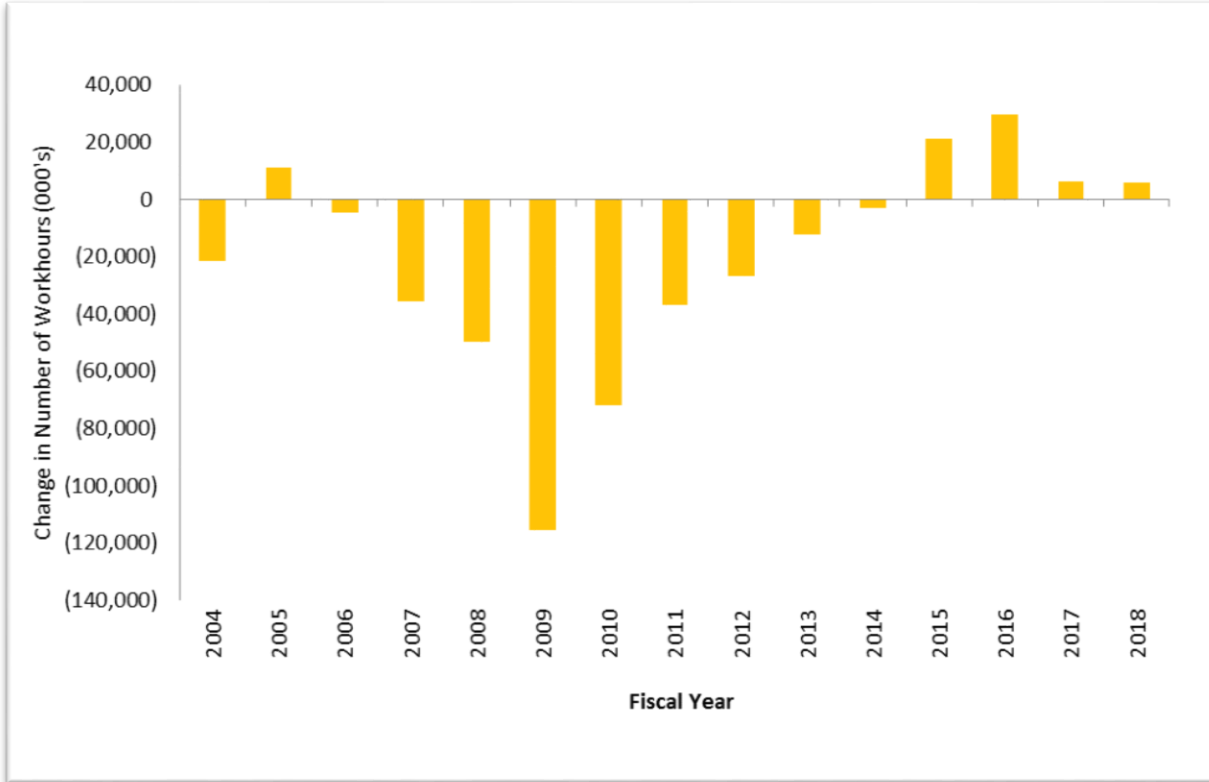
²⁶ Postal Service FY 2018 Form 10-K at 27.

²⁷ *Id.* at 6.

²⁸ *Id.*

²⁹ *Id.*

**Figure II-3
Change in Workhours, FY 2004 – FY 2018**



Source: Postal Service FY 2004 to FY 2018 Forms 10-K and USPS Annual Reports.

After 9 years of declines beginning in FY 2006, the last 4 years have seen workhours start to increase. Total workhours increased by approximately 6 million during FY 2018, which the Postal Service states is primarily due to an increase of 1.2 million delivery points and growth in shipping and packages volume.³⁰ As shown in Table II-9, in FY 2018, workhours increased in City Delivery (0.8 percent), Rural Delivery (3.7 percent), Vehicle Maintenance (3.9 percent), and Other (0.5 percent) categories.³¹ Workhours declined in Mail Processing (2.0 percent), Customer Service (0.8 percent), and Plant & Equipment (1.8 percent).

³⁰ Postal Service FY 2018 Form 10-K at 28.

³¹ The “Other” category represents Operations Support, Finance, Human Resources, Administration, Training, and Rehabilitation workhours.

Table II-9
Workhours by Function (Thousands of Workhours), FY 2016 – FY 2018

	FY 2018	FY 2017	% Variance FY 2018 over FY 2017	FY 2016	% Variance FY 2017 over FY 2016
Mail Processing	198,029	202,069	(2.0%)	204,403	(1.1%)
Customer Service	169,372	170,725	(0.8%)	170,377	0.2%
Delivery Service:					
City Delivery	426,353	422,811	0.8%	416,646	1.5%
Rural Delivery	204,874	197,574	3.7%	191,806	3.0%
Maintenance:					
Plant & Equipment	63,302	64,477	(1.8%)	65,946	(2.2%)
Vehicle	29,990	28,877	3.9%	28,637	0.8%
Other	77,697	77,345	0.5%	80,281	(3.7%)
Total Workhours	1,169,617	1,163,878	0.5%	1,158,096	0.5%

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: Docket No. ACR2018, Library Reference USPS-FY18-7, December 28, 2018; Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-19 of Chairman's Information Request No. 2, January 17, 2018, question 3, Excel file "ChIR.2.Q.3.LDC.Workhours - FY17.xlsx;" Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-2, 4-9, 11-13, 15-19, 23, 28, and 31-33 of Chairman's Information Request No. 3, January 13, 2017, question 1, Excel file "ChIR.3.Q.1.LDC.Workhours.xlsx."

The productive hourly wage rates³² are shown in Table II-10. The productive hourly wage rate for clerks increased 2.3 percent compared to the prior year. The productive hourly wage rate for both mailhandlers and city delivery carriers increased by 2.2 percent compared to the prior year. For the 2-year period between FY 2016 and FY 2018, the productive hourly wage rate has increased in every category.

³² The productive hourly wage rate is the total compensation and benefits divided by the weighted workhours by craft.

Table II-10
Productive Hourly Wage Rates (\$ per Workhour), FY 2016 – FY 2018

Segment/Subsegment	FY 2018	FY 2017	% Change FY 2018 over FY 2017	FY 2016	% Change FY 2017 over FY 2016
Supervisors & Technicians	\$52.52	\$51.54	1.9%	\$50.65	1.8%
Clerks	40.87	39.94	2.3%	39.29	1.7%
Mailhandlers	41.27	40.37	2.2%	40.44	(0.2%)
City Delivery Carriers	41.31	40.43	2.2%	40.90	(1.1%)
Vehicle Drivers	45.67	45.61	0.1%	43.44	5.0%
Rural Carriers	36.72	36.48	0.7%	36.42	0.2%
Building Services	43.37	41.67	4.1%	39.60	5.2%
Operating Equipment	55.32	54.24	2.0%	53.55	1.3%
Building Equipment	51.36	50.40	1.9%	49.43	2.0%
Motor Vehicle Service	49.86	48.65	2.5%	47.34	2.8%
Headquarters	68.07	67.72	0.5%	64.24	5.4%

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: Library Reference USPS-FY18-7, December 28, 2018; Docket No. ACR2017, Library Reference PRC-ACR2017/1; Docket No. ACR2016, Library Reference PRC-ACR2016/1.

Workers' compensation expenses increased by \$0.8 billion in FY 2018. Workers' compensation expenses consist of a cash payment and a non-cash change in long-term workers' compensation liability. The cash payment is made to the Department of Labor for the current year's cost of medical and compensation benefits payment and an administrative fee. The non-cash change in long-term workers' compensation liability includes actuarial revaluations of existing cases and new cases, initial costs of new cases for the year, and any changes in the discount rate used to estimate the amount of current funds needed to settle all claims in the current year. In FY 2018, the non-cash change in long-term workers' compensation liability resulted in a \$1.4 billion increase in the liability. Table II-11 disaggregates components factoring into the workers' compensation expense for the past 2 years.

Table II-11
Components of Workers' Compensation Expense, FY 2018 and FY 2017
(\$ in Millions)

	FY 2018	FY 2017	\$ Variance	% Variance
Medical and Compensation Claims Payments	\$1,312	\$1,264	\$48	3.8%
Administrative Fee	81	151	(70)	(46.4%)
Cash Outlays	\$1,393	\$1,415	\$(22)	(1.6%)
(Decrease) Increase in Long Term Workers' Compensation Obligation	(1,389)	(2,212)	823	(37.2%)
Workers' Compensation Expense	\$4	(\$797)	\$801	(100.5%)

Decrease in expenses is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2018 Form 10-K at 38.

NON-PERSONNEL EXPENSES

Table II-12 shows transportation costs by category, which is a major component of non-personnel related expenses, and which accounted for 10 percent of total costs. *See infra* Table II-6.

Table II-12
Purchased Transportation Costs by Category, FY 2018 and FY 2017
(\$ in Millions)

	FY 2018	FY 2017	\$ Variance	% Variance
Highway Transportation	\$4,319	\$4,070	\$249	6.1%
Air Transportation	2,892	2,481	411	16.6%
International Transportation	611	631	(20)	(3.2%)
Other Transportation	39	56	(17)	(30.4%)
Total Transportation	\$7,861	\$7,238	\$623	8.6%

Decrease in expenses is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2018 Form 10-K at 39.

Total transportation expenses increased by 8.6 percent from FY 2017. Highway transportation costs increased by 6.1 percent, while air transportation costs increased by 16.6 percent from the prior year. According to the Postal Service, these increases were primarily due to higher prices per mile on contract routes, higher package volume, national shortage of long-haul truck drivers and an increase in the average price of diesel and jet fuel.³³ Expenses for fuel comprise 3.4 percent of total operating expenses.³⁴ These increases offset slightly a \$20 million decline in international transportation costs.

Table II-13 shows all other non-personnel related expenses decreased by \$46 million in FY 2018. This decrease was primarily driven by the decline in miscellaneous other expenses, which was partially offset by increases in rent and utilities, delivery vehicle fuel, and rural carrier equipment maintenance expenses. According to the Postal Service, the 27.5 percent decline in miscellaneous other expenses is the result of a reduction in expenses associated with contingent liabilities pertaining to labor and employment matters.³⁵ Miscellaneous other expenses consist mainly of travel, training, repairs and contingency accounts. The largest increase was in rent and utility expenses, which increased by \$104 million in FY 2018. According to the Postal Service, this was the result of an increase in fuel-related utility costs.³⁶

³³ Postal Service FY 2018 Form 10-K at 39.

³⁴ *Id.* at 12.

³⁵ *Id.* at 40.

³⁶ *Id.*

Table II-13
Other Non-Personnel Expenses, FY 2017 and FY 2018
(\$ in Millions)

	FY 2018	FY 2017	\$ Variance	% Variance
Supplies and Services	\$2,991	\$2,980	\$11	0.4%
Depreciation and Amortization	1669	1677	(8)	(0.5%)
Rent and Utilities	1694	1590	104	6.5%
Vehicle Maintenance Services	629	640	(11)	(1.7%)
Delivery Vehicle Fuel	502	409	93	22.7%
Information Technology and Communications	913	914	(1)	(0.1%)
Rural Carrier Equipment Maintenance	552	503	49	9.7%
Miscellaneous Other	747	1030	(283)	(27.5%)
Total Other Non-Personnel Expenses	\$9,697	\$9,743	\$(46)	(0.5%)

Decrease in expenses in denoted by ().

Numbers may not add across due to rounding.

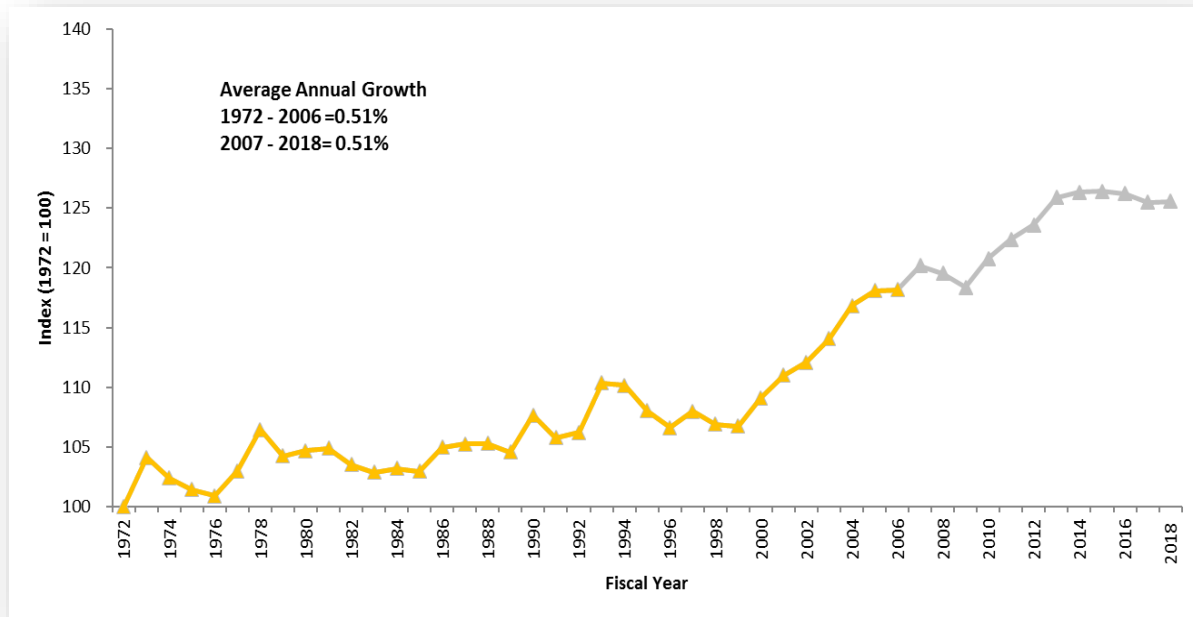
Source: Postal Service FY 2018 Form 10-K at 40.

TOTAL FACTOR PRODUCTIVITY

Total Factor Productivity (TFP) is a measure of Postal Service productivity for any given year. TFP is calculated as the ratio of Workload (outputs and network) to Inputs. The inputs index includes a combination of labor (workhours), capital, and materials. The outputs index is the weighted average of mail volumes and miscellaneous outputs. The network index represents the delivery network and is the number of possible deliveries. Finally, the workload index is a combination of the outputs and the network indices.

TFP measures the rate at which resources are used to handle workload. Change in TFP is equal to the net change in workload less the net change in resource. Components of workload are: 1) weighted mail volume; 2) miscellaneous output; and 3) delivery points. Components of resource usage are: 1) labor; 2) materials; and 3) capital. TFP increased slightly by 0.1 percent in FY 2018 compared to an unfavorable 0.6 percent in FY 2017. Total workload declined by 0.6 percent in FY 2018, a slightly lower decline than the usage of resources 0.7 percent for the same period. Lower outputs including weighted mail volume fully offset the growth in delivery points. In FY 2018, capital inputs decreased 1.6 percent and investment in buildings and equipment also declined. Labor input declined by 1.1 percent. The growth in shipping and packages increased materials usage. In FY 2018, other factors such as level of employment and price of labor also contributed to the slight increase in the TFP. Figure II-4 shows the trend in TFP from FY 1972 through FY 2018.

Figure II-4
Postal Service Total Factor Productivity, FY 1972 – FY 2018



Source: Docket No. ACR2018, Response of United Postal Service to Question 2 of Chairman’s Information Request No. 1, January 11, 2019.

Comparison of Postal Service Actual to Operating Plan

The Postal Service’s FY 2018 Operating Plan, as outlined in its 2018 IFP, projected a net loss of \$5.2 billion in FY 2018.³⁷ The actual total net loss of \$3.9 billion was \$1.3 billion less than the Postal Service estimated. Total revenue was \$0.6 billion more than planned while total operating expenses were \$1.3 billion more than planned. However, because retirement accruals were \$0.6 billion less than anticipated and the favorable change of \$1.4 billion in the noncash change to workers’ compensation liability was not included in the plan, the Postal Service’s net loss was smaller than it had initially projected. Table II-14 compares actual FY 2018 results with the estimated results in the Operating Plan.

³⁷ United States Postal Service Fiscal Year 2018 Integrated Financial Plan, December 2, 2017, at 3 (Postal Service 2018 Integrated Financial Plan). See also USPS Preliminary Financial Information (Unaudited), September 2018, November 14, 2018.

Table II-14
Actual and Operating Plan Income Statements, FY 2018
(\$ in Billions)

	FY 2018 Actual	FY 2018 Operating Plan	\$ Variance
Total Revenue	\$70.8	\$70.2	\$0.6
Total Operating Expense	72.9	71.6	1.3
Net Operating Income/(Loss)	\$(2.1)	\$(1.4)	\$(0.7)
Workers' Compensation Liability	(1.4)	-	(1.4)
RHBF Unfunded Liability Amortization	0.8	1.2	(0.4)
FERS Unfunded Liability Amortization	1.0	0.9	0.0
CSRS Unfunded Liability Amortization	1.4	1.7	(0.3)
Total Net Income/(Loss)	\$(3.9)	\$(5.2)	\$1.3

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

Numbers may not add across due to rounding.

Source: USPS Preliminary Financial Information (unaudited), September 2017, November 14, 2017, file "September 2018 Monthly Financial Report to the PRC.pdf."

As seen in Table II-15, total revenue from Market Dominant mail was lower than expected. However, revenue from Competitive mail and Other Parcels was \$1.1 billion greater than projected, which partially offset declines in the other categories. International mail revenue was \$0.1 billion less than planned.

Table II-15
Actual and Operating Plan Revenue broken down by categories shown in IFP,³⁸ FY 2018
(\$ in Billions)

	FY 2018 Actual	FY 2018 Operating Plan	\$ Variance
First-Class Mail	\$25.0	\$24.8	\$0.2
Periodicals	1.3	1.3	(0.0)
Marketing Mail	16.5	16.2	0.3
Other	2.9	3.8	(0.9)
Competitive and Other Parcels	22.5	21.4	1.1
International	2.6	2.7	(0.1)
Total Mail Revenue	\$70.8	\$70.2	\$0.6

Decrease in revenue is denoted by ().

Numbers may not add across due to rounding.

Source: November 15, 2018, Preliminary Financial Information, file "September 2018 Monthly Financial Report to the PRC.pdf."

Total volume was 1.5 billion pieces more than expected, primarily due to higher than expected volume in First-Class and Marketing Mail. Competitive and Other Parcels also exceeded expectations, with 0.1 billion more pieces than expected. Table II-16 compares volumes for FY 2018 with the volume projected in the Operating Plan.

³⁸ The Postal Service FY 2018 IFP isolates volume from International and Parcels from the other categories. See Postal Service FY 2018 IFP at 5.

Table II-16
Actual and Operating Plan Volume broken down by categories shown in IFP,³⁹ FY 2018
(in Billions)

	FY 2018 Actual	FY 2018 Operating Plan	Variance
First-Class Mail	56.7	56.3	0.4
Periodicals	5.0	5.0	(0.0)
Marketing Mail	77.3	76.1	1.2
Other	0.3	0.4	(0.1)
Competitive and Other Parcels	6.2	6.1	0.1
International	0.9	1.0	(0.1)
Total Mail Volume	146.4	144.9	1.5

Decrease is denoted by ().

Numbers may not add across due to rounding.

Source: November 15, 2018, Preliminary Financial Information, file "September 2018 Monthly Financial Report to the PRC.pdf."

Total expenses were \$0.8 billion less than anticipated. Operating expenses were \$1.2 billion greater than expected, offset by lower than expected non-operating expenses of \$2.0 billion. As shown in Table II-17, the compensation and benefits expense was \$1.1 billion more than planned, primarily due to greater than expected workhours.

Total non-personnel expenses were \$0.2 billion more than projected, the only negative variance being for supplies and services expenses (\$0.2 billion) and rent and utilities (\$0.1 billion). Transportation expenses and depreciation slightly exceeded what was planned.

³⁹ The Postal Service FY 2018 IFP isolates revenue from International and Parcels from the other categories. See FY 2018 IFP at 5.

Table II-17
Actual and Operating Plan Expenses, FY 2018
(\$ in Billions)

	FY 2018 Actual	FY 2018 Operating Plan	\$ Variance
Compensation & Benefits	\$55.1	\$54.0	\$1.1
Transportation	7.9	7.4	0.5
Supplies & Services	3.0	3.2	(0.2)
Depreciation and Amortiation	1.7	1.7	0.0
Rent/Utilities/Other	5.0	5.2	(0.1)
Total Operating Expenses	\$72.6	\$71.4	\$1.2
Workers' Compensation Adj.	(1.4)	0.0	(1.4)
RHB Unfunded Amortization	0.8	1.2	(0.4)
FERS Unfunded Amortization	1.0	0.9	0.0
CSRS Unfunded Amortization	1.4	1.7	(0.3)
Total Expenses	\$74.4	\$75.2	\$(0.8)

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: November 15, 2018, Preliminary Financial Information, file "September 2018 Monthly Financial Report to the PRC.pdf."

Analysis of Balance Sheets

This section analyzes the Postal Service's financial situation and use of resources based on Balance Sheets data prepared according to U.S. Generally Accepted Accounting Principles. The analysis compares two points in time, September 30, 2018 (FY 2018) and September 30, 2017 (FY 2017).

Table II-18 compares certain categories in the Postal Service's asset and liability structure for FY 2018 with FY 2017. This analysis is derived from the Postal Service's Balance Sheets.

Table II-18
Structure of Assets and Liabilities, FY 2018 and FY 2017
(\$ in Millions)

	FY 2018	FY 2017	\$ Variance	% of Total Assets	
				FY 2018	FY 2017
Assets					
Cash and Cash Equivalents (includes Restricted	\$10,336	\$10,804	\$(468)	38.7%	39.4%
Receivables	1,094	1,127	(33)	4.1%	4.1%
Supplies and Prepayments	153	134	19	0.6%	0.5%
Total Current Assets	11,583	12,065	(482)	43.4%	44.0%
Noncurrent Assets	15,105	15,329	(224)	56.6%	56.0%
Total Assets	\$26,688	\$27,394	\$(706)	100.0%	100.0%
	FY 2018	FY 2017	\$ Variance	% of Total Liabilities	
				FY 2018	FY 2017
Liabilities					
Unfunded Retirement Benefits	\$42,641	\$38,160	\$4,481	47.7%	44.3%
Current Portion of Long-Term Debt	11,000	10,100	900	12.3%	11.7%
Deferred Revenue-Prepaid Postage	2,066	2,168	(102)	2.3%	2.5%
Other Current Liabilities	13,763	11,399	2,364	15.4%	13.2%
Total Current Liabilities	69,470	61,827	7,643	77.8%	71.8%
Workers' Compensation Costs, Noncurrent	15,026	16,397	(1,371)	16.8%	19.0%
Noncurrent Portion of Long-Term Debt	2,200	4,900	(2,700)	2.5%	5.7%
Other Noncurrent Liabilities	2,629	2,994	(365)	2.9%	3.5%
Total Noncurrent Liabilities	19,855	24,291	(4,436)	22.2%	28.2%
Total Liabilities	\$89,325	\$86,118	\$3,207	100.0%	100.0%

Decrease in amounts is denoted by (-).

Numbers may not add across due to rounding.

Source: Postal Service FY 2018 Form 10-K at 54; PRC derived from September 2018 National Trial Balance.

Current assets are the sum of cash and cash equivalents, receivables, and supplies and prepayments, which 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.

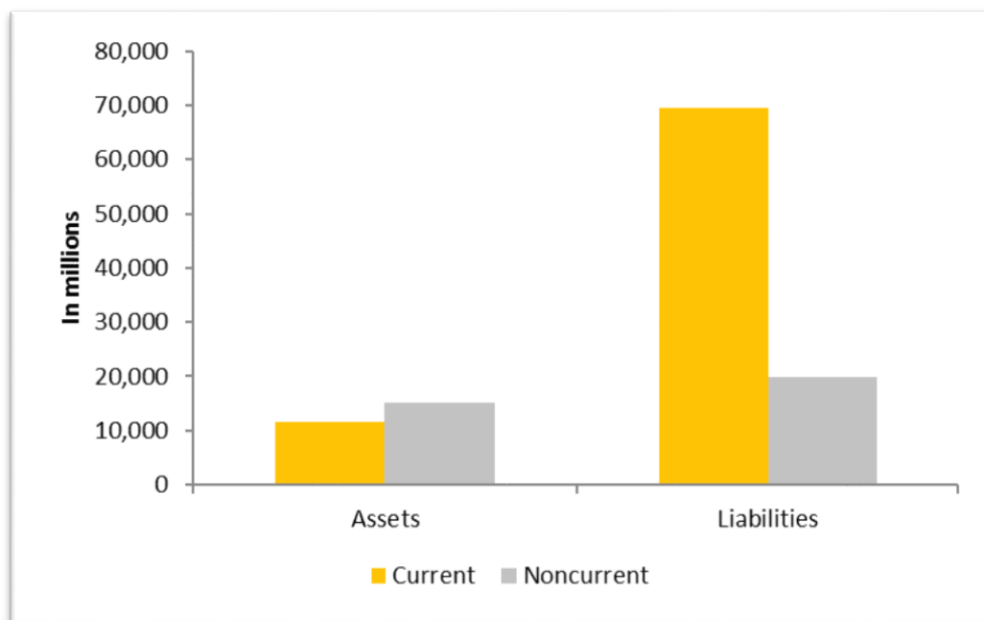
Liabilities at the end of FY 2018 totaled \$89.3 billion, 77.8 percent of which were current liabilities. Current liabilities are obligations that will come due within 1 year while noncurrent liabilities are long-term financial obligations. Current liabilities consist largely of missed payments for statutory RHB prefunding and amortization of unfunded RHB obligations, defaulted payments for amortization of unfunded CSRS and FERS obligations and short-term borrowing. The Postal Service continued to accrue unpaid RHB expenses, which totaled \$42.6 billion at the end of FY 2018. This includes accruals for FY 2012 through FY 2018 when the Postal Service was unable to pay down the obligation along with the amortization payments on the RHB unfunded obligation and normal costs. This obligation is 61.4 percent of current liabilities. Liabilities consist of the missed payments for retirement-related obligations, workers' compensation liability (\$15.0 billion), and the total net debt owed to the Federal Financing Bank (\$13.2 billion).

On the Balance Sheets, net deficiency represents the difference between total assets and total liabilities. This indicates whether assets were financed by borrowing (liability) or by capital contributions and accumulated earnings from prior years. Net deficiency occurs when liabilities are greater than assets.

At the end of FY 2018, the Postal Service recorded a \$62.6 billion net deficit consisting of an accumulated deficit of \$65.8 billion offset by capital contributions of \$3.1 billion. This is primarily the result of several years of net operating losses starting in FY 2007. Negative net worth indicates that the Postal Service has spent both its initial capital and also the capital of its creditors. Its debts are no longer secured by its assets.

Figure II-5 shows the mix of the Postal Service’s asset and liability structure as of September 30, 2018. The shortage of current assets (43 percent of total assets) to cover current liabilities (78 percent of total liabilities) adversely affects the Postal Service’s financial condition. Noncurrent assets comprise 57 percent of total assets, while noncurrent liabilities only comprise 22 percent of total liabilities.

Figure II-5
Categories of Assets and Liabilities, FY 2018



Source: *Id.* at 54.

Working capital is the difference between current assets and current liabilities. In FY 2018, the Postal Service’s working capital was negative \$57.9 billion.

During FY 2018, total assets decreased by \$0.7 billion primarily from a \$0.5 billion decrease in the cash balance. Aging capital assets and the continued restrictions on capital

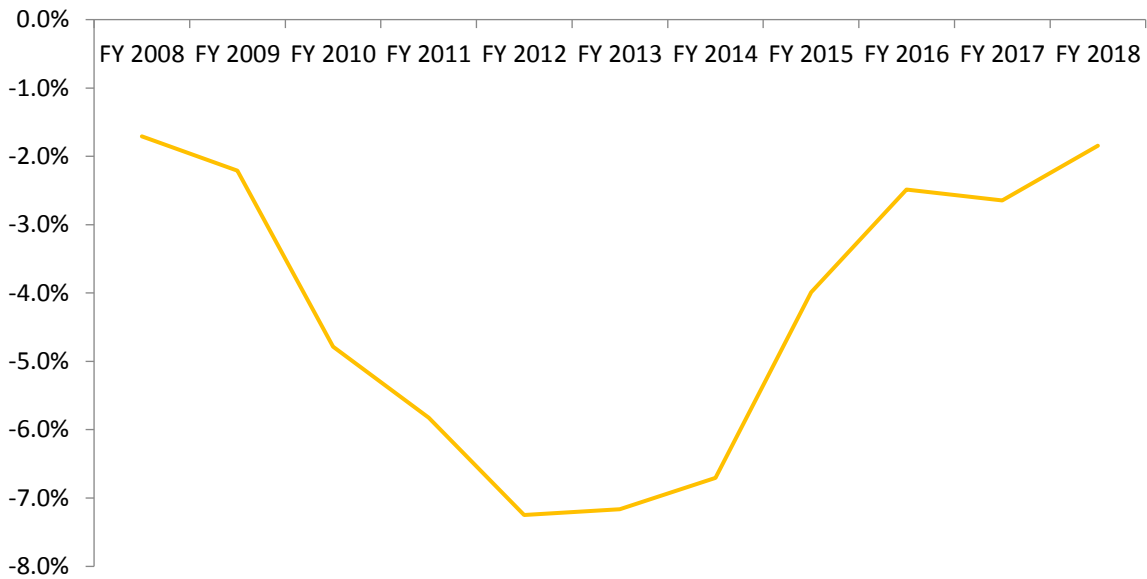
investment resulted in depreciation costs in excess of investments, which resulted in a net decrease in fixed assets of \$0.3 billion.

Total liabilities increased by \$3.2 billion dollars mainly due to personnel-related liabilities such as the accrual for the unpaid retirement expenses for FY 2018.

Assets

During FY 2018, total assets decreased by \$0.7 billion, primarily from a decrease in cash of \$0.5 billion. Aging capital assets and the continued restriction in capital investment resulted in a decline in net property plant and equipment of \$0.3 billion. Figure II-6 illustrates the trend in the Postal Service’s net capital assets since FY 2008.

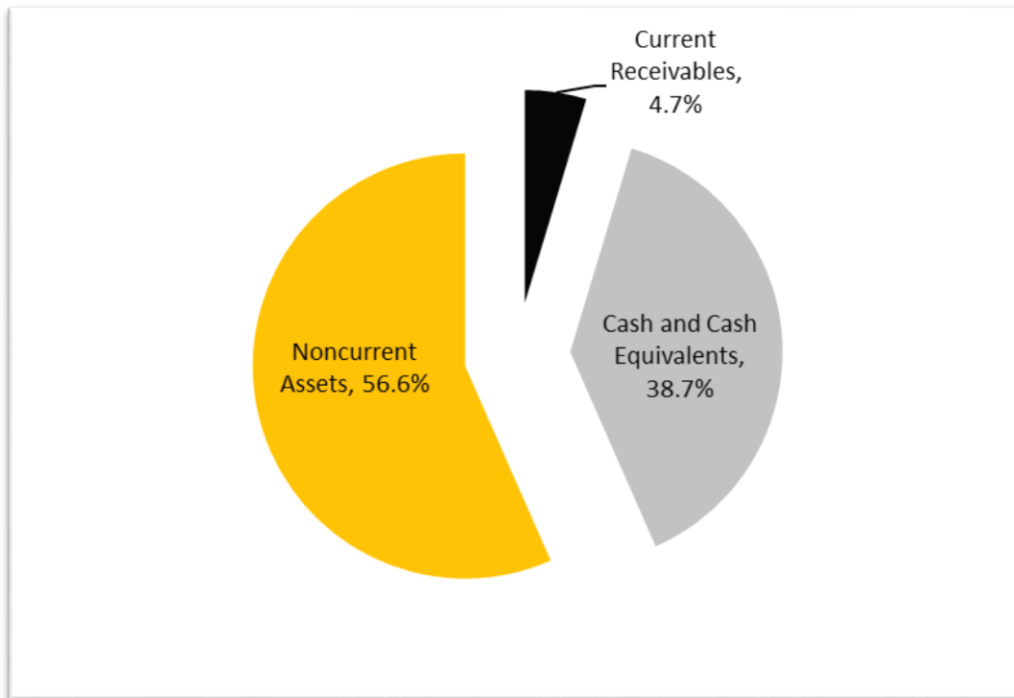
**Figure II-6
Percent Change in Capital Assets, FY 2008 – FY 2018**



Source: Postal Service FY 2008 to FY 2018 Forms 10-K.

The Postal Service continues to limit its capital expenditures to necessary safety, customer support, and high-return investments.⁴⁰ Figure II-7 shows the breakdown of the Postal Service assets as of September 30, 2018.

Figure II-7
Postal Service Asset Structure, September 30, 2018



Source: Postal Service FY 2018 Form 10-K at 54; PRC derived from September 2018 National Trial Balance.

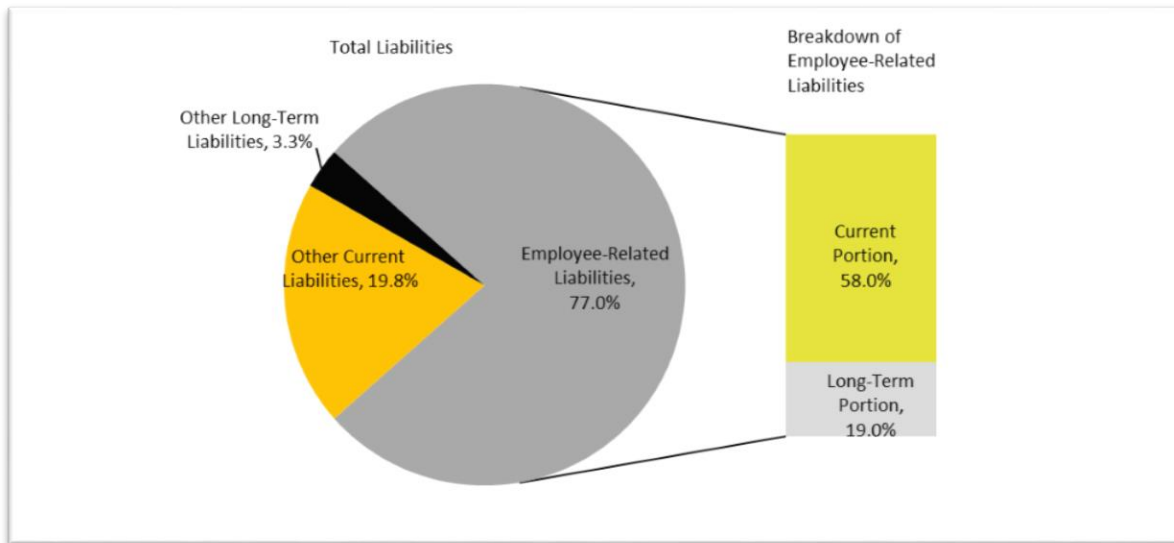
Liabilities

In FY 2018, total liabilities increased by \$3.2 billion, largely due to a higher balance in current liabilities. RHB accrual increased by \$4.5 billion.

The long-term portion of workers' compensation declined by \$1.4 billion in FY 2018. The long-term portion of workers' compensation liability is highly sensitive to discount and inflation rates in actuarial adjustment and to new and existing claims. Figure II-8 shows the current breakdown of the Postal Service's liabilities as of September 30, 2018.

⁴⁰ Postal Service FY 2018 Form 10-K at 43.

Figure II-8
Postal Service Liabilities Structure, September 30, 2018



Source: Postal Service FY 2018 Form 10-K at 54; PRC derived from September 2018 National Trial Balance.

In addition to the liabilities recorded on the Postal Service’s Balance Sheets, there are other liabilities 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 the Civil Service Retirement and Disability Fund (CSRDF) and the RHBF.⁴¹ The CSRDF provides pension benefits to retired and disabled Federal employees, including Postal Service employees covered by CSRS and FERS.⁴²

In addition, the 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. This information is reported on the Postal Service Form 10-K statements.

Analysis of Statements of Cash Flows

At the end of FY 2018, the Postal Service’s cash and cash equivalents total excluding \$0.3 billion in restricted cash was \$10.1 billion. Cash and cash equivalents total excluding restricted cash was \$0.5 billion lower than at the end of FY 2017. For the first time since FY 2012 the Postal Service has available borrowing authority (\$1.8 billion), resulting from fourth quarter payments to the Federal Financing Bank that reduced its debt below the PAEA mandated debt ceiling of \$15 billion. Table II-19 compares the Postal Service’s cash flows from FY 2010 to FY 2018.

⁴¹ See 5 U.S.C. § 8909a.

⁴² See 5 U.S.C. § 8348.

Table II-19
Postal Service Statements of Cash Flows, FY 2010 – FY 2018
(\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Net Income/(Loss)	\$(8,505)	\$(5,067)	\$(15,906)	\$(4,977)	\$(5,508)	\$(5,060)	\$(5,591)	\$(2,742)	\$(3,913)
Non-Cash Items and Other Cash Flows	5,213	5,561	15,474	5,912	8,822	7,939	8,327	6,565	6,680
Cash Flows from Investing Activities:									
Decrease (Increase) in Restricted Cash		(10)	(28)	(79)	66	13	(20)	(38)	16
Purchase of Property and Equipment	(1,393)	(1,190)	(705)	(667)	(781)	(1,222)	(1,428)	(1,344)	(1,409)
Proceeds from Sale of Property and Equipment	70	137	148	158	129	120	206	58	32
Net Cash Used in Investing Activities	(1,323)	(1,063)	(585)	(588)	(586)	(1,089)	(1,242)	(1,324)	(1,361)
Cash Flows from Financing Activities:									
Increase (Decrease) in Debt	1,800	1,000	2,000	-	-	-	-	-	(1,800)
Payments for Capital Leases	(50)	(51)	(51)	(59)	(58)	(62)	(51)	(63)	(58)
U.S. Government Appropriations - Expensed	(63)	(63)	(129)	(48)	(90)	-	-	-	-
Net Cash (used) Provided by Financing Activities	1,687	886	1,820	(107)	(148)	(62)	(51)	(63)	(1,858)
Net Increase/(Decrease) in Cash	(2,928)	317	803	240	2,580	1,728	1,443	2,436	(452)
Cash Balance Beginning of Year	4,089	1,161	1,283	2,086	2,326	4,906	6,634	8,077	10,513
Cash Balance End of Year	\$1,161	\$1,283	\$2,086	\$2,326	\$4,906	\$6,634	\$8,077	\$10,513	\$10,061
Debt Outstanding	\$12,000	\$13,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$13,200

Numbers may not add across due to rounding.

Source: Postal Service FY 2010 to FY 2018 Forms 10-K.

Table II-20 illustrates the current liquidity position of the Postal Service. The Postal Service's liquidity is limited to cash and cash equivalents excluding restricted cash and available borrowing authority. For the first time since FY 2012, the Postal Service paid down a portion of its debt, allowing for \$1.8 billion in available borrowing authority.

Table II-20
Total Postal Service Liquidity
End of FY 2018 Compared to FY 2017

	FY 2018	FY 2017
Cash and Cash Equivalents	\$10,061	\$10,513
Current Portion of Debt	11,000	10,100
Long-Term Debt	2,200	4,900
Total Debt	\$13,200	\$15,000
Statutory Debt Limit	15,000	15,000
Available Debt	1,800	0
Total Liquidity (Cash + Available Debt)	\$11,861	\$10,513

Source: *Id.* at 54.

Chapter III. Volume, Revenue, and Cost Trends

Overview

This chapter presents an in-depth analysis of volume, revenue, and cost trends in three sections.

The first section describes the calculation of attributable cost, institutional cost, changes in cost attribution methodology, and changes in institutional cost as a percentage of total cost, referred to as institutional cost share. It also examines the overall trends for Market Dominant and Competitive products and services.

The second and third sections analyze the Market Dominant (organized by class) and Competitive products, respectively. These sections provide comparisons of volume, revenue, and cost between FY 2017 and FY 2018;⁴³ trend analyses that highlight changes in volume, revenue, and cost that have occurred since FY 2007;⁴⁴ and analyses by cost segment.

Overall Volume, Revenue, and Cost Trends

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[.]” In Order No. 3506, the Commission revised the methodology for determining attributable cost to include inframarginal costs developed as part of the estimation of incremental costs.⁴⁵ Previously, attributable cost only included the sum of volume-variable costs,⁴⁶ which in the aggregate, increase as volume increases and decrease as volume decreases, and product-specific fixed costs, which are costs caused by a specific product or class but do not vary with volume (Volume-Variable plus Product-Specific).

In FY 2017, the Postal Service implemented the revised methodology of cost attribution discussed in Order No. 3506 in its CRA Report. The Commission also uses the revised

⁴³ FY 2017 volume, revenue, and cost data that is not depicted in tables in this section can be found in the corresponding section of the FY 2017 Financial Report.

⁴⁴ For most comparisons, FY 2007 is used as the base year because it reflects the mail reclassifications that resulted from the PAEA. Other comparisons use more recent fiscal years.

⁴⁵ Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.’s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016 (Order No. 3506).

⁴⁶ Total volume-variable cost is calculated by multiplying total cost by the volume variability ratio for each cost segment.

methodology of attributable cost to evaluate product and class costs in this chapter for both FY 2017 and FY 2018. Under the revised methodology, attributable costs are equal to incremental costs, which reflect the total marginal costs of the volume in a class or product.⁴⁷ While the change in methodology impacts comparisons of attributable cost over time, attributed inframarginal costs make up less than 4 percent of each product's attributable cost.

The Commission also analyzes changes in cost for certain cost segments.⁴⁸ Unlike product level costs, in FY 2017, the Commission analyzed component level costs using Volume-Variable plus Product-Specific cost. However, for its FY 2018 analyses, the Commission uses average unit attributable segment costs, which include applicable inframarginal costs.⁴⁹ Attributable cost is distributed to products using distribution keys that reflect the underlying cost driver.⁵⁰

Institutional cost cannot be attributed to a specific product or service and is equal to total cost minus total attributable cost. While sometimes referred to as "fixed cost," it is more accurately characterized as "common cost" because it includes costs that are variable but not causally related to an individual product or class. Institutional cost includes costs for carrier network travel time, amortization of RHB unfunded liability, amortization of CSRS unfunded liability apportioned to prior years, and various administrative costs. The institutional cost share is the ratio of total institutional cost to total 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.⁵¹

The Commission has previously discussed how the institutional cost share changes as volume increases and decreases. The Commission has also discussed how changes in operational factors such as volume mix and volume weighted by the average attributable cost of individual products will also change the institutional cost share. Non-volume operational factors such as changes in the number of delivery points also affect institutional costs. There are also non-operational factors such as Generally Accepted Accounting Principles changes in the law and Commission-approved costing methodologies which have an effect on the ratio of total institutional cost to total costs. *Id.* Annual changes in institutional cost are primarily driven by accruals for retirement-related expenses, workers' compensation, and delivery network costs. Therefore, institutional cost will increase or decrease depending on changes to retirement obligations (initiated by OPM), interest rate fluctuations that impact the workers' compensation liability, and increases in

⁴⁷ Incremental costs are sub-additive, meaning that the sum of the attributable costs of all products in a class is not equal to the attributable cost of the class as a whole. The Postal Service generally exhibits declining marginal costs. As a result, the incremental cost of a class includes additional inframarginal costs that are not included in the incremental cost of the individual products within the class. For this reason, product attributable costs do not add to total attributable cost in Tables III-21, III-24, and III-26.

⁴⁸ The analysis of a product's unit costs by cost segment is intended to provide insight into the cost of the activities performed in handling each mailpiece. For this reason, these costs are piggybacked to include the indirect costs of each activity.

⁴⁹ The impact of the change in methodology is noted in the relevant discussions.

⁵⁰ The Postal Service assigns these costs to each product according to methodologies approved by the Commission. Changes to those methodologies are reviewed by the Commission in informal rulemaking proceedings, and members of the general public are given the opportunity to comment in such proceedings.

⁵¹ 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*).

delivery points or changes due to restructuring routes. Table III-1 shows the causes of the changes in institutional cost each year since FY 2010. The largest drivers of the year-to-year changes have been workers' compensation and annuitant health benefits, and amortization on unfunded retirement funds rather than changes in operational costs. Over time, the institutional cost of city and rural carriers has generally increased in a manner consistent with the steady increase in the number of delivery points.⁵²

Table III-1
Main Sources of Change in Institutional Cost,⁵³ FY 2010 – FY 2018

	FY 2018 (\$ 000)	FY 2017 (\$ 000)	FY 2016 (\$ 000)	FY 2015 (\$ 000)	FY 2014 (\$ 000)	FY 2013 (\$ 000)	FY 2012 (\$ 000)	FY 2011 (\$ 000)	FY 2010 (\$ 000)
Workers' Compensation	1,001,539	(3,419,553)	965,985	(654,814)	1,290,341	(2,600,835)	(99,435)	(48,990)	1,189,647
Annuitant Health Benefits	13,942	(4,913,951)	388,908	27,737	332,737	(5,124,055)	11,471,877	(5,109,985)	4,460,307
CSRS Supplemental Liability	(269,554)	1,549,748	-	-	-	-	-	-	-
City and Rural Carriers	366,526	476,736	412,202	480,678	(109,145)	29,037	270,852	240,636	103,512
FERS Supplemental Liability	41,629	668,715	149,024	102,998	2,664	407	309	(276)	563
Transportation	98,572	579,903	103,181	(31,117)	(23,560)	15,148	21,239	46,419	7,033
Supplies and Services	3,306	73,733	116,728	19,641	43,336	113,029	(56,587)	114,221	(100,798)
Clerks and Mailhandlers	47,675	40,987	116,610	243,895	69,139	39,877	(34,660)	(110,561)	(206,751)
Other	(441,994)	(7,065)	424,112	(442,208)	(546,099)	84,464	(515,960)	458,194	(197,967)
Total Change	861,641	(4,950,746)	2,676,750	(253,189)	1,059,414	(7,442,928)	11,057,636	(4,410,343)	5,255,547

Source: The Postal Regulatory Commission derived from Postal Service Cost Segment and Component Reports, FY 2010 to FY 2018.

Market Dominant Products and Services

Table III-2 illustrates the changes in total volume, revenue, attributable cost, and contribution to institutional cost for Market Dominant products and services between FY 2017 and FY 2018.

Table III-2
Market Dominant Volume, Revenue, and Cost, FY 2018 and FY 2017

	FY 2018	FY 2017	Variance
Volume (Millions)	140,738	144,387	(2.5)%
Revenue (\$ Millions)	46,432	47,788	(2.8)%
Attributable Cost (\$ Millions)	28,437	28,794	(1.2)%
Contribution to Institutional Cost (\$ Millions)	17,995	18,994	(5.3)%

Negative values are denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Total Market Dominant revenue decreased by 2.8 percent in FY 2018, due to a decrease in Market Dominant volume, resulting in part from the transfer of single-piece retail parcels

⁵² See Docket No. ACR2018, *Annual Compliance Determination*, April 12, 2019, at 202-203 for a discussion of recent changes in the number of delivery points and volume per delivery point.

⁵³ For this analysis, the Commission uses the Postal Service's institutional cost figures, which reflect attribution of incremental costs before the product level, and the class level.

from the Market Dominant product list to the First-Class Package Service product on the Competitive product list.⁵⁴ On a unit basis, revenue remained unchanged from FY 2017 at \$0.33 per piece.

Total attributable cost for Market Dominant products decreased by 1.2 percent from FY 2017. The average unit attributable cost remained unchanged from FY 2017 at \$0.20 per piece.

Total Market Dominant contribution to institutional cost decreased by \$999 million or 5.3 percent in FY 2018, as Market Dominant volume decreased by 3.6 billion pieces or 2.5 percent.

Market Dominant products accounted for 96.1 percent of total mail volume, a drop of 0.5 percentage points from FY 2017. Revenue from these products as a percentage of total revenue from mail and services decreased from 68.7 percent to 65.8 percent. Market Dominant attributable cost as a percentage of total attributable cost decreased from 67.4 percent in FY 2017 to 64.7 percent in FY 2018.

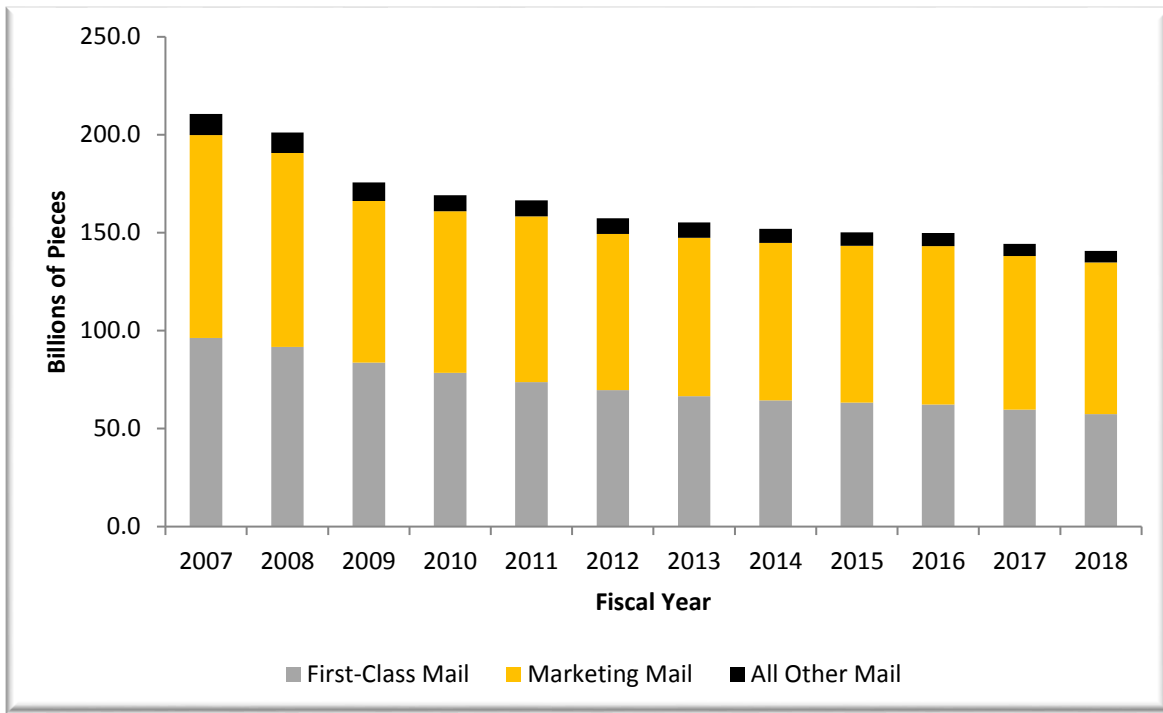
Several Market Dominant products failed to generate sufficient revenue to cover attributable cost, resulting in negative contribution for these products. The total negative contribution to institutional cost from these products amounted to \$1.6 billion, about \$139 million more than in FY 2017. Five domestic mail products failed to cover their attributable cost: USPS Marketing Mail Flats (\$751.5 million), USPS Marketing Mail Parcels (\$30.4 million), Periodicals Outside County (\$586.2 million), Periodicals In-County (\$26.7 million), and Package Services Media Mail/Library Mail (\$84.0 million). In addition, the Stamped Envelopes service, as well as Inbound Letter Post, had a negative contribution in FY 2018.

Market Dominant Volume Trends

Figure III-1 shows the total volume for Market Dominant products over the last 12 years. Since FY 2007, volume for Market Dominant products has declined by 69.9 billion pieces.

⁵⁴ Docket No. MC2015-7, Order Conditionally Approving Transfer, July 20, 2017 (Order No. 4009).

**Figure III-1
Market Dominant Volume, FY 2007 – FY 2018**



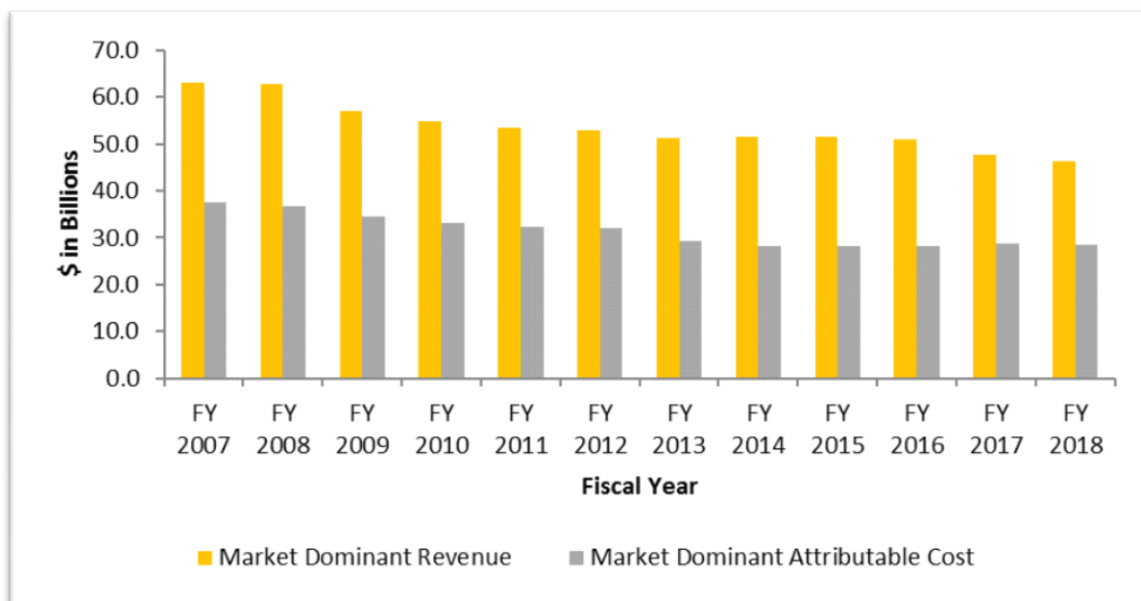
Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, PRC-LR-ACR2017/1; Docket No. ACR2016, PRC-LR-ACR2016/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; FY 2007-FY 2014 ACD; Library Reference PRC-LR-1.

In FY 2018, First-Class Mail and USPS Marketing Mail accounted for 95.8 percent of total Market Dominant volume. First-Class Mail volume has declined by 38.8 billion pieces since FY 2007, representing a 40 percent loss in volume. USPS Marketing Mail volume has also declined considerably, by 26.2 billion pieces (25.3 percent) since FY 2007.

Market Dominant Revenue and Cost Trends

Total Market Dominant revenue and attributable cost have also declined since FY 2007. Total revenue declined by 26.5 percent while total attributable cost declined by 24.2 percent. Figure III-2 compares revenue and attributable cost since FY 2007.

Figure III-2
Market Dominant Revenue and Attributable Cost, FY 2007 – FY 2018



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, 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.

Competitive Products and Services

Both volume and revenue for Competitive products increased in FY 2018. Table III-3 compares the total volume, revenue, and cost of these products and services between FY 2017 and FY 2018.

Table III-3
Competitive Volume, Revenue, and Cost, FY 2018 and FY 2017

	FY 2018	FY 2017	Variance
Volume (Millions)	5,663	5,103	11.0%
Revenue (\$ Millions)	23,059	20,690	11.5%
Attributable Cost (\$ Millions)	15,466	13,884	11.4%
Contribution to Institutional Cost (\$ Millions)	7,593	6,806	11.6%

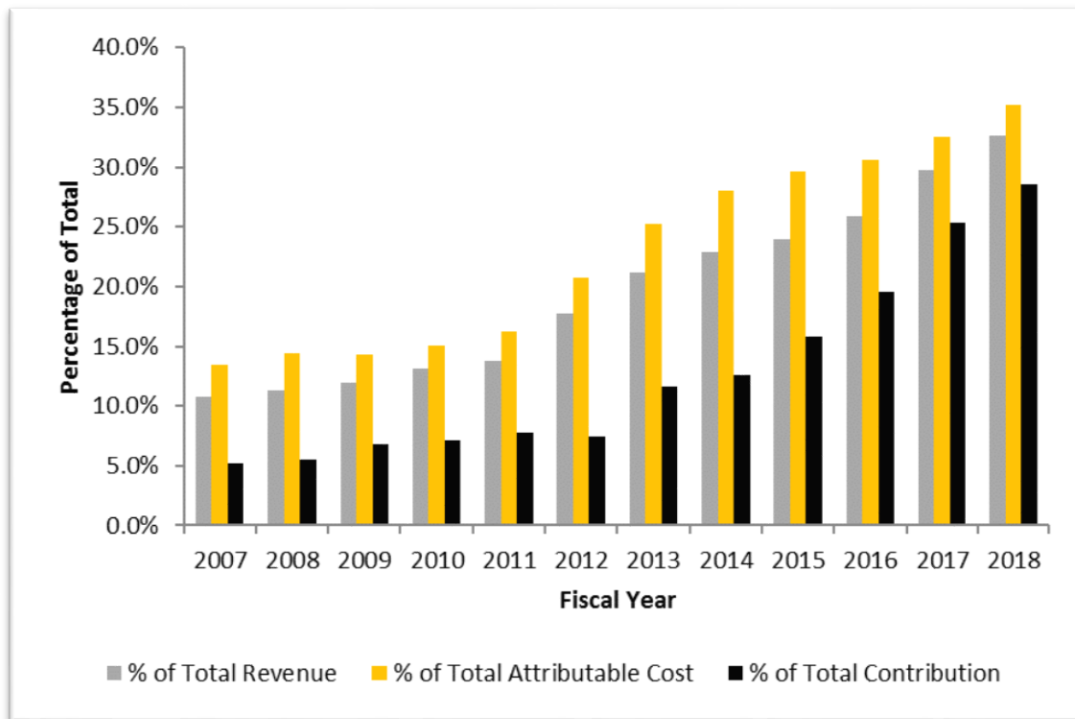
Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Library Reference USPS-FY18-42.

Volume grew 11.0 percent in FY 2018 compared with 13.4 percent in FY 2017. About a third of the increase in FY 2018 is due to the transfer of the First-Class Mail Parcels product from the Market Dominant product list to the Competitive product list. On September 3, 2017, the First-Class Mail Parcels product became a new “Retail” rate category within the existing First-Class Package Service product.

Revenue in FY 2018 increased by 11.5 percent or \$2.4 billion. However, unit revenue remained nearly unchanged, increasing by 0.4 percent. Similarly, attributable cost increased by 11.4 percent in FY 2018, while unit attributable cost increased by just 0.4 percent. Contribution to institutional cost increased both in the aggregate and on a unit basis. In FY 2018, contribution to institutional cost increased by 11.6 percent, and by 0.5 percent on a unit basis.

As shown in Figure III-3, the Competitive products’ share of total Postal Service revenue and attributable cost has increased nearly threefold since FY 2007. Competitive products’ share of contribution to institutional cost has also steadily increased from just 5.2 percent in FY 2007 to 28.5 percent in FY 2018.

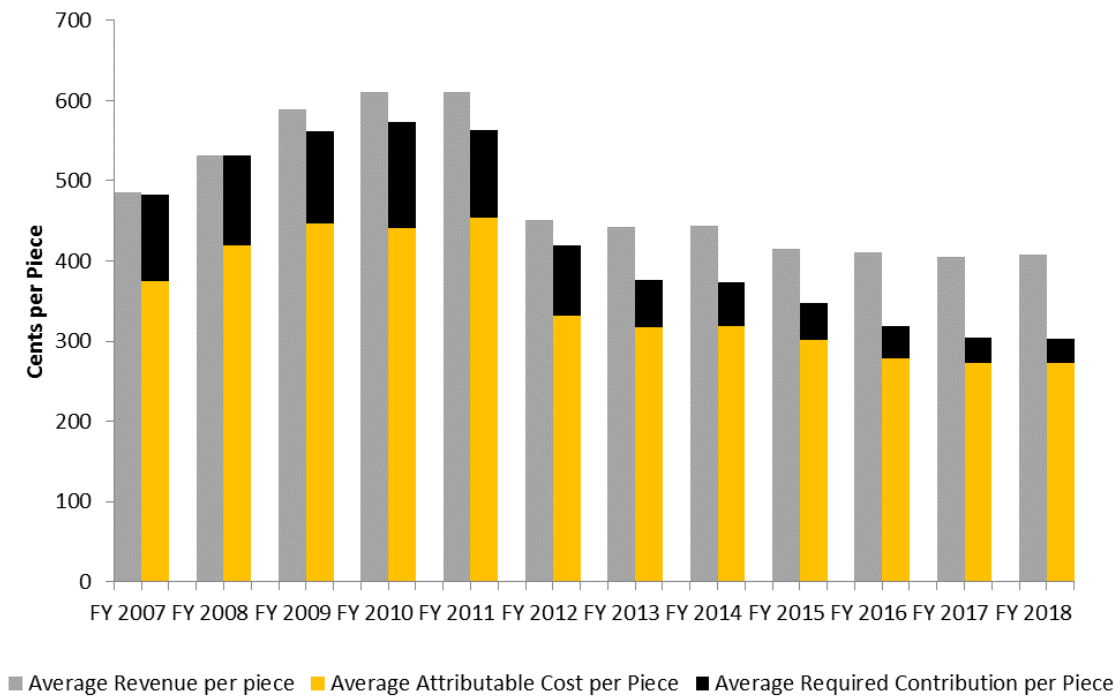
Figure III-3
Competitive Percentage Share of Total Postal Service Revenue, Cost,
and Contribution to Institutional Cost, FY 2007 – FY 2018



Source: Postal Service Cost and Revenue Analysis (CRA) Reports, FY 2007-FY 2018.

Figure III-4 illustrates the changes in average unit revenue and cost from FY 2007 to FY 2018. Competitive products are required to collectively cover 5.5 percent of the Postal Service’s institutional costs.⁵⁵ The minimum required contribution is shown in Figure III-4 as an average cents per piece. Since FY 2007, average unit revenue for Competitive products and services exceeded the combined average unit attributable cost and required contribution per piece.

Figure III-4
Competitive Average Unit Revenue and Cost, FY 2007 – FY 2018



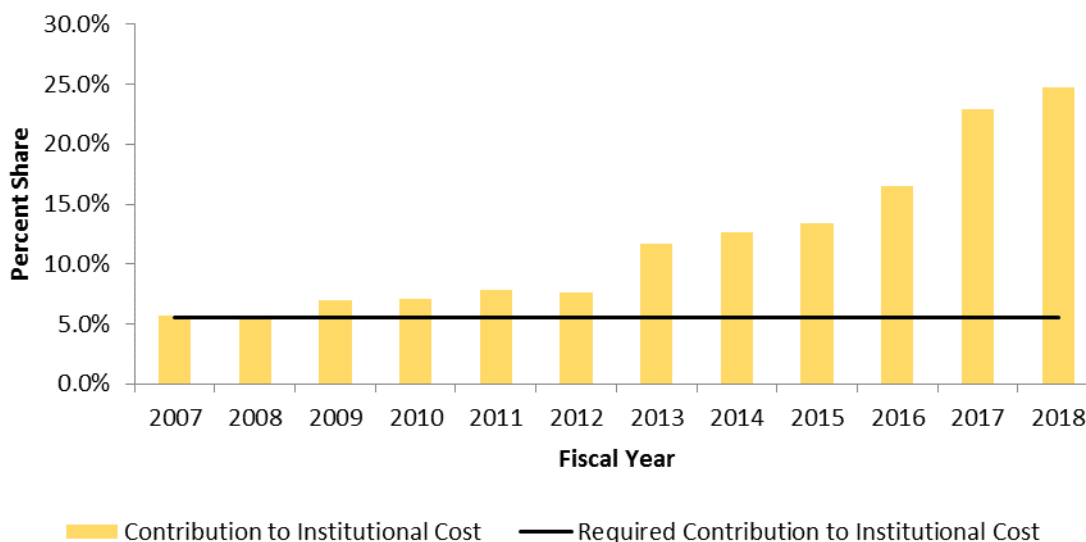
Source: Postal Service CRA Reports, FY 2007-FY 2018.

Total contribution to institutional cost from Competitive products continues to exceed the required contribution to institutional cost.⁵⁶ As shown in Figure III-5, the contribution of Competitive products has increased significantly in recent years, although the increase in FY 2018 is more modest than in FY 2017.

⁵⁵ 39 C.F.R. § 3015.7(c).

⁵⁶ Order No. 4963 amended Part 3015 of Title 39, Code of Federal Regulations, replacing the minimum 5.5 percent appropriate share with a formula-based approach. Had amendments been in place in FY 2018, the Postal Service’s Competitive products would have had to contribute 8.6 percent of institutional cost in FY 2018, less than the Postal Service contributed in FY 2018.

**Figure III-5
Competitive Contribution to Institutional Cost, FY 2007 – FY 2018**



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, 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.

Market Dominant Volume, Revenue, and Cost Trends by Class

First-Class Mail

Five products are assigned to First-Class Mail: Single-Piece Letters/Postcards; Presorted Letters/Postcards; Flats; Outbound Single-Piece First-Class Mail International; and Inbound Letter Post. For comparison purposes in this report, the products are grouped into letters, flats, and “all other.”⁵⁷

FIRST-CLASS MAIL LETTERS COMPARED WITH FY 2017

Table III-4 summarizes the FY 2018 change in total volume and revenue for First-Class Mail letters. First-Class Mail letters volume continued to decline in FY 2018, although at a slower rate than in FY 2017. For single-piece letters, the rate of decline was 5.6 percent compared to 5.7 percent in FY 2017. Presorted letters volume decreased 2.4 percent in FY 2018, compared to 2.8 percent in FY 2017.

⁵⁷ “All other” includes cards, Outbound Single-Piece First-Class Mail International, Inbound Letter Post, and Inbound International NSAs.

Revenue for First-Class Mail letters decreased by 2.5 percent in FY 2018, due primarily to loss of volume. Unit revenue remained at 42 cents per piece. As single-piece letters volume declined more than presorted letters volume, the decrease in total revenue for single-piece letters was more significant than the decrease in total revenue for presorted letters, 3.7 percent and 1.7 percent, respectively.

Table III-4
First-Class Mail Letters Volume and Revenue, FY 2018 and FY 2017

	Mail Volume				Mail Revenue			
	(\$ in Millions)		Increase or Decrease	Percent Change	(\$ in Millions)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Single-Piece	16,830	17,832	(1,002)	-5.6%	8,480	8,804	(324)	-3.7%
Presorted	35,796	36,670	(874)	-2.4%	13,812	14,054	(242)	-1.7%
Total Letters	52,626	54,502	(1,876)	-3.4%	22,292	22,857	(566)	-2.5%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Table III-5 summarizes the FY 2018 change in total attributable cost for First-Class Mail letters. Total attributable cost for First-Class Mail letters decreased by \$50 million from FY 2017. However, the decrease in attributable cost did not keep pace with the loss of volume. Consequently, average unit attributable cost increased 3.0 percent. On a unit basis, attributable cost for both single-piece letters and presorted letters increased in FY 2018, 3.9 percent and 3.6 percent, respectively. The loss of volume for single-piece letters caused single-piece letters total attributable cost to decrease despite an increase in unit cost. In contrast, total attributable cost for presorted letters increased because the decrease in volume for presort letters was not enough to offset the increase in unit cost. These changes are discussed in further detail in the following section.

Table III-5
First-Class Mail Letters Attributable Cost and Average Unit Attributable Cost, FY 2018 and FY 2017

	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	Percent Change	(Cents per Piece)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Single-Piece	5,217	5,318	(101)	-1.9%	31.0	29.8	1.2	3.9%
Presorted	4,456	4,405	51	1.2%	12.4	12.0	0.4	3.6%
Total Letters	9,673	9,723	(50)	-0.5%	18.4	17.8	0.5	3.0%

Negative values denoted by ().

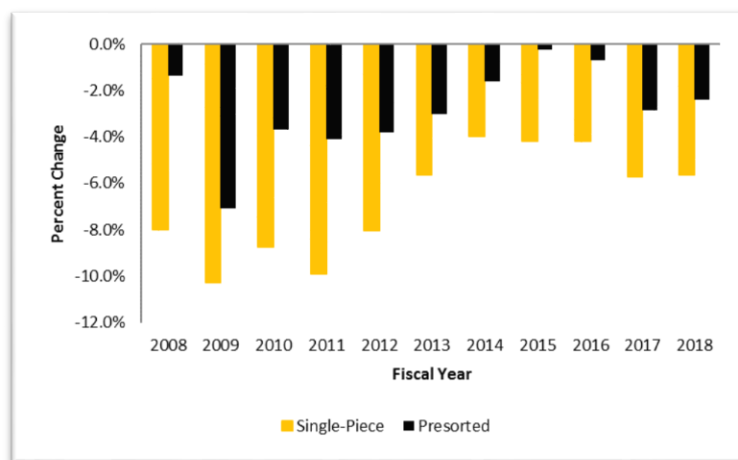
Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

TRENDS IN FIRST-CLASS MAIL LETTERS

Customer “migration toward electronic communication and transaction alternatives” continues to erode First-Class Mail letters volume.⁵⁸ Figure III-6 illustrates the rate of decline for First-Class Mail letters volume. In FY 2018, the rate of decline for single-piece letters decreased slightly compared with FY 2017, but it still exceeds the rates of decline in the 3 years preceding FY 2017, when the rate of decline remained consistently close to 4 percent.

The volume of First-Class Mail presorted letters has decreased every year since FY 2007. The rate of decline for First-Class Mail presorted letters volume decreased to 2.4 percent in FY 2018 from 2.8 percent in FY 2017; however, it is still relatively high compared with FY 2014, FY 2015, and FY 2016.

Figure III-6
First-Class Mail Letters Percentage Change in Volume, FY 2008 – FY 2018



Source: Postal Service Revenue, Pieces and Weight (RPW) Reports, FY 2008-FY 2018.

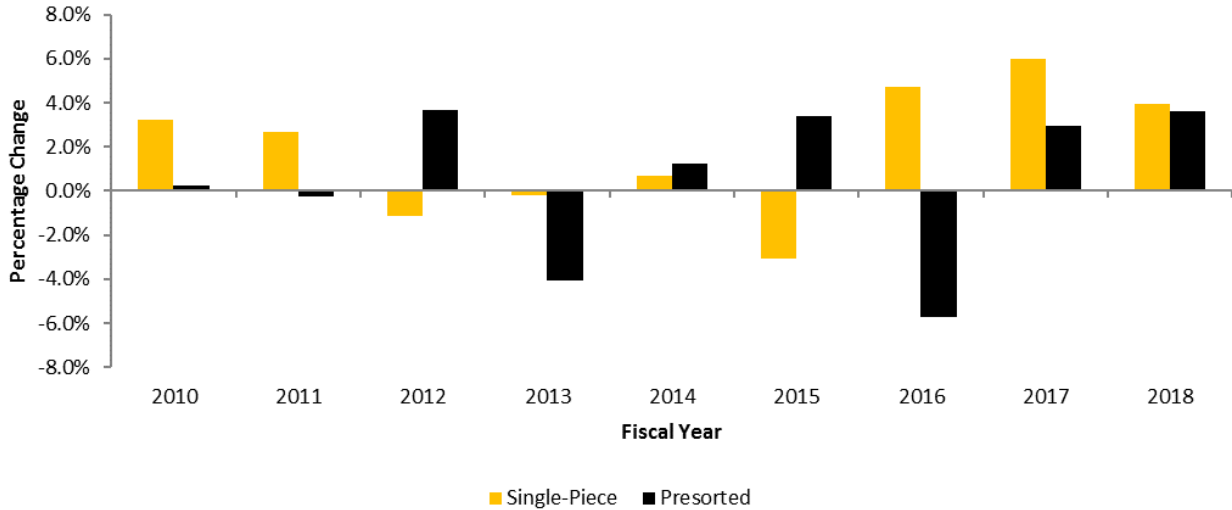
Figure III-7 shows the change in the average unit attributable cost for First-Class Mail letters. First-Class Mail single-piece letters average unit attributable cost has increased each year for the last 3 years, increasing 4.7 percent in FY 2016, 6.0 percent in FY 2017, and 3.9 percent in FY 2018.

There is no perceivable trend for changes in the average unit attributable cost for First-Class Mail presorted letters. Unit attributable cost for First-Class Mail presorted letters increased in both FY 2017 and FY 2018, after a large decrease in FY 2016.⁵⁹ The FY 2018 increase is the largest since FY 2012.

⁵⁸ Postal Service FY 2018 Form 10-K at 22.

⁵⁹ The increases and decreases for FY 2016 are atypical because in FY 2016, the Postal Service corrected an In-Office Cost System (IOCS) coding error that shifted costs from First-Class Mail presorted letters to First-Class Mail single-piece letters.

**Figure III-7
First-Class Mail Letters Percentage Change in Average Unit Attributable Cost,
FY 2010 – FY 2018**



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, 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-6 compares the average unit attributable cost for presorted letters, by cost segment, for FY 2013 through FY 2018. This unit attributable cost includes all of the indirect cost that is piggybacked to the direct cost.⁶⁰ Mail processing unit cost increased significantly in FY 2018, representing the largest annual increase in mail processing cost over that period. City carrier in-office unit costs for presorted letters increased by 8.3 percent in FY 2018, after 2 consecutive years of decreases. Both of these segments represent mail processing activities, as carrier in-office cost is largely comprised of time spent sorting mail for delivery. The average unit attributable cost for city carrier street increased 5.6 percent from FY 2017. However, the increase is due entirely to the change in cost attribution methodology. As the table also shows, rural carrier unit cost increased by 2.2 percent in FY 2018, a much smaller increase than in FY 2017.

⁶⁰ In addition to the direct costs, there are other “indirect” costs associated with the direct cost 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 Service-wide Labor Costs (such as, workers’ compensation, etc.). These “indirect” costs are referred to as “piggybacked” costs and are developed in Library Reference USPS-FY18-24. The unit attributable cost by cost segment presented in this report are “piggybacked” costs, unless stated otherwise.

Table III-6
First-Class Mail Presorted Letters Average Unit Attributable Cost by Segment,
FY 2013 – FY 2018

Cost Segment	Unit Attributable Cost						Change in Unit Attributable Cost				
	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014
Mail Processing	5.51	5.26	5.18	5.87	5.55	5.49	4.8%	1.5%	-11.8%	1.2%	-5.0%
City Carrier In-Office	1.57	1.45	1.47	1.54	1.52	1.40	8.3%	-1.4%	-4.5%	8.7%	-5.6%
City Carrier Street	2.45	2.32	2.32	2.21	2.38	2.41	5.6%	0.0%	5.2%	-1.6%	2.1%
Rural carriers	0.91	0.89	0.83	0.82	0.81	0.78	2.2%	7.2%	0.7%	4.1%	-14.2%
Transportation	1.42	1.36	1.34	1.27	1.17	1.22	4.4%	1.2%	6.1%	-4.3%	-0.4%
All Other	0.59	0.57	0.53	0.58	0.58	0.59	3.5%	7.5%	-8.6%	-7.2%	-14.4%

Source: The Postal Regulatory Commission derived from Postal Service Cost Segment and Component Reports, FY 2013 to FY 2018.

FIRST-CLASS MAIL FLATS COMPARED WITH FY 2017

Table III-7 shows the total volume and revenue for First-Class Mail Flats. First-Class Mail single-piece flats volume declined 4.4 percent in FY 2018 compared to a 10.0 percent decline in FY 2017. First-Class Mail presorted flats volume declined 4.8 percent in FY 2018, minimally exceeding the decrease in FY 2017 (4.2 percent).

Total revenue for First-Class Mail Flats also declined compared with FY 2017. The decrease in FY 2018 is more modest than the decrease in FY 2017, 3.9 percent versus 9.7 percent.

Table III-7
First-Class Mail Flats Volume and Revenue, FY 2018 and FY 2017

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	Percent Change	(\$ in Millions)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Single-Piece	827	865	(38)	-4.4%	1,365	1,405	(41)	-2.9%
Presorted	555	583	(28)	-4.8%	549	586	(37)	-6.3%
Total Flats	1,382	1,448	(66)	-4.6%	1,914	1,992	(77)	-3.9%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Table III-8 summarizes the FY 2018 change in attributable cost. Total attributable cost for First-Class Mail Flats increased by 1.4 percent. However, on a unit basis, costs increased more significantly, by 6.3 percent. The average unit attributable cost for single-piece flats and presorted flats increased by 4.3 percent and 10.9 percent, respectively.

**Table III-8
First-Class Mail Flats Attributable Cost and Average Unit Attributable Cost,
FY 2018 and FY 2017**

	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	Percent Change	(Cents per Piece)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Single-Piece	1,081	1,084	(3)	-0.3%	130.7	125.4	5.4	4.3%
Presorted	473	449	25	5.5%	85.3	76.9	8.3	10.9%
Total Flats	1,554	1,533	21	1.4%	112.5	105.8	6.6	6.3%

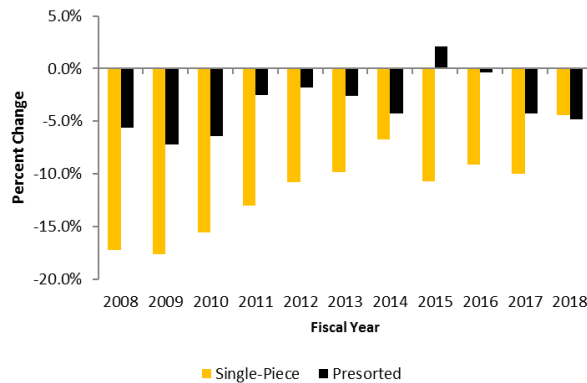
Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

TRENDS IN FIRST-CLASS MAIL FLATS

First-Class Mail Flats volume has been declining for years. Figure III-8 compares the percentage change in First-Class Mail Flats volume from FY 2008 to FY 2018. Since FY 2007, First-Class Mail Flats volume decreased by 65.2 percent. Single-piece flats volume continues its downward trend. Although both presorted flats and single-piece flats lost volume since FY 2007, most of the First-Class Mail Flats volume loss occurred in First-Class Mail single-piece flats. Since FY 2007, single-piece flats have decreased 73.8 percent, compared to a 32.2 percent volume decrease for presorted flats.

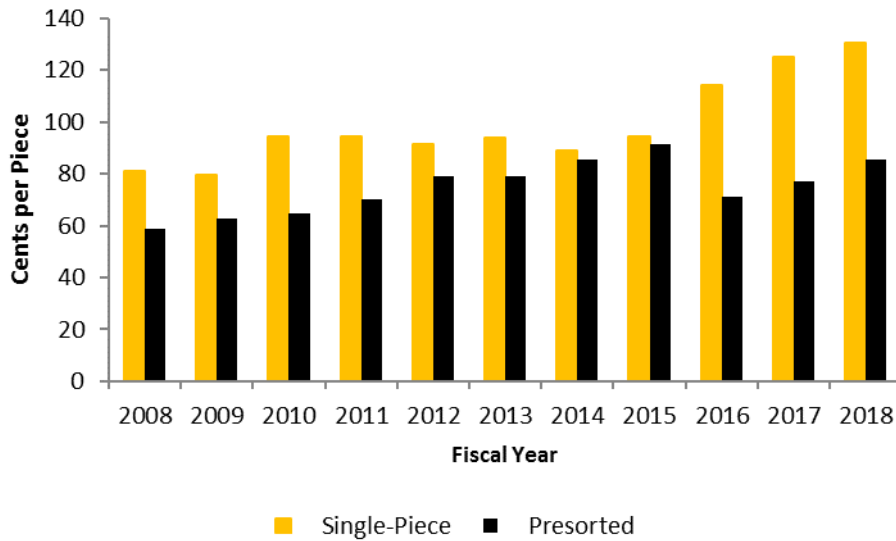
**Figure III-8
Percentage Change in First-Class Mail Flats Volume, FY 2008 – FY 2018**



Source: Postal Service RPW Reports, FY 2008 – FY 2018.

Figure III-9 compares the average unit attributable cost for First-Class Mail single-piece and presorted flats since FY 2008. The average unit attributable cost for First-Class Mail single-piece flats has increased every year since FY 2014. However, the FY 2018 increase is the smallest over that period. Conversely, for First-Class Mail presorted flats, the increase in average unit attributable cost was greater in FY 2018 than any year since FY 2012.

**Figure III-9
First-Class Mail Flats Average Unit Attributable Cost, FY 2008 – FY 2018**



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2008- FY 2013 ACD; Library Reference PRC-LR-1.

Table III-9 compares the average unit attributable cost by cost segment of First-Class Mail single-piece and presorted flats for FY 2017 and FY 2018.

For all cost segments except city carrier in-office and rural carrier, in FY 2018, average unit attributable cost for First-Class Mail single-piece flats exceeded the average unit attributable cost for First-Class Mail presorted flats. With few exceptions, compared to FY 2017, the average unit attributable cost for both First-Class Mail single-piece flats and First-Class Mail presorted flats increased in all cost segments. One exception is transportation, which decreased for both the single-piece and presorted categories. For First-Class Mail single-piece flats, the average unit attributable cost for rural carrier cost also decreased in FY 2018.

Table III-9
First-Class Mail Flats Average Unit Attributable Cost by Segment,
FY 2017 and FY 2018

Cost Segment	FY 2017			FY 2018		
	Single-Piece	Presort	Diff.	Single-Piece	Presort	Diff.
Mail Processing	71.3	42.0	29.3	75.4	47.5	27.9
City Carrier In-Office	12.7	12.1	0.6	13.9	14.6	(0.7)
City Carrier Street	7.9	4.2	3.7	8.1	4.4	3.7
Rural Carriers	4.2	3.0	1.2	3.1	3.3	(0.2)
Transportation	19.4	12.3	7.1	19.0	12.1	6.9
All Other	9.9	2.7	7.2	11.3	2.7	8.6
Total	125.4	76.4	49.0	130.7	84.8	45.9

Source: The Postal Regulatory Commission derived from Postal Service Cost Segment and Component Reports, FY 2017 and FY 2018.

OTHER FIRST-CLASS MAIL COMPARED WITH FY 2017

Table III-10 shows the volume and revenue for “all other” First-Class Mail. The volume of Cards, Outbound Single-Piece First-Class Mail International and Inbound International NSAs each decreased in FY 2018. Only Inbound Letter Post volume increased, likely due to volume shifting to this product from Inbound International NSAs when bilateral agreements with foreign postal administrations expired and were not replaced.

Revenue increased for both of the inbound international products. Inbound Letter Post revenue increased considerably compared with FY 2017. In comparison, inbound NSA revenue increased just minimally. The loss in Outbound Single-Piece First-Class Mail International revenue is similar in magnitude to the decreases in FY 2017. Revenue for cards revenue decreased just slightly in FY 2018, compared to a 9 percent decrease in FY 2017.

Table III-10
All Other First-Class Mail Volume and Revenue, FY 2018 and FY 2017

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	Percent Change	(\$ in Millions)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Total Cards	2,706	2,796	(91)	-3.2%	770	787	(18)	-2.2%
Outbound Single-Piece First-Class Mail International	132	152	(20)	-13.2%	198	231	(33)	-14.3%
Inbound Letter Post	444	401	44	10.9%	422	293	129	44.1%
Inbound International NSAs	178	243	(65)	-26.7%	420	414	5	1.3%
Total Other First-Class Mail	3,460	3,592	(132)	-3.7%	1,810	1,726	84	4.9%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Table III-11 presents the changes in total attributable cost and average unit attributable cost for “all other” First-Class Mail between FY 2017 and FY 2018. On a unit basis, the attributable cost of First-Class Mail cards and Inbound Letter Post decreased slightly from FY 2017. The unit attributable cost for the other two categories increased considerably. For the inbound international products the change in unit attributable cost reflects the movement of lower-cost NSA volume to the Inbound Letter Post category.

Table III-11
Other First-Class Mail Attributable Cost and Average Unit Attributable Cost,
FY 2018 and FY 2017

	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	Percent Change	(Cents per Piece)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Total Cards	354	374	(20)	-5.2%	13.1	13.4	(0.3)	-2.0%
International	139	139	0	0.1%	105.7	91.6	14.1	15.3%
Inbound Letter Post	504	463	41	8.9%	113.4	115.6	(2.1)	-1.8%
Inbound International NSAs	258	278	(20)	-7.3%	144.8	114.5	30.3	26.5%
Total Other First-Class Mail	1,256	1,254	1	0.1%	36.3	34.9	1.4	3.9%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

USPS Marketing Mail

USPS Marketing 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 Direct Mail—Retail (EDDM-R). For comparison purposes, the products have been grouped into letters and flats.

USPS MARKETING MAIL LETTERS COMPARED WITH FY 2017

Table III-12 summarizes the FY 2018 change in volume and revenue of letter-shaped USPS Marketing Mail. High Density and Saturation Letters revenue increased considerably in FY 2018 due to a combination of higher prices and increased volume. For USPS Marketing Mail Letters, revenue increased slightly in FY 2018, despite a decrease in volume compared with FY 2017.

Table III-12
USPS Marketing Mail Letters Volume and Revenue, FY 2018 and FY 2017

	Mail Volume				Mail Revenue			
	(\$ in Millions)		Increase or Decrease	Percent Change	(\$ in Millions)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Letters	46,517	46,973	(456)	-1.0%	9,678	9,600	78	0.8%
High Density and Saturation Letters	7,265	7,094	171	2.4%	1,157	1,093	64	5.8%
Total Letters	53,782	54,067	(285)	-0.5%	10,835	10,693	142	1.3%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Table III-13 summarizes the FY 2018 change in attributable cost for USPS Marketing Mail letters. Attributable cost for both the Letters and the High Density and Saturation Letters products increased in the aggregate and on a unit basis. Total attributable cost for letter-shaped USPS Marketing Mail increased 1.8 percent in FY 2018. The attributable cost of High Density and Saturation Letters increased considerably (8.8 percent); however, it is a relatively low volume product compared with USPS Marketing Mail Letters.

Table III-13
USPS Marketing Mail Letters Attributable Cost and Average Unit Attributable Cost
FY 2018 and FY 2017

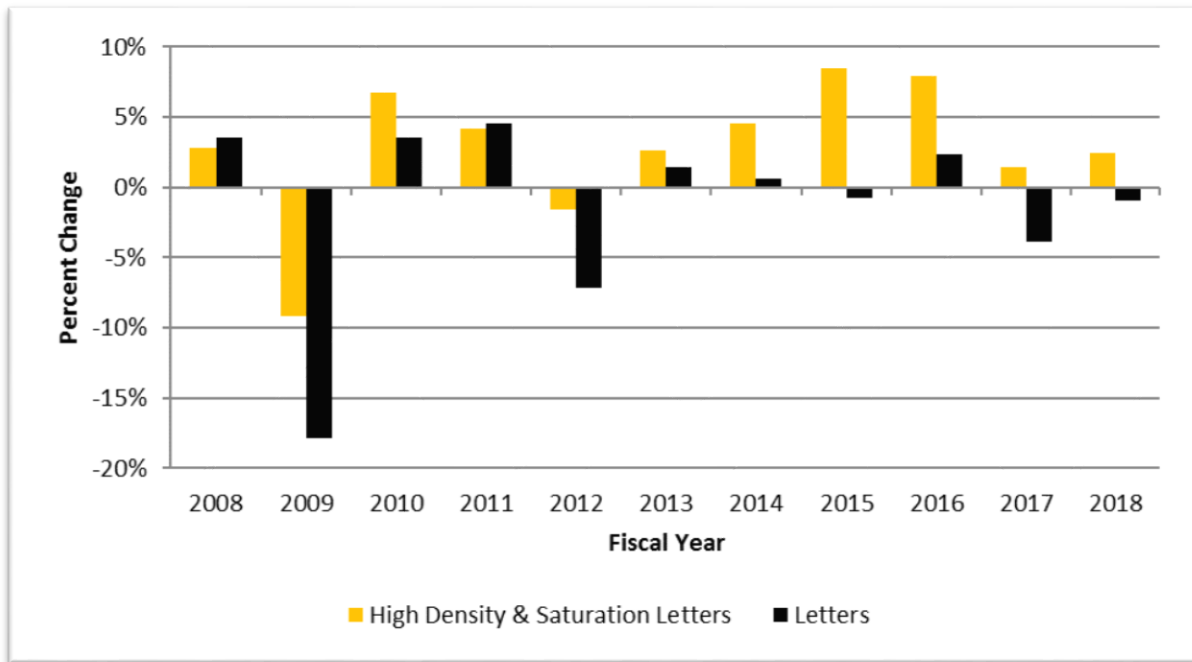
	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	Percent Change	(Cents per Piece)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Letters	4,963	4,912	51	1.0%	10.7	10.5	0.2	2.0%
High Density and Saturation Letters	560	515	45	8.8%	7.7	7.3	0.4	6.2%
Total Letters	5,523	5,427	96	1.8%	10.3	10.0	0.2	2.3%

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

TRENDS IN USPS MARKETING MAIL LETTERS

As shown in Figure III-10, changes in USPS Marketing Mail letters volume have been more moderate in recent years. High Density and Saturation Letters volume increased every year since FY 2012. But, increases in the past 2 years were relatively small. USPS Marketing Mail Letters volume decreased slightly in FY 2018, marking the second annual decrease in a row.

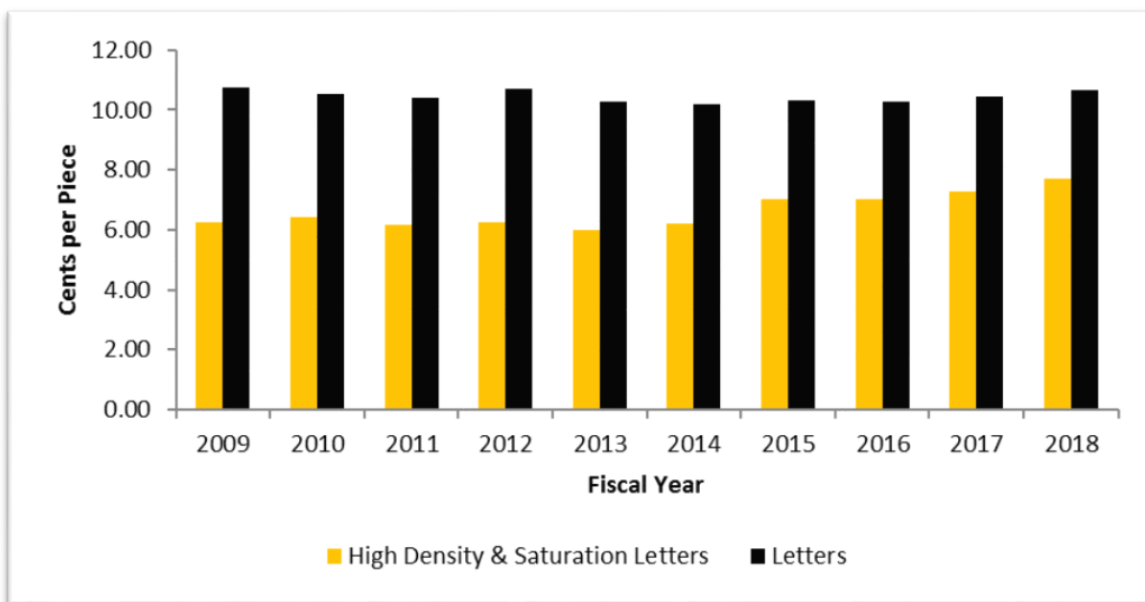
Figure III-10
Percent Change in USPS Marketing Mail Letters Volume, FY 2008 – FY 2018



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, 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.

Figure III-11 shows the average unit attributable cost for USPS Marketing Mail letters since FY 2009. The average unit attributable cost for USPS Marketing Mail Letters has remained relatively stable since FY 2009; annual unit attributable cost changes were less than 0.5 cent every year. The average unit attributable cost for High Density and Saturation Letters increased for the last 5 years.

Figure III-11
USPS Marketing Mail Letters Average Unit Attributable Cost, FY 2009 – FY 2018



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, 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.

USPS MARKETING MAIL FLATS COMPARED WITH FY 2017

Table III-14 summarizes the FY 2017 changes in volume and revenue for flat-shaped USPS Marketing Mail.⁶¹ Volume for most flat-shaped USPS Marketing Mail declined in FY 2018. USPS Marketing Mail Flats experienced the largest decline (17.7 percent), with 876 million fewer pieces in FY 2018 than in FY 2017. Carrier Route and EDDM-R volume decreased more modestly, 3.1 percent and 6.0 percent, respectively. Only the volume of High Density and Saturation Flats/Parcels increased in FY 2018.

Revenue for flat-shaped USPS Marketing Mail declined 4.3 percent in FY 2018. The decrease in Flats volume resulted in a 13.3 percent decrease in Flats revenue. Carrier Route and EDDM-R revenue also declined, reflecting the loss of FY 2018 volume. High Density and Saturation Flats/Parcels revenue increased 2.5 percent in FY 2018.

⁶¹ Some products include parcels, however those products contain predominantly flat-shaped mailpieces.

Table III-14
USPS Marketing Mail Flat Volume and Revenue, FY 2018 and FY 2017

	Mail Volume				Mail Revenue			
	(\$ in Millions)		Increase or Decrease	Percent Change	(\$ in Millions)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
High Density and Saturation Flats/Parcels	11,621	11,252	369	3.3%	2,039	1,989	49	2.5%
Carrier Route	7,074	7,297	(223)	-3.1%	1,860	1,903	(43)	-2.3%
Flats	4,079	4,955	(876)	-17.7%	1,651	1,906	(254)	-13.3%
Every Door Direct Mail--Retail	713	758	(46)	-6.0%	127	134	(7)	-5.5%
Total	23,486	24,262	(776)	-3.2%	5,677	5,932	(255)	-4.3%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Table III-15 summarizes the FY 2018 change in USPS Marketing Mail flats attributable cost. Total attributable cost for flat-shaped USPS Marketing Mail increased 2.7 percent in FY 2018. Average unit attributable cost for all flat-shaped USPS Marketing Mail products increased in FY 2018. Due to large decreases in volume, the total attributable cost for Flats and EDDM-R decreased in FY 2018 despite higher attributable cost on a unit basis.

Table III-15
USPS Marketing Mail Flats Attributable Cost and Average Unit Attributable Cost, FY 2018 and FY 2017

	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	Percent Change	(Cents per Piece)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
High Density and Saturation Flats/Parcels	1,404	1,263	142	11.2%	12.1	11.2	0.9	7.7%
Carrier Route	1,712	1,531	181	11.9%	24.2	21.0	3.2	15.4%
Flats	2,403	2,574	(172)	-6.7%	58.9	52.0	6.9	13.4%
Every Door Direct Mail - Retail	47	50	(3)	-5.1%	6.7	6.6	0.1	0.9%
Total	5,567	5,418	149	2.7%	23.7	22.3	1.4	6.1%

Negative values denoted by ().

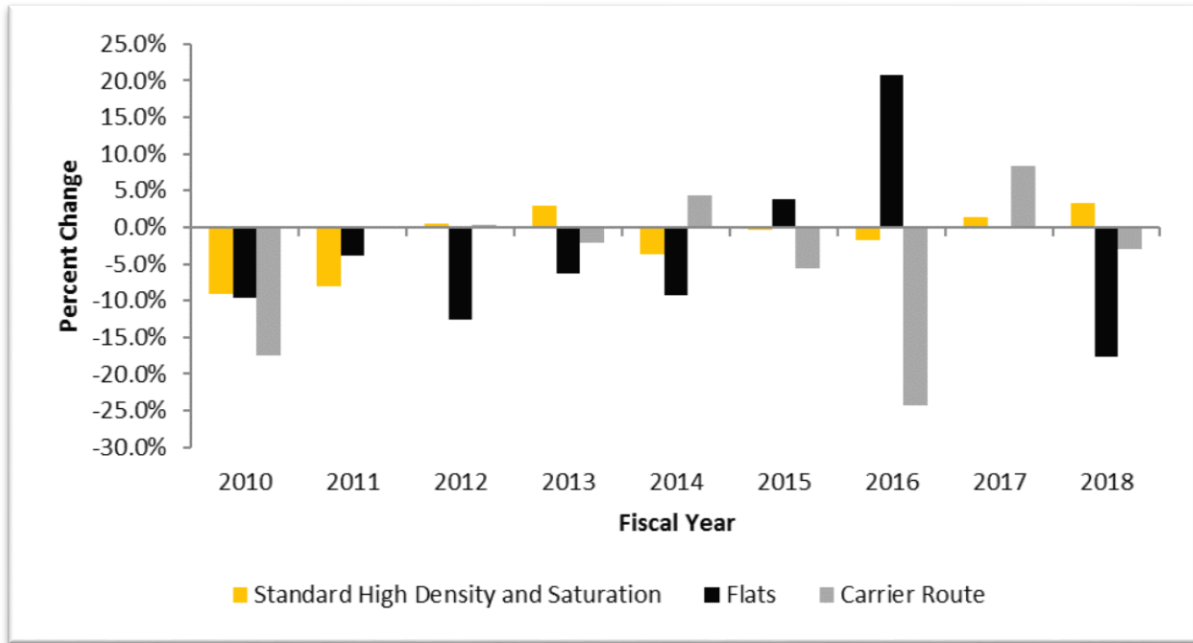
Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

TRENDS IN USPS MARKETING MAIL FLATS

Total volume for flat-shaped USPS Marketing Mail has declined 30 percent since FY 2009, with FY 2018 contributing to the loss. As shown in Figure III-12, since FY 2012, volume changes for High Density and Saturation Flats/Parcels remained relatively small. Even so, FY 2018 marks the greatest increase in volume for that product since the enactment of PAEA. Although both Flats and Carrier Route volumes continued their downward trends in FY 2018, Flats volume decreased substantially more than in previous years.⁶²

⁶² Large volume changes in FY 2016 and FY 2017 were due in large part to changes to the pricing structure of the Flats and Carrier Route products. See FY 2017 Financial Analysis Report at 53-54.

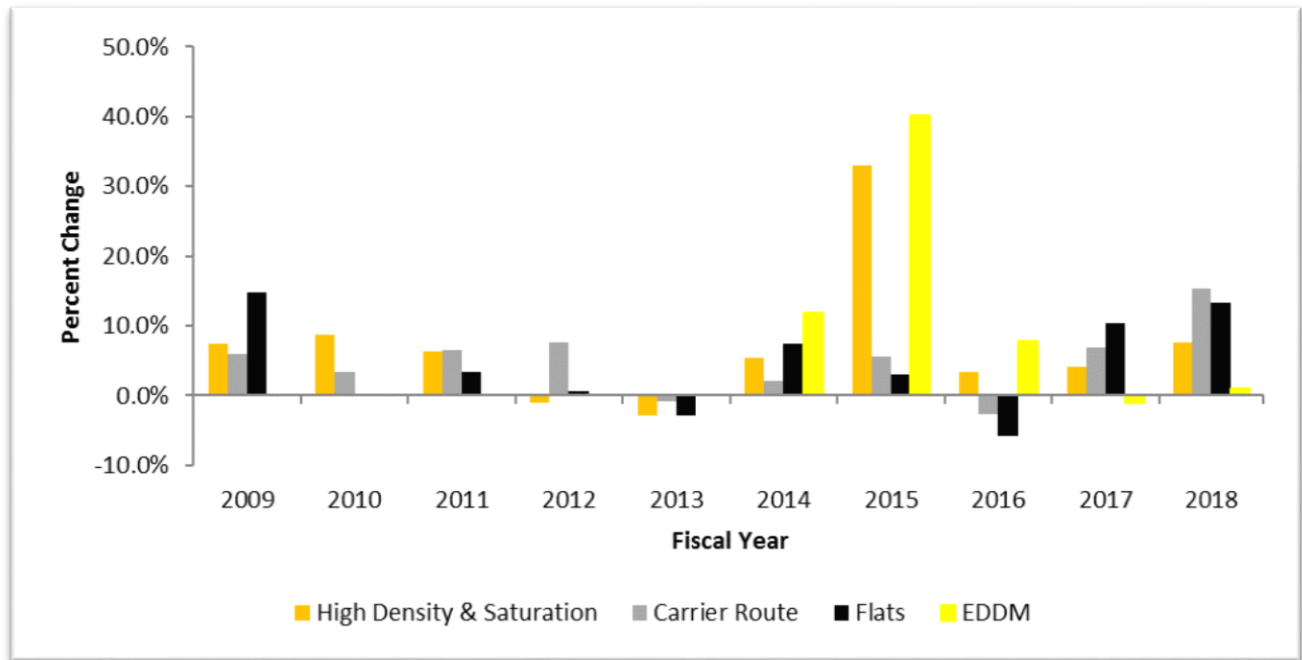
Figure III-12
USPS Marketing Mail Flats Percent Change in Volume, FY 2010 – FY 2018



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, 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.

The average unit attributable cost of each flat-shaped USPS Marketing Mail product has increased significantly over the last decade. The annual changes in average unit attributable cost are illustrated in Figure III-13. Although unit costs increased for all flat-shaped USPS Marketing Mail products nearly every year, increases in unit costs accelerated in the last 2 years.

Figure III-13
USPS Marketing Mail Flats Percent Change in Average Unit Attributable Cost, FY 2009 – FY 2018



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2008- FY 2013 ACD; Library Reference PRC-LR-1.

Table III-16 compares the change in the average unit attributable cost between FY 2017 and FY 2018. With the exception of USPS Marketing Mail Flats, city carrier street unit cost increased for all USPS Marketing Mail flats products. The extension of the incremental costing methodology to component level costs contributed to the increases in city carrier street and in-office unit costs.

Table III-16
Change in USPS Marketing Mail Flats Average Unit Attributable Cost by Cost Segment,
FY 2018 and FY 2017

	High Density and Saturation	Carrier Route	Flats	EDDM
Mail Processing				
FY 2018	1.5165	7.4566	31.0590	0.1096
FY 2017	1.2797	6.2086	27.8954	0.0718
% Change	18.5%	20.1%	11.3%	52.7%
City Carrier In-Office				
FY 2018	1.3993	6.4537	13.3815	1.3360
FY 2017	1.2983	5.6614	10.8220	1.2623
% Change	7.8%	14.0%	23.7%	5.8%
City Carrier Street				
FY 2018	5.1971	4.9641	4.7222	4.3192
FY 2017	4.7631	4.0644	5.5164	4.2718
% Change	9.1%	22.1%	-14.4%	1.1%
Rural Carriers				
FY 2018	3.3270	3.7054	3.5460	0.5251
FY 2017	3.1156	3.5998	2.9040	0.5043
% Change	6.8%	2.9%	22.1%	4.1%

Source: The Postal Regulatory Commission derived from Library Reference USPS-FY18-24; Docket No. ACR2017, Library Reference USPS-FY17-24.

Periodicals

The Periodicals class is comprised of two products: In-County and Outside County. In-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 2017

Table III-17 summarizes the FY 2018 changes in volume and revenue for Periodicals. In FY 2018, Periodicals volume declined by 307 million pieces, or 5.8 percent, with most of the decrease occurring in Outside County publications. In FY 2018, Outside County volume decreased 6.3 percent compared to a 1.2 percent decrease in In-County volume. Total revenue for Periodicals declined 7.1 percent in FY 2018. Most of the decline in total

revenue is due to the loss of volume, however, unit revenue also declined slightly for both Outside County and In-County Periodicals.

Table III-17
Periodicals Volume and Revenue, FY 2018 and FY 2017

	Mail Volume				Mail Revenue			
	(\$ in Millions)		Increase or Decrease	Percent Change	(\$ in Millions)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
In-County	510	516	(6)	-1.2%	57	58	(1)	-2.5%
Outside County	4,483	4,784	(301)	-6.3%	1,220	1,317	(97)	-7.3%
Total	4,993	5,301	(307)	-5.8%	1,277	1,375	(98)	-7.1%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Table III-18 compares total attributable cost and average unit attributable cost for Periodicals for FY 2017 and FY 2018. Total Periodicals attributable cost decreased by \$93 million, or 4.7 percent. The decrease in Outside County accounted for 99 percent of the overall decrease. However, on a unit basis, In-County attributable cost decreased while Outside County did not in FY 2018.

Table III-18
Periodicals Attributable Cost and Average Unit Attributable Cost,
FY 2018 and FY 2017

	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	Percent Change	(Cents per Piece)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
In-County	83	85	(1)	-1.6%	16.3	16.4	(0.1)	-0.4%
Outside County	1,806	1,898	(92)	-4.8%	40.3	39.7	0.6	1.6%
Total	1,890	1,983	(93)	-4.7%	37.9	37.4	0.4	1.2%

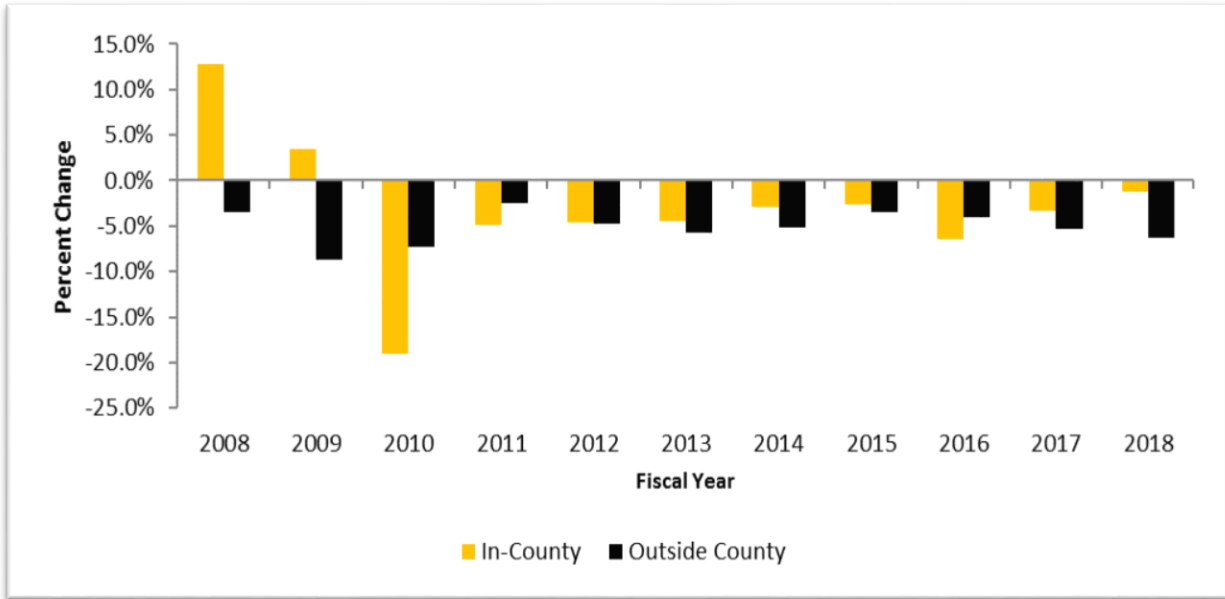
Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

TRENDS IN PERIODICALS

As shown in Figure III-14, Periodicals volume has continued to decline, in large part due to the availability of electronic alternatives. The decline in FY 2018 is similar to the declines seen in recent years.

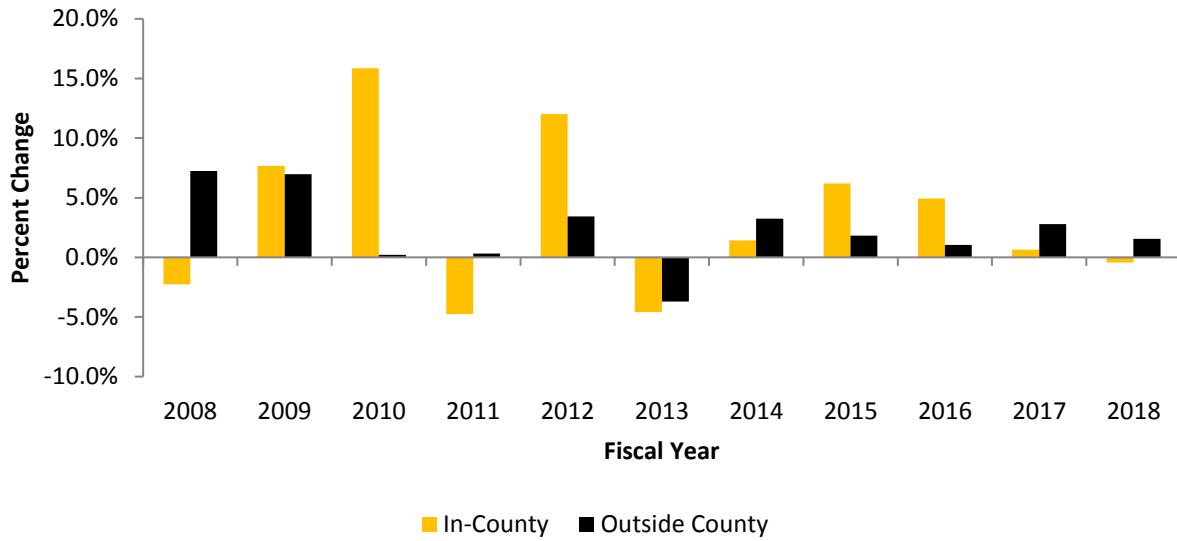
Figure III-14
Periodicals Percent Change in Volume, FY 2008 – FY 2018



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, 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 In-County and Outside County Periodicals is shown in Figure III-15. Both In-County and Outside County average unit attributable cost changes have been more moderate in recent years. Over the last 5 years, unit attributable costs for Outside County increased 1 to 3 percent annually. Unit attributable costs for In-County Periodicals decreased for the first time since FY 2013.

Figure III-15
Periodicals Percent Change in Average Unit Attributable Cost, FY 2008 – FY 2018



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, 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-19 disaggregates the average unit attributable cost of Outside County Periodicals for FY 2016 to FY 2018. As shown in the table, the average city carrier in-office unit cost and average mail processing unit cost decreased in FY 2018 after a substantial increase in FY 2017. Unit costs for both transportation and delivery increased in FY 2018.

Table III-19
Outside County Periodicals Average Unit Attributable Cost by Segment, FY 2016 – FY 2018

Cost Segment	Average Unit Attributable Cost			Change in Average Unit Attributable Cost	
	2016	2017	2018	2017	2018
Mail Processing	19.09	20.19	20.07	5.8%	-0.6%
City Carrier In-Office	6.14	6.76	6.60	10.1%	-2.4%
City Carrrier Street	4.09	4.10	4.29	0.2%	4.6%
Rural carriers	3.36	3.55	3.89	5.7%	9.6%
Transportation	4.65	3.57	4.09	-23.2%	14.6%
All Other	1.28	1.40	1.24	9.4%	-11.4%

Source: The Postal Regulatory Commission derived from Postal Service Cost Segment and Component Reports, FY 2016 to FY 2018.

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. Table III-20 summarizes the FY 2018 changes in volume and revenue for Package Services. Overall, Package Services volume increased 3.3 percent in FY 2018. With the exception of Alaska Bypass, volumes of Package Services products were all higher compared with FY 2017. The volume of Alaska Bypass remained virtually unchanged.

Despite revenue decreases for Alaska Bypass and BPM Flats, Package Services revenue increased in FY 2018. Unit revenue increased slightly for all Package Services products except BPM Flats. BPM Flats unit revenue decreased 2.1 percent in FY 2018.

Table III-20
Package Services Volume and Revenue, FY 2018 and FY 2017

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	Percent Change	(\$ in Millions)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Alaska Bypass	1	1	(0)	-3.7%	33	34	(1)	-2.3%
Bound Printed Matter Flats	265	264	1	0.3%	198	202	(4)	-1.8%
Bound Printed Matter Parcels	295	278	17	6.2%	319	299	20	6.7%
Media Mail/Library Mail	79	76	2	3.2%	276	267	9	3.5%
Total	640	620	21	3.3%	826	801	25	3.1%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

As shown in Table III-21, attributable cost increased in the aggregate for all Package Services products compared with FY 2017. In FY 2018, Alaska Bypass Service cost, which consists entirely of Cost Segment 14 transportation, increased both in the aggregate and on a unit basis, 7.4 percent and 11.5 percent, respectively. For FY 2018, BPM Flats attributable cost increased 0.4 percent in the aggregate and remained unchanged from FY 2017 on a unit basis. The attributable cost of BPM Parcels increased 8.2 percent due to both an increase in volume and an increase in unit cost (1.9 percent) compared with FY 2017. Media Mail/Library Mail, the only Package Services product with a decrease in unit attributable cost, experienced a 2.2 percent increase in attributable cost in FY 2018.

Table III-21
Package Services Attributable Cost and Average Unit Attributable Cost,
FY 2018 and FY 2017

	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	Percent Change	(Cents per Piece)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Alaska Bypass	19	17	1	7.4%	1,488.5	1,334.7	153.7	11.5%
Bound Printed Matter Flats	133	133	0	0.4%	50.1	50.1	0.0	0.0%
Bound Printed Matter Parcels	292	270	22	8.2%	99.2	97.4	1.8	1.9%
Media/Library Mail	360	353	8	2.2%	456.4	461.1	(4.7)	-1.0%
Total	805	774	32	4.1%	125.8	124.8	0.9	0.8%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Table III-22 shows the FY 2018 percent change in unit attributable cost for selected cost segments. As shown in the table, BPM Flats unit costs increased in FY 2018 for all segments depicted except city carrier street and transportation. Transportation unit cost decreased 26.2 percent in FY 2018, while city carrier street unit cost decreased by just 0.1 percent. For BPM Parcels, unit costs increased in all major cost segments in FY 2018. For this product, motor vehicles service unit cost increased 39.2 percent, the largest increase of any segment.

Despite increases in carrier costs and transportation, the overall unit cost of Media Mail/Library Mail decreased slightly in FY 2018. Unit costs for mail processing, vehicle service driver and motor vehicle service decreased considerably in FY 2018, by 10.4 percent, 9.2 percent, and 6.1 percent, respectively.

Table III-22
Package Services Percent Change in Average Unit Attributable Cost by Segment, FY 2018

	BPM Flats	BPM Parcels	Media Mail/ Library Mail
Mail Processing	0.7%	5.3%	-10.4%
City Carrier In-Office	1.3%	15.2%	51.7%
City Carrier Street	-0.1%	1.9%	2.1%
Vehicle Service Driv.	2.2%	39.2%	-9.2%
Rural Carriers	14.3%	14.6%	15.0%
Motor Vehicle Service	5.0%	10.1%	-6.1%
Transportation	-26.2%	23.6%	19.4%
All Other	158.2%	-7.3%	-5.0%
Total Attributable Cost	0.0%	1.9%	-1.0%

Source: The Postal Regulatory Commission derived from Postal Service Cost Segment and Component Reports, FY 2017-FY 2018.

Market Dominant Special Services

The Special Services class consists of 11 products: 8 domestic products and 3 international products. Three Special Services products, Ancillary Services,⁶³ Address Management Services, and International Ancillary Services, include a number of distinctive services.

Special Services includes Certified Mail, Insurance, Money Orders, Post Office Box Service, and other services that enhance Market Dominant products. As shown in Table III-23, total revenue for Special Services declined \$60 million in FY 2018. Revenue decreased for five services in FY 2018: Certified Mail (8.0 percent), COD (4.7 percent), Registered Mail (4.1 percent), Stamped Envelopes and Cards (10.4 percent), and Other Ancillary Services (7.4 percent).

Table III-23
Market Dominant Ancillary Services and Special Services Revenue,
FY 2018 and FY 2017

	Revenue			
	(\$ in Millions)		Increase or Decrease	Percent Change
	FY 2018	FY 2017		
Certified Mail	614	667	(53)	-8.0%
COD	4	4	(0)	-4.7%
Insurance	79	74	5	6.3%
Registered Mail	29	30	(1)	-4.1%
Stamped Envelopes & Cards	12	13	(1)	-10.4%
Other Ancillary Services	402	434	(32)	-7.4%
Money Orders	159	152	6	4.0%
Post Office Box	287	279	9	3.2%
Other Services	173	165	9	5.3%
Total Services	1,759	1,818	(60)	-3.3%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Table III-24, shows that attributable cost for Special Services decreased \$4 million in FY 2018, following a \$122 million increase in FY 2017. The decrease in attributable cost is primarily due to decreases in attributable cost for Certified Mail and Money Orders.

⁶³ One category included in Ancillary Services is "Other Ancillary Services," which consists of USPS Tracking, Return Receipts, Restricted Delivery, Signature Confirmation, Bulk Parcel Return Service, and Special Handling.

**Table III-24
Market Dominant Ancillary Services and Special Services Attributable Cost,
FY 2018 and FY 2017**

	Attributable Cost (\$ in Millions)			
	FY 2018	FY 2017	Increase or Decrease	Percent Change
Certified Mail	530	559	(29)	-5.1%
COD	3	3	0	9.3%
Insurance	48	47	2	3.3%
Registered Mail	18	22	(4)	-17.1%
Stamped Envelopes & Cards	12	8	4	48.6%
Other Ancillary Services	230	219	11	4.9%
Money Orders	147	156	(10)	-6.2%
Post Office Box	255	231	24	10.3%
Other Services	79	79	1	0.7%
Total Services	1,343	1,347	(4)	-0.3%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

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 was also a total of 885 Domestic Competitive NSA products in effect during FY 2018.

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 2018 there were also 901 International Outbound NSAs and 13 International Inbound NSAs.

To facilitate comparisons, the products have been grouped into several broad categories. Table III-25 summarizes the FY 2018 changes in volume and revenue for Competitive products and services. Total volume for Competitive products increased 11.0 percent in FY 2018, as every category except Priority Mail Express and Competitive International Mail experienced volume growth. The product with the largest increase in volume was First-

Class Package Service, which increased 32.8 percent in FY 2018, in part due to the transfer of single-piece retail parcels from the Market Dominant product list to a new “Retail” rate category within the First-Class Package Service product. Priority Mail and ground parcels⁶⁴ volume increased more modestly in FY 2018, 5.0 percent and 7.5 percent, respectively.

Total Competitive product revenue increased 11.5 percent, or \$2.4 billion, in FY 2018. Revenue for every domestic Competitive product except Priority Mail Express increased, consistent with the increases in volume. On a unit basis, revenue increased by approximately 4 percent for all domestic Competitive products.

Table III-25
Competitive Products Volume and Revenue, FY 2018 and FY 2017

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	Percent Change	(\$ in Millions)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Priority Mail Express	28	30	(2)	-5.2%	751	766	(15)	-1.9%
First-Class Package Service	1,275	960	315	32.8%	3,871	2,787	1,084	38.9%
Priority Mail	1,074	1,023	52	5.0%	9,103	8,340	763	9.1%
Ground Parcels	3,099	2,884	216	7.5%	6,913	6,194	719	11.6%
International	187	207	(21)	-10.0%	1,544	1,749	(206)	-11.8%
Domestic Services					877	853	24	2.8%
Total Competitive	5,663	5,103	560	11.0%	23,059	20,690	2,370	11.5%

Negative values denoted by ().

Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Table III-26 summarizes the FY 2018 changes in attributable cost. Total attributable cost for Competitive products increased 11.4 percent, or approximately \$1.6 billion, in FY 2018. The primary reason for the increase in attributable cost is volume growth. The largest increases in attributable costs were in Priority Mail (10.4 percent) and First-Class Package Service (39.0 percent). The average unit attributable cost increased for every category except for ground parcels.

⁶⁴ Ground parcels include Standard Post, Parcel Select, and Parcel Return Service.

Table III-26
Competitive Products Attributable Cost and Unit Attributable Cost, FY 2018 and FY 2017

	Attributable Cost				Unit Attributable Cost			
	(\$ in Millions)		Increase or Decrease	Percent Change	(Cents per Piece)		Increase or Decrease	Percent Change
	FY 2018	FY 2017			FY 2018	FY 2017		
Priority Mail Express	315	329	(14.6)	-4.4%	1,116	1,107	9.0	0.8%
First-Class Package Service	2,692	1,936	755.8	39.0%	211	202	9.4	4.7%
Priority Mail	6,983	6,324	659.9	10.4%	650	618	31.8	5.1%
Ground Parcels	3,721	3,550	170.3	4.8%	120	123	(3.1)	-2.5%
International	1,025	1,053	(28.4)	-2.7%	549	508	41.1	8.1%
Domestic Services	441	429	11.9	2.8%				
Total Competitive	15,466	13,884	1,582.1	11.4%	273	272	1.0	0.4%

Negative values denoted by ().

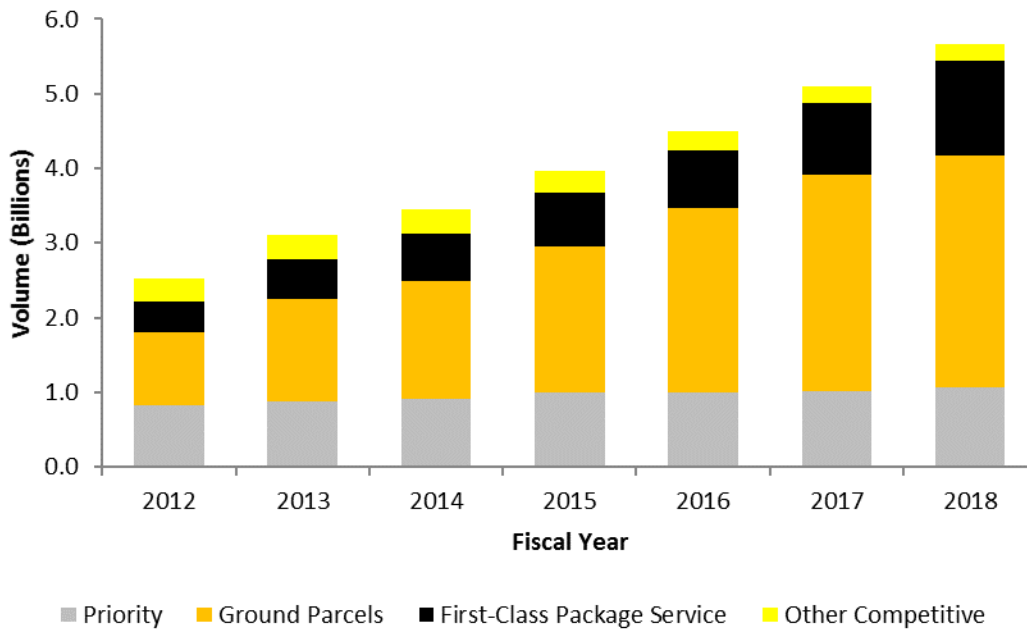
Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1.

Trends in Competitive Products

Competitive product volume growth has exceeded 10 percent each year since FY 2012, driven by consumers' continued use of online shopping,⁶⁵ Figure III-16 highlights the growth in Competitive categories since FY 2007.

⁶⁵ Postal Service FY 2018 Form 10-K at 24.

Figure III-16
Competitive Volume by Product, FY 2012 – FY 2018

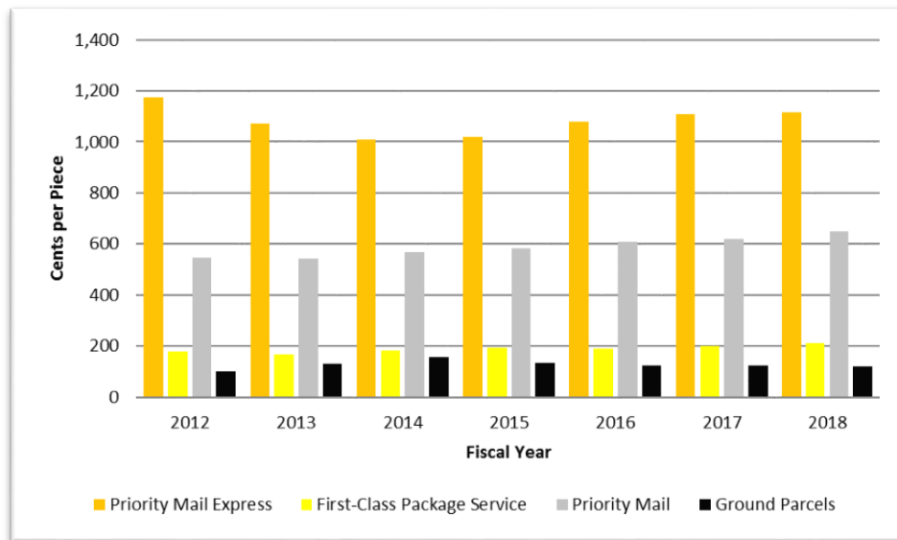


Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2012 and FY 2013 ACD; Library Reference PRC-LR-1.

Competitive products attributable cost has grown rapidly over the last decade, and now comprises 35 percent of total attributable cost. However, analysis of total attributable cost over time is complicated by mail classification changes that resulted in transfers of products from the Market Dominant to the Competitive product list. These include the transfer of Commercial First-Class Mail Parcels to a new Lightweight Commercial Parcels category, USPS Marketing Mail lightweight parcels to the Competitive ground parcels category, and single-piece Parcel Post from Market Dominant products to the Competitive Standard Post product. Most recently, First-Class Mail single-piece retail Parcels were transferred to the First-Class Package Service product.

Figure III-17 shows the average unit attributable cost by category from FY 2012 to FY 2018. Average unit attributable cost increased for all Competitive parcel categories since FY 2012 except Priority Mail Express. With the exception of ground parcels, average unit attributable costs for Competitive products have generally trended upward in recent years. The average unit attributable cost of ground parcels decreased for the fourth year in a row.

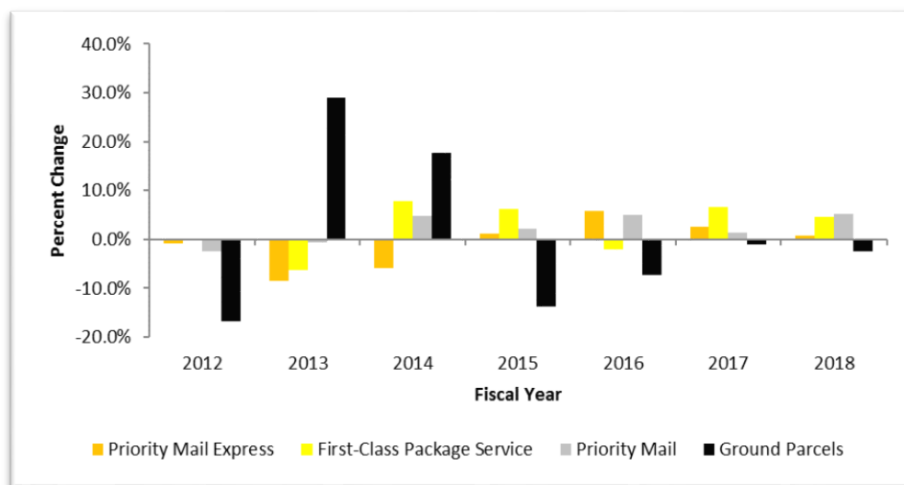
Figure III-17
Competitive Average Unit Attributable Cost by Category, FY 2012 – FY 2018



Source: Library Reference PRC-LR-ACR2018/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2012 and FY 2013 ACD; Library Reference PRC-LR-1.

Figure III-18 shows the percent change in average unit attributable cost by category from FY 2012 to FY 2018. Changes in average unit attributable costs have grown smaller in recent years.

Figure III-18
Competitive Percent Change in Average Unit Attributable Cost by Category, FY 2012 – FY 2018



Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2015 Library Reference PRC-LR-ACR2015/1; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; FY 2012 and FY 2013 ACD; Library Reference PRC-LR-1.

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

Introduction

The financial status 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.⁶⁶ This chapter analyzes the Postal Service's financial status in terms of sustainability, liquidity, and performance using financial ratios. These ratios provide a concise and systematic way to organize financial data into meaningful information.

Financial ratios are used to interpret accounting information. The historic accounting information used in ratio analysis is not adjusted for inflation. Forecasts of an entity's future revenue may not reflect its actual future revenue and cash flows because of changing demographics, industry dynamics, and government regulation unless these factors are explicitly accounted for in the development of the forecast. As with any approach, evaluating multiple financial dimensions and indicators provides a broader understanding of the financial status of entities.

The Commission acknowledges that financial analyses used in the private sector are not directly applicable to the Postal Service as a Federal Government entity because revenue streams, equity structures, and management incentives differ. Due to the myriad ways Federal Government entities differ from the private sector, the standard measurements used to assess the financial health of private sector firms generally do not carry the same weight when applied to Federal Government entities. Additionally, in the private sector, stakeholders use financial analysis to make investment and credit decisions, where 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. Nonetheless, 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 obligations (liquidity) and the ability to meet long-term financial obligations (solvency) are critical in evaluating the Postal Service's current financial situation.

⁶⁶ The Board of Governors delegated powers needed to provide for continuity of operations to a Temporary Emergency Committee (TEC) composed of the remaining members of the Board. See 79 Fed. Reg. 74780 (December 16, 2014). "The TEC will continue in existence until the Board is again able to assemble a quorum." Postal Service FY 2018 Form 10-K at 2.

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 objectives of this chapter are to:

- Compare and analyze the financial statements over a period of time⁶⁷
- Measure the sustainability and liquidity of the Postal Service
- Analyze the annual growth rate and growth patterns of the Postal Service’s income and assets over time through trend analyses
- Analyze the Postal Service’s overall financial performance

Financial Sustainability Analysis

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

Table IV-1 shows the three sustainability ratios calculated using amounts reported on the Postal Service’s Balance Sheets. The table then compares the FY 2018 results with the previous year’s value and the historical 10-year average (FY 2008–FY 2017).

**Table IV-1
Sustainability Ratio Analysis of Postal Service Financial Statements**

Ratios	9/30/2018 Value	9/30/2017 Value	Change	Description of Ratio	Postal Service Historic 10-Year Average Value
Debt Ratio (Debt to Assets Ratio)	3.35	3.14	0.20	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.	2.35
Fixed Assets to Net Worth Ratio	(0.23)	(0.25)	0.02	This ratio indicates the extent to which the entity's cash is frozen in the form of fixed assets, such as property, plant, and equipment.	(2.29)
Current Liability Ratio	0.78	0.72	0.06	This ratio is calculated by dividing current liabilities by total (i.e. current and noncurrent) liabilities.	0.58

Negative amount is denoted by ().
Numbers may not add across due to rounding.

Source: Ratios computed from amounts reported on Postal Service FY 2018 Form 10-K at 54; Postal Service FY 2017 Form 10-K at 46; Postal Service Forms 10-K, FY 2008 - FY 2017.

DEBT RATIO

Debt ratio is the amount of total liabilities the entity has on its Balance Sheets compared to its total assets. 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

⁶⁷ Historic 10-year average values are derived from financial statements for FY 2008 through FY 2017. Trend percentages and ratios are calculated using the last year before the PAEA in which the Postal Service reported a net income, FY 2006, as the base year.

indicates that assets are available to secure future financing to grow operations with little or no financial risk.

The ratio is generally a conservative measurement because the liabilities are carried at estimated amounts of expected cash outflows. At the same time, some assets may be understated because no adjustments have been made to restate for fair value. For example, land or a fully depreciated building or equipment may have a higher fair market value than its book value. As it pertains to the Postal Service, the debt ratio provides information about the increasing amount of the Postal Service's liabilities relative to its small assets base.

At the end of FY 2018, the debt ratio for the Postal Service increased to 3.35, from the 3.14 debt ratio for FY 2017. The Postal Service's FY 2018 debt ratio of 3.35 was higher than the average 10-year debt ratio of 2.35. The ratio indicates that the Postal Service does not possess sufficient capital. This lack of sufficient capital is highly relevant in light of the fact that the Postal Service has limited statutory borrowing capacity.⁶⁸

The slight deterioration in the value of the ratio for FY 2018 is due to total liabilities, primarily unfunded retirement obligations, increasing at a greater percentage rate than total assets. To reduce its debt ratio to historic averages, the Postal Service would have to increase either its current cash position, investments in fixed assets, or both, 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 and capital contribution. 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, which results in a negative fixed asset to net worth ratio. This signifies an inability to rapidly respond to financial emergencies or easily obtain cash for further investment and growth.

As shown in Table IV-1, the ratio improved slightly over the prior year, but remained negative in FY 2018. Accumulated net deficits from the continuous total net losses impacted the value of this ratio as the amount of fixed assets has remained relatively unchanged due to limited capital investments.

CURRENT LIABILITY RATIO

The current liability ratio is a useful measurement when reviewing an entity's debt structure as it indicates the percentage of current debt required to be paid within 1 year. As

⁶⁸ As of September 30, 2018, the Postal Service borrowed \$13.2 billion of the statutory borrowing amount of \$15 billion. Postal Service FY 2018 Form 10-K at 43.

of September 30, 2018, the Postal Service's short-term liabilities were 77.8 percent of total liabilities, an increase of 6.0 percentage points from the prior year. An increasing current liability ratio value is generally a sign of financial pressure because it indicates growth in the proportion of liabilities that must be paid within 1 year.

The accrual of the missed payments for retirement amortization, statutory RHBF prefunding, and RHB normal cost payments are included in current obligations, and account for the vast majority of current liabilities. Current liabilities include \$33.9 billion in unpaid statutory prefunding to the RHBF, \$7.3 billion in amortization of unfunded retirement obligations, \$7.0 billion in RHB normal cost, and \$11.0 billion of the \$13.2 billion in outstanding debt.

Financial Liquidity Analysis

Liquidity-related ratios focus on working capital and are one of the most widespread indicators of an entity's solvency.⁶⁹ There are three liquidity-related ratios: current ratio, quick ratio, and cash ratio. These ratios supplement the Statement of Operations and Statement of Cash Flows and are a measure of an entity's ability to pay short-term obligations. The values of the three ratios for the Postal Service are shown in Table IV-2.

Table IV-2
Liquidity Ratio Analysis of Postal Service Financial Statements

Ratios	9/30/2018 Value	9/30/2017 Value	Change	Description of Ratio	Postal Service Historic 10-Year Average Value
Current Ratio	0.17	0.20	(0.03)	This ratio is calculated by dividing current assets by current liabilities. It indicates an entity's ability to meet short term debt obligations.	0.16
Quick Ratio	0.16	0.19	(0.03)	This ratio is calculated by dividing liquid assets (cash, cash equivalents and short term investments, current receivables) by current liabilities. It is a measure of an entity's ability to meet its short term obligations using its most liquid assets (near cash or quick assets).	0.16
Cash Ratio	0.15	0.17	(0.03)	This ratio is calculated by dividing absolute liquid assets (cash, cash equivalents and short-term investments) by current liabilities.	0.12

Numbers may not add across due to rounding.

Source: Ratios computed from amounts reported on Postal Service FY 2018 Form 10-K at 54; Postal Service FY 2017 Form 10-K at 46; Postal Service Forms 10-K, FY 2008-FY2017.

CURRENT RATIO

The current ratio indicates the degree to which current assets meet current liabilities. The higher the current ratio, the more likely an entity can pay its current liabilities, because it has a larger proportion of current assets relative to its current liabilities.

⁶⁹ See Jamie Pratt, *Financial Accounting in an Economic Context*, 246 part 3 (8th ed. 2011) stating 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.'"

At the end of FY 2018, the current ratio was 0.17. That level is a deterioration of 0.03 from the end of the prior fiscal year. This is slightly higher than the 10-year historic average. Current liabilities increased by 12.4 percent mostly due to the accrual of the current fiscal year's defaulted payment for amortization of unfunded retirement obligations and the RHB normal cost. At the same time, the Postal Service's current assets decreased by 4.0 percent, primarily due to the decrease in cash and cash equivalents.

QUICK RATIO

The quick ratio is an indication of the liquidity of the entity and reflects whether sufficient funds are available to meet short-term obligations to creditors. At the close of FY 2018, the quick ratio equaled 0.16. This is a deterioration of 0.03 from FY 2017 and the same level as the 10-year historic average. This indicates that the Postal Service's cash and accounts receivables increased at a slower 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 2018 cash ratio was 0.15—a deterioration from FY 2017. This is an improvement from the 10-year historic average—but as with the current ratio and quick ratio, 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.

During FY 2018, the Postal Service repaid \$1.8 billion of its outstanding debt. The FY 2018 cash ratio and quick ratio remain unchanged from previous year levels when the available statutory borrowing capacity of \$1.8 billion is added back to the cash balance. The FY 2018 current ratio recomputed with the available statutory borrowing capacity of \$1.8 billion is added back to the cash balance equaled 0.19 – a deterioration of 0.01 over FY 2017.

WORKING CAPITAL ANALYSIS

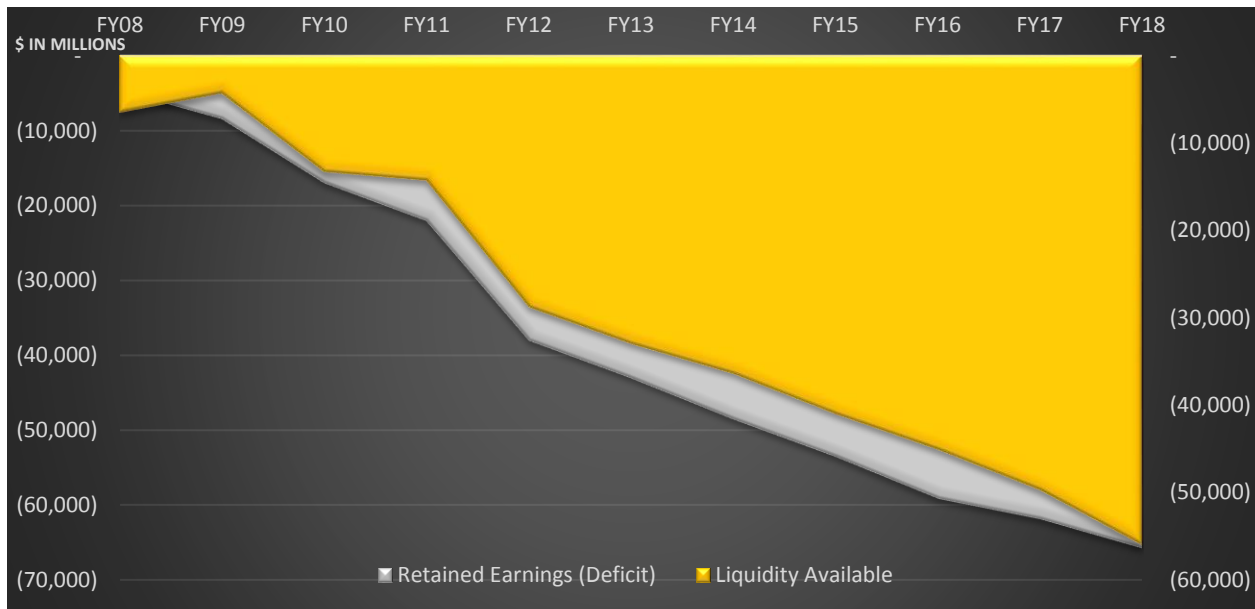
Working capital is the amount by which the value of current assets exceeds current liabilities. Working capital is important because it is a liquidity cushion available to provide funds for emergencies and other unplanned needs. Positive working capital means that a company is able to meet its short-term obligations. Negative working capital means that a company's current assets are insufficient to meet its short-term liabilities and as a result it could have problems paying back creditors in the short term, ultimately adversely affecting its financial position. Companies with healthy, positive working capital should not have problems paying their bills.

The Postal Service had no working capital at the end of FY 2018. The Postal Service's FY 2018 working capital was negative \$57.9 billion. The net deterioration of \$8.1 billion in

working capital from the prior fiscal year was largely due to the growth in employee-related liabilities, including the accruals for payments for retirement obligations.

Figure IV-1 highlights the increasing deficit trend in retained earnings that began in FY 2008. Available liquidity is calculated as a combination of working capital and remaining borrowing capacity.

Figure IV-1
Postal Service Liquidity and Retained Deficit Trends Since FY 2008



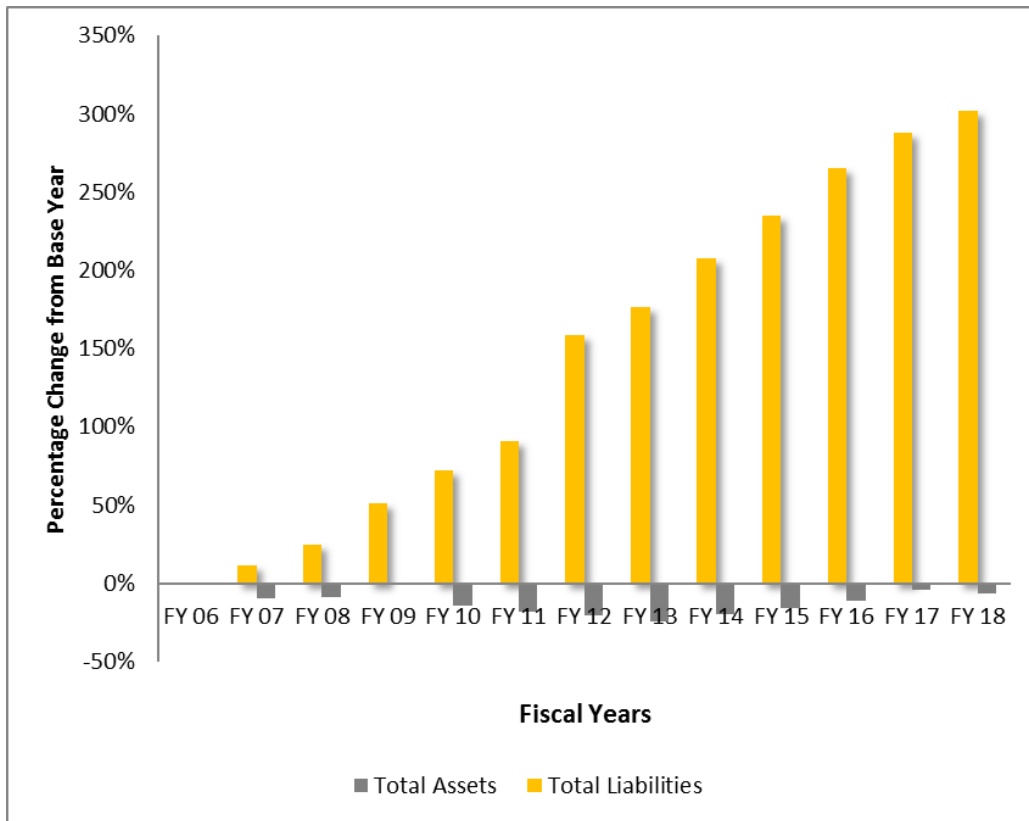
Source: Postal Service FY 2008 to FY 2018 Forms 10-K and USPS Annual Reports.

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 fiscal year prior to the enactment of the PAEA and the last year 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
Change in Assets and Liabilities Since FY 2007**



Source: Postal Service FY 2006 to FY 2018 Forms 10-K and USPS Annual Reports.

Figure IV-2 shows that the trend percentage for the Postal Service’s overall assets recently began improving in most fiscal years following FY 2013. The improvement is mostly attributable to continuous increases in cash balances. At the end of FY 2018, the cash balance decreased as net cash generated from operations was lower by approximately \$1.1 billion compared to the prior year. During FY 2018, the Postal Service repaid a portion of its outstanding debt increasing net cash used in financing activities by approximately \$1.9 billion compared to prior years, resulting in an overall decrease in total assets of 6.3 percent, relative to base year FY 2006. This decrease was slightly greater than the decrease of 3.8 percent in the prior year relative to base year. After taking depreciation into account, FY 2018 net property, plant, and equipment values decreased 36.7 percent from the base year. This is primarily due to reduced capital investments and because fully-depreciated assets have not been replaced or are being replaced at a slower rate than the estimated life of the predecessor asset.

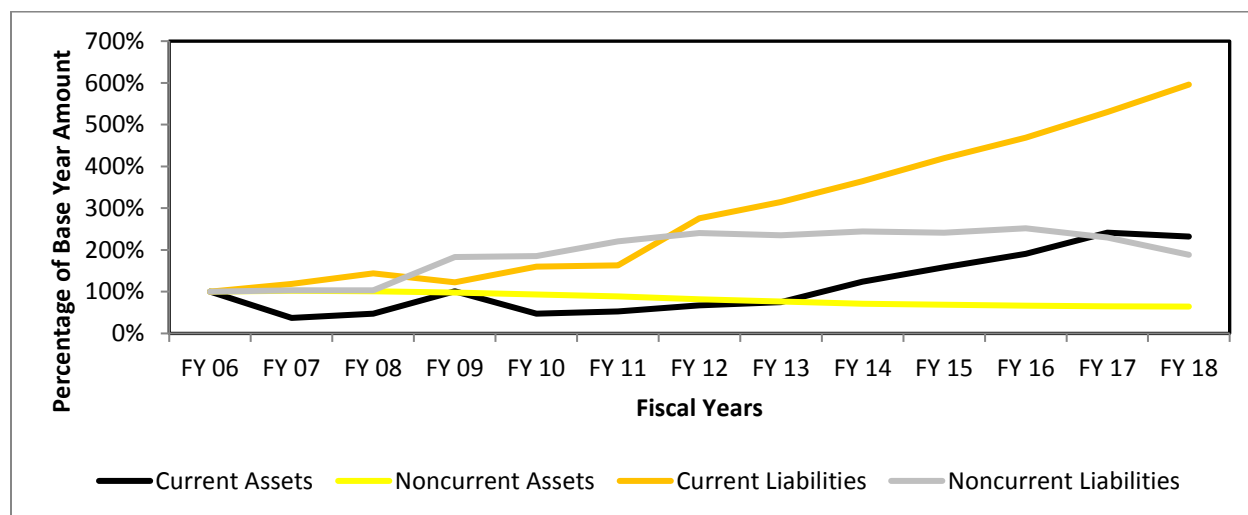
The Postal Service had a higher cash balance at the end of FY 2009 due to a \$4 billion reduction in the statutory RHBFB payment due on September 30, 2009, which resulted in a higher balance in total assets and the improvement shown in Figure IV-2.

Total liabilities have risen steadily since the base year (FY 2006). The Postal Service’s total liabilities in FY 2018 were four times higher than those in the base year.

Figure IV-3 shows that current and noncurrent liabilities generally trended upwards from the base year, largely due to increasing balances in employee-related liabilities such as statutory retirement payments, increasing debt, and future obligations for workers’ compensation. The restructuring and partial repayment of debt during FY 2018 resulted in a slight decline in current and noncurrent liabilities and current assets for the year.

Noncurrent assets, consisting largely of property and equipment, held relatively flat with a slight downward trend reflecting limited capital spending and slower replacement of depreciating fixed assets. Figure IV-3 shows that the value of noncurrent liabilities increased from the base year by a substantially greater percentage than the value of the noncurrent assets. Similarly, the growth of current liabilities greatly outpaced the growth of current assets with similar maturity dates. This highlights the Postal Service’s lack of liquidity.

Figure IV-3
Trends in Assets and Liabilities Since FY 2006



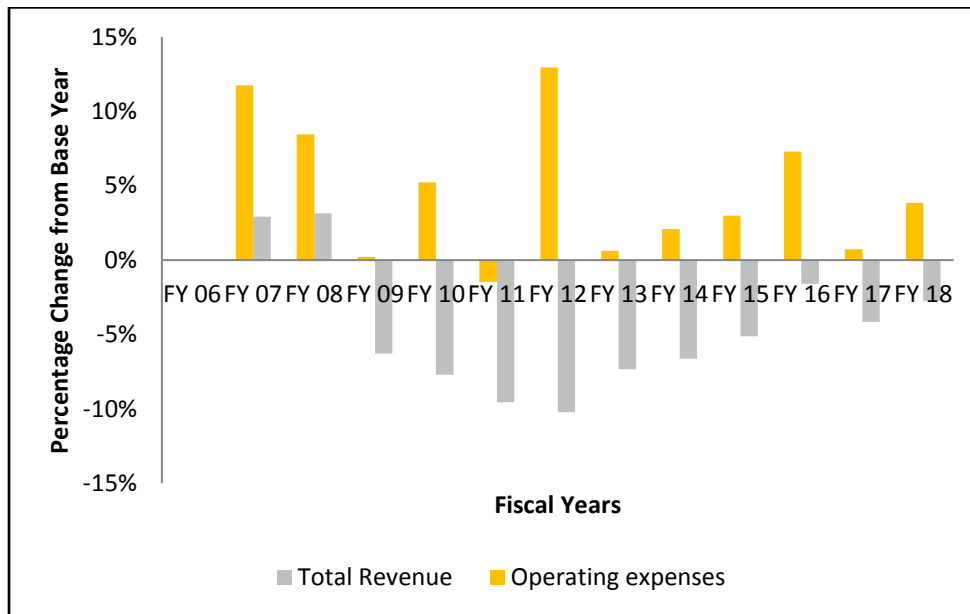
Source: Postal Service FY 2006 to FY 2018 Forms 10-K and USPS Annual Reports.

Figure IV-4 shows the changes in revenue and expenses from the base year (FY 2006). In FY 2018, revenue decreased 2.7 percent from the base year, while operating expenses increased by 3.9 percent from the base year.

Resuming the trend of the 4 years prior to FY 2017, both revenue and expenses increased during FY 2018. Discount rates continued to increase during FY 2018 but at a slower rate, resulting in a comparatively lower decrease in the noncash portion of workers’ compensation expenses in FY 2018. The accrual of the defaulted retirement payments

contributed to the 320.2 percent increase in retirement expenses from the base year. Transportation expenses increased by 30.0 percent from base year. The decrease in compensation and benefits excluding retirement expenses by 6.3 percent from the base year was not sufficient to offset the increases in the other categories of expenses.

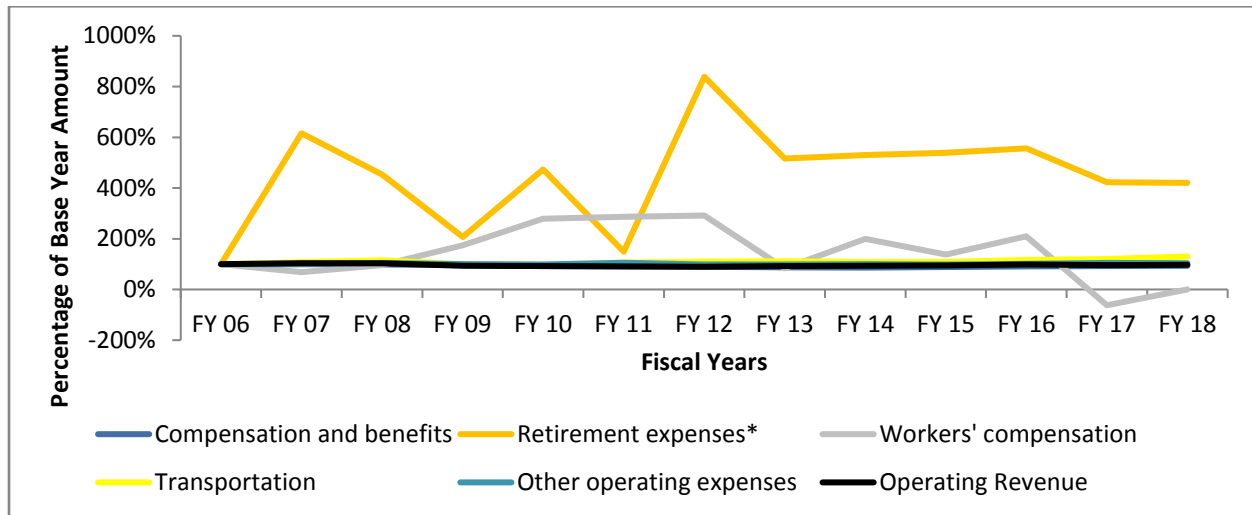
Figure IV-4
Change in Revenue and Expenses Since FY 2006



Source: Postal Service FY 2006 to FY 2018 Forms 10-K and USPS Annual Reports.

Operating revenue has remained relatively flat since FY 2006. Similar to the growth in current liabilities, RHB payments have trended upwards from the base year. The spike in RHB payments in FY 2007 and FY 2008 was due to the recognition of the RHB payments as an expense. The reduction of statutory prefunding payment in FY 2009 and deferral in FY 2011 results in dips in the trend line for those years. The upward swing in the trend line in FY 2013 is caused by the \$11.1 billion accrual of the prior year deferral and current year RHB expenses. The reduction in retirement-related expenses in FY 2017 and FY 2018 results from lower retirement health benefit expenses compared to the statutory prefunding of the RHBF. Higher discount rates in FY 2017 and FY 2018 are reflected in the decrease in noncash workers' compensation expense for those years. *See Figure IV-5.*

**Figure IV-5
Trends in Operating Revenue and Operating Expenses Since FY 2006**



*Retirement expenses consist of amortization payments on unfunded FERS, CSRS, and RHB liabilities, RHB normal costs for FY 2017 onwards, RHB statutory prefunded expenses, RHB premium expenses for FY 2007 through FY 2016, RHB premium expense for FY 2006.
Source: Postal Service FY 2006 to FY 2018 Forms 10-K and USPS Annual Reports.

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. The Altman Z-Score model, developed in 1968, is a tool to examine the likelihood that a publicly-traded private company may file for bankruptcy.⁷⁰ It has since been used as a measure to analyze the financial health of state and local governments and continues to be widely accepted as a measure of an entity’s financial health.⁷¹

⁷⁰ The Postal Service, as a government entity, is not considered a “person” who may be a debtor under the Bankruptcy Code. See 11 U.S.C. §§ 101(41), 109(d). The Altman Z-Score is used as a metric that may be instructive in comparing the Postal Service with other business entities which 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.

⁷¹ See Mary Fischer, *et al.*, Fiscal Health Analysis of Texas and its Municipalities, 13 J. Bus. & Econ. Res. 4 (2015).

The Altman Z-Score is a quantitative model designed to predict the financial distress of a business. It uses a blend of four traditional financial ratios and a statistical method known as multiple discriminant analysis. The Altman Z-Score is interpreted against discrimination ranges, which provide context as to what an individual Altman Z-Score means to an entity's financial health. A lower Altman Z-Score reflects higher odds of bankruptcy⁷² and financial distress. In particular, the discrimination ranges divide Altman Z-Scores into three zones:

- 1.1 or Less = Distress Zone based on publicly available financial data
- 1.1 to 2.6 = Grey Zone based on publicly available financial data
- 2.6 or More = Safe Zone based on publicly available financial data

The Altman Z-Score model used in this analysis is a revised Z-Score Model adapted specifically for non-manufacturing firms to calculate a score, without a capital turnover ratio (sales/total assets), so as to minimize the potential effect of different methods of financing assets. The Postal Service's Altman Z-Score provides insight into the Postal Service's financial health. Cash generated from operations and borrowing availability up to \$1.8 billion at the end of FY 2018 are the only sources of income available to satisfy daily operating expenses and investment in capital assets.

As shown in Table IV-3, the Postal Service's Altman Z-Score was negative 6.8 at the end of FY 2018. The Postal Service's FY 2018 Altman Z-Score was worse than the FY 2017 score of negative 5.9. Lower cash balances and unfunded retirement-related expenses decreased total assets and earnings and increased total liabilities compared to the prior year, resulting in deterioration of three of the four ratios.

⁷² The Postal Service is ineligible for Federal bankruptcy protection under current law. See 11 U.S.C. §§ 101(41), 109.

**Table IV-3
Altman Z-Score, FY 2018**

Ratio	Calculation	Ratio Value on 9/30/2018	Weighting Factor	Product (col. 3 * col. 4)
1	2	3	4	5
T1	Working Capital/Total Assets	(2.2)	1.2	(2.6)
T2	Retained Earnings/Total Assets	(2.3)	1.4	(3.3)
T3	Earnings/Total Assets	(0.1)	3.3	(0.5)
T4	Capital/Total Liabilities	(0.7)	0.6	(0.4)
Altman Z-Score				(6.8)

Negative amount is denoted by ().

Numbers may not add across due to rounding.

Source: Ratios computed from amounts reported on Postal Service FY 2018 Form 10-K at 54.

Prior to enactment of the PAEA, at the end of FY 2006, the Postal Service had a positive Altman Z-Score of 0.2 and positive scores for all ratio values except for the Working Capital/Total Assets ratio. See Table IV-4.

**Table IV-4
Altman Z-Score, FY 2006**

Ratio	Calculation	Ratio Value on 9/30/2006	Weighting Factor	Product (col. 3 * col. 4)
1	2	3	4	5
T1	Working Capital/Total Assets	(0.3)	1.2	(0.4)
T2	Retained Earnings/Total Assets	0.2	1.4	0.3
T3	Earnings/Total Assets	0.0	3.3	0.1
T4	Capital/Total Liabilities	0.3	0.6	0.2
Altman Z-Score				0.2

Negative amount is denoted by ().

Numbers may not add across due to rounding.

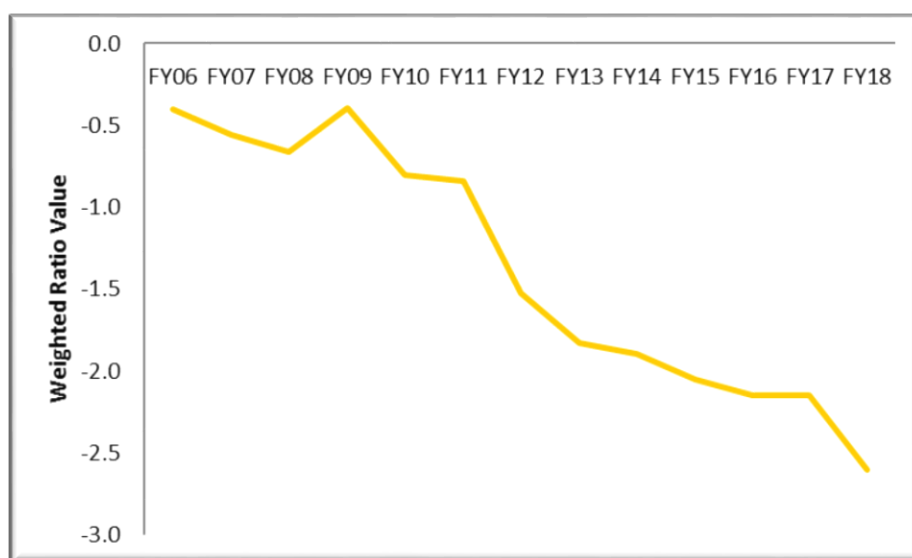
Source: Ratios computed from amounts reported on Postal Service FY 2006 Annual Report at 42.

DECONSTRUCTING THE ALTMAN Z-SCORE WORKING CAPITAL TO TOTAL ASSETS

The Working Capital to Total Assets ratio measures a company's efficiency and its short-term financial health by comparing its net current assets to its total assets. Working capital is a company's current assets minus its current liabilities. Therefore, a change in the total amount of current assets without a change of the same amount in current liabilities will result in a change in the amount of working capital. Similarly, a change in the total amount of current liabilities without an identical change in the total amount of current assets will cause a change in working capital.

The Postal Service's working capital to total assets weighted ratio is shown in Figure IV-6.

Figure IV-6
Trend in Working Capital/Total Assets Weighted Ratio Since FY 2006



Source: Postal Service FY 2006 to FY 2018 Forms 10-K and USPS Annual Reports.

An increasing Working Capital to Total Assets ratio over time is usually a positive sign, showing improving liquidity. A decreasing Working Capital to Total Assets ratio is usually a negative sign, indicating a greater amount of total current liabilities, and a reduced amount of working capital available. This ratio increased briefly for the Postal Service from FY 2008–FY 2009 (though still negative) and has declined in succeeding fiscal years.⁷³ The steep decline in this ratio after FY 2012 is the result of a higher percentage decline in

⁷³ P.L. 111-68 reduced the statutory RHBF payment due on September 30, 2009, by \$4 billion, increasing the cash balance at the end of FY 2009 and contributing to the improved value of the FY 2009 Working Capital to Total Assets Ratio. The Postal Service states that “[it] experienced negative cash flow from operations for two of the past three years. In 2009, [it] reduced our [RHBF] payment by \$4 billion due to the passage of P.L. 111-68. Had this reduction not been enacted, cash flow from operations would have been negative in 2009 as well.” Postal Service FY 2009 Form 10-K at 55.

working capital compared to total assets, largely a result of the accrued unfunded retirement-related expenses.

RETAINED EARNINGS TO TOTAL ASSETS

The retained earnings of a company are the portion of net earnings retained for future use.⁷⁴ They are “retained” to be reinvested in the firm or used to pay down debt. Retained earnings are calculated as follows:

- Previous year’s retained earnings + current year’s net income (net loss).

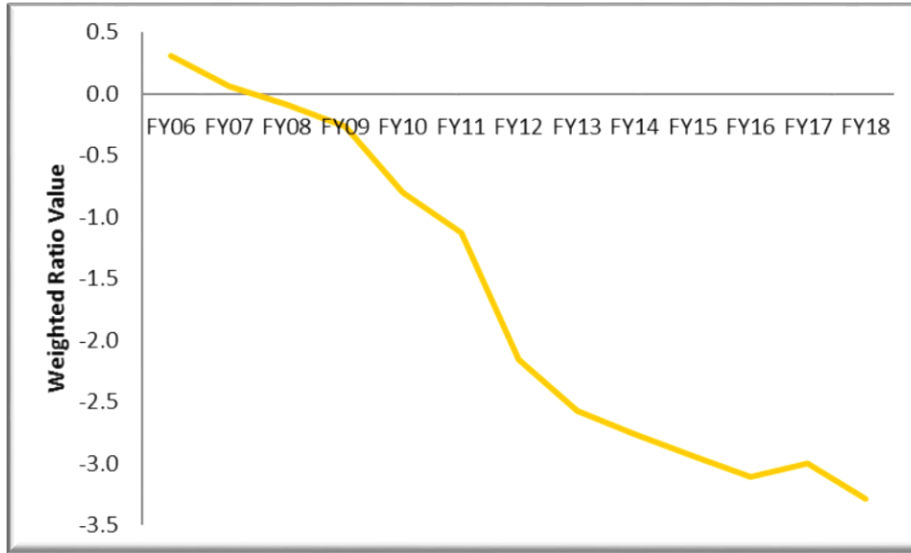
The Retained Earnings to Total Assets ratio measures the company’s effectiveness in using all of its assets to accumulate earnings. Retained earnings combined with the capital contribution of the U.S. Government⁷⁵ represents the difference between assets and liabilities, and therefore it provides a measure of the extent to which a company relies on debt, or leverage. The lower the ratio of Retained Earnings to Total Assets, the more a company funds assets through borrowing, instead of through retained earnings. A lower ratio indicates an increased risk of financial distress if the firm cannot meet its debt obligations.

The Postal Service’s Retained Earnings to Total Assets weighted ratio is shown in Figure IV-7. With the exception of the increase in FY 2017, this ratio has steadily declined for the Postal Service since FY 2006. A decreasing Retained Earnings to Total Assets ratio is usually a negative sign, indicating possible problems with a company’s profitability. As an entity grows and matures, this ratio is generally expected to increase. Recurring losses suffered after FY 2007 by the Postal Service have eroded its retained earnings, which is reflected in the substantial decline in this ratio. The slight uptick in the change in value for FY 2017 is due to the increased end-of-year cash balance resulting in an 8.6 percent growth in total assets.

⁷⁴ A company may not retain all of its net income if it distributes a portion to shareholders in the form of a dividend. The Postal Service does not have shareholders and does not pay dividends, so all of its net income (or net loss) accumulates as retained earnings or deficits.

⁷⁵ Total capital contributions of the U.S. Government are \$3,132 billion as of September 30, 2017. See Postal Service FY 2018 Form 10-K at 54.

Figure IV-7
Trend in Retained Earnings/Total Assets Weighted Ratio Since FY 2006



Source: Postal Service FY 2006 to FY 2018 Forms 10-K and USPS Annual Reports.

EARNINGS TO TOTAL ASSETS

Earnings to Total Assets is a measure of return on assets and is calculated by dividing net income (net loss) by total assets. This ratio assesses a firm’s ability to generate profits from its assets. The Postal Service’s earnings to total assets weighted ratio is shown in Figure IV-8.

Figure IV-8
Trend in Earnings/Total Assets Weighted Ratio Since FY 2006



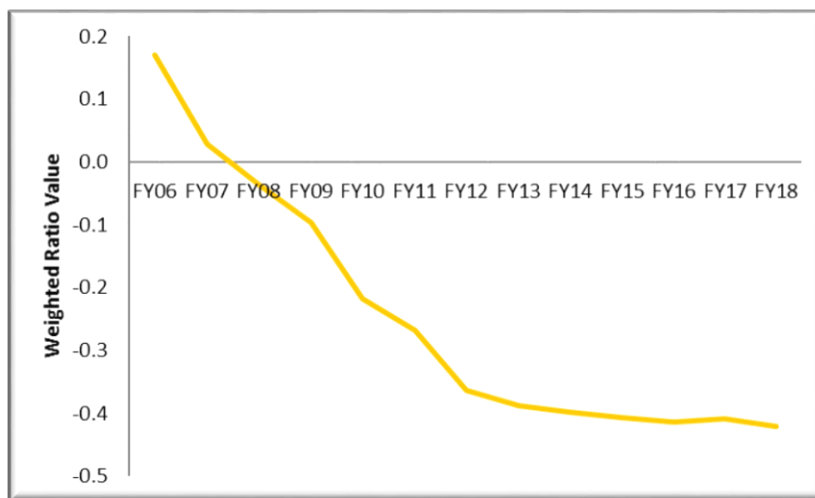
Source: Postal Service FY 2006 to FY 2018 Forms 10-K and USPS Annual Reports.

FY 2006 showed a positive ratio. This was during the Postal Reorganization Act regime when revenue was required to cover costs (break-even). The effects of the Great Recession of 2008–2009 partially offset the P.L. 111-68 reduction in the RHBF prefunding contribution from \$4.0 billion to \$1.4 billion in 2009. No similar legislation was enacted in 2010. In 2011, P.L. 112-33 deferred the \$5.5 billion payment due in 2011 to 2012. The dip in the ratio in 2012 is largely the result of two RHBF prefunding payments totaling \$11.1 billion. The exigent surcharge in FY 2014 improved profitability through part of FY 2016.⁷⁶ The improvement in this ratio in FY 2017 results from lower retirement-related health benefit expenses compared to the statutory prefunding of the RHBF and the decrease in noncash workers’ compensation expense from higher discount rates. Discount rates continued to increase during FY 2018 but at a slower rate resulting in a comparatively lower decrease in the noncash portion of workers’ compensation expense and subsequently overall expenses in FY 2018. Also contributing to the slight downward trend in this ratio in FY 2018 is the reduction in the total assets base from repayment of \$1.8 billion of outstanding debt.

CAPITAL TO TOTAL LIABILITIES

The ratio of Capital to Total Liabilities shows the extent to which an entity’s value can decline before its liabilities exceed its assets. Generally, a higher capital balance indicates a greater likelihood of future survival. The Postal Service’s capital to total liabilities weighted ratio is shown in Figure IV-9.

**Figure IV-9
Trend in Capital/Total Liabilities Weighted Ratio Since FY 2006**



Source: Postal Service FY 2006 to FY 2018 Forms 10-K and USPS Annual Reports.

⁷⁶ See Docket No. R2013-11, Order Granting Exigent Price Increase, December 24, 2013 (Order No. 1926).

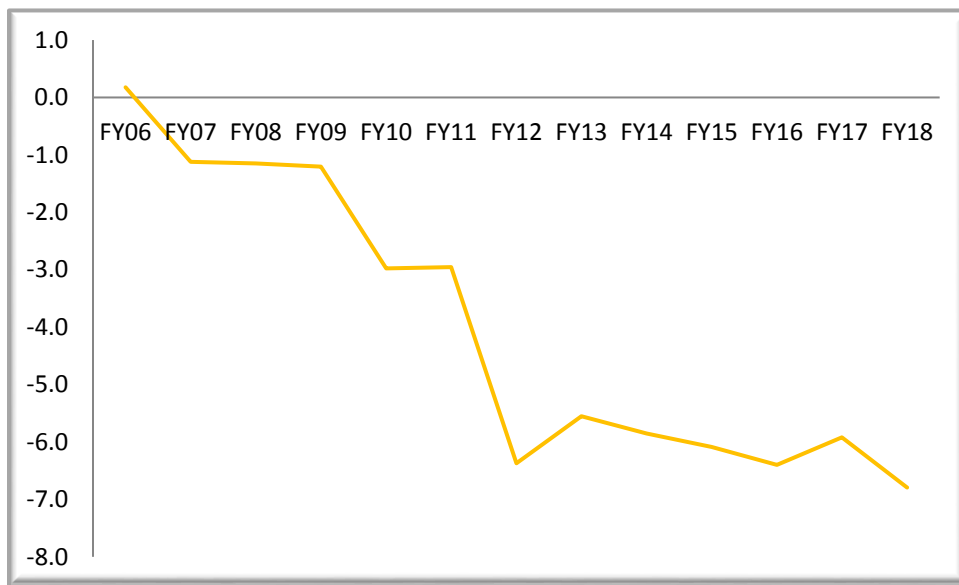
For purposes of the Altman Z-Score, capital is calculated as the book value of equity which for the Postal Service is capital contributions and retained earnings. The Postal Service’s recurring net losses and increasing liabilities are reflected in the decline in this ratio. The value of this ratio remains relatively flat for the last 6 years.

SHIFT IN ALTMAN Z-SCORE

When analyzing the Altman Z-Score, it is important to analyze the trend over time. In the case of the Postal Service, the steady decline, as shown in Figure IV-10, is a reflection of the erosion of retained earnings primarily caused by consecutive net losses and accumulated unpaid statutory retirement expenses.

The Postal Service’s slightly declining Altman Z-Score at the end of FY 2018 is the result of: (1) a lower balance in total assets due to a reduction in the cash balance, likely the result of the partial repayment of debt; and (2) deteriorating working capital. The Postal Service defaulted on its FY 2018 payment of amortization on its retirement-related unfunded obligations and the normal costs payment for RHB.

**Figure IV-10
Trend in Altman Z-Score Value Since FY 2006**



Source: Postal Service FY 2006 to FY 2018 Forms 10-K and USPS Annual Reports.

Appendix A
Fiscal Year 2018 Volume, Revenue, Incremental Cost and
Cost Coverage by Class, Current Classification (Products)

	Volume (000)	Revenue (\$ 000)	Attributable (Incremental) Cost (000)	Total Vol Var & Prod Spec Cost (000)	Contribution to Institutional Cost (\$ 000)	Rev./Pc. (Cents)	Cost/Pc. (Cents)	Contribution to Institutional Cost/Pc. (Cents)	Cost Coverage
COMPETITIVE MAIL									
Priority Mail Express	28,211	751,368	314,843	314,678	436,525	2,663.385	1,116.028	1,547.357	238.6%
Priority Mail	1,074,470	9,103,194	6,983,457	6,894,343	2,119,737	847.227	649.944	197.282	130.4%
Total Ground	3,099,461	6,913,452	3,725,331	3,675,771	3,188,121	223.053	120.193	102.861	185.6%
First-Class Package Service	1,274,600	3,870,555	2,692,313	2,678,880	1,178,242	303.668	211.228	92.440	143.8%
Competitive Domestic Services	877,221		440,737	440,602	436,484				199.0%
Competitive Domestic Group Specific & Inframarginal Cost			257,864						
Total Domestic Competitive Mail	5,476,742	21,515,790	14,414,545	14,004,273	7,101,246	392.857	263.196	129.662	149.3%
Competitive International Mail & Services	186,602	1,543,705	1,024,660	1,024,660	519,045	827.269	549.114	278.155	150.7%
Competitive International Non-Product Inframarginal Cost			410						
Total Competitive Non-Product Inframarginal Costs			26,462						
Total Competitive Mail and Services	5,663,344	23,059,495	15,466,077	15,028,933	7,593,418	407.171	273.091	134.080	149.1%
MARKET DOMINANT MAIL									
First-Class Mail									
Single-Piece Letters and Cards	17,460,477	8,707,404	5,418,505	5,231,556	3,288,900	49.869	31.033	18.836	160.7%
Presort Letters and Cards	37,871,200	14,354,114	4,633,938	4,566,683	9,720,175	37.902	12.236	25.666	309.8%
Flats	1,381,864	1,914,323	1,554,174	1,551,207	360,150	138.532	112.469	26.063	123.2%
Parcels	0	0	0	0	0				
First-Class Non-Product Inframarginal Costs			231,251						
Total Domestic First-Class Mail	56,713,541	24,975,841	11,837,867	11,349,446	13,137,974	44.039	20.873	23.165	211.0%
Marketing Mail									
High Density & Saturation Letters	7,265,225	1,156,891	559,974	556,412	596,917	15.924	7.708	8.216	206.6%
High Density & Saturation Flats & Parcels	11,621,090	2,038,538	1,404,132	1,381,134	634,407	17.542	12.083	5.459	145.2%
Carrier Route	7,073,837	1,860,050	1,712,354	1,703,674	147,696	26.295	24.207	2.088	108.6%
Letters	46,517,167	9,677,803	4,962,861	4,853,058	4,714,943	20.805	10.669	10.136	195.0%
Flats	4,078,768	1,651,266	2,402,761	2,396,759	(751,495)	40.484	58.909	(18.425)	68.7%
Parcels	34,650	42,985	73,430	73,421	(30,445)	124.058	211.922	(87.864)	58.5%
Every Door Direct Mail - Retail	712,621	126,957	47,451	47,391	79,505	17.815	6.659	11.157	267.6%
Inbound NSA Mail Intl	0	0	0	0	0				
Marketing Mail Non-Product Inframarginal Costs			461,069						
Total Marketing Mail	77,303,357	16,554,491	11,624,032	11,011,849	4,930,459	21.415	15.037	6.378	142.4%
Periodicals									
Within County	510,334	56,574	83,296	83,266	(26,722)	11.086	16.322	(5.236)	67.9%
Outside County	4,482,996	1,220,126	1,806,347	1,801,243	(586,221)	27.217	40.293	(13.077)	67.5%
Periodicals Non-Product Inframarginal Costs			585						
Total Periodicals	4,993,329	1,276,700	1,890,229	1,884,508	(613,528)	25.568	37.855	(12.287)	67.5%
Package Services									
Alaska Bypass	1,258	32,911	18,720	18,720	14,191	2,616.788	1,488.463	1,128.325	175.8%
Bound Printed Matter Flats	265,404	198,070	133,029	133,003	65,041	74.629	50.123	24.506	148.9%
Bound Printed Matter Parcels	294,800	318,721	292,402	292,050	26,319	108.114	99.187	8.928	109.0%
Media and Library Mail	78,964	276,421	360,415	359,531	(83,995)	350.061	456.432	(106.371)	76.7%
Package Services Non-Product Inframarginal Costs			925						
Total Package Services	640,425	826,122	805,491	803,304	20,631	128.996	125.774	3.222	102.6%
U.S. Postal Service Mail	290,423								
Free Mail	42,115		34,079	34,077	(34,079)		80.920		
Total Market Dominant Mail	139,983,190	43,633,155	26,191,698	25,083,184	17,441,457	31.170	18.711	12.460	166.6%
Market Dominant Services									
Ancillary Services									
Certified Mail		613,642	529,954	521,772	83,688				115.8%
COD		3,974	2,865	2,865	1,109				138.7%
Insurance		79,140	48,467	48,453	30,672				163.3%
Registered Mail		29,137	18,130	18,129	11,007				160.7%
Stamped Envelopes		11,164	12,051	12,040	(887)				92.6%
Stamped Cards		592	208	208	385				285.2%
Other Ancillary Services		401,654	229,705	227,621	171,950				174.9%
Money Orders		158,540	146,672	145,073	11,868				108.1%
Post Office Box Service		287,485	254,646	254,575	32,840				112.9%
Caller Service		88,512	26,324	26,298	62,188				336.2%
Other Special Services		37,650	12,144	12,144	25,506				310.0%
Market Dominant Services Non-Product Inframarginal Costs			20,740						
Total Market Dominant Domestic Services		1,711,490	1,301,906	1,269,178	409,584				
Outbound Single-Piece Mail Intl	132,032	198,140	139,496	139,496	58,644				
Inbound Single-Piece Mail Intl	622,368	841,713	761,948	761,948	79,765				
International Services		47,077	40,989	40,989	6,088				
Market Dominant Intl Non-Product Inframarginal Costs			981						
Market Dominant International Mail & Services	754,400	1,086,929	943,414	942,433	143,516				
Other Income		1,108,506			1,108,506				
Other International Mail Attributable			68,474	0	(68,474)				
Total Mail and Services	146,400,934	70,599,576	43,971,569	42,392,202	26,628,007	48.223	30.035	18.188	160.6%
Institutional Costs									
Appropriations: Revenue Forgone		60,527							
Investment Income		122,875							
Total Revenues		70,782,978							
Total Costs			74,695,986						
Net Income (Loss)		(3,913,008)							

Source: Library Reference PRC-FinRpt18-1.