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

Fiscal Year 2019

May 7, 2020

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Chapter I. Overview

Purpose of This Report

Prior to Fiscal Year 2012, the Commission's Annual Compliance Determinations (ACD) included a chapter reporting on the Postal Service's overall financial health that identified certain Postal Service financial highlights or setbacks for the year under review, but was not a comprehensive discussion of the financial position of the Postal Service. Given the continued interest in the Postal Service's financial health, the Commission determined that providing a separate, more comprehensive financial review would be beneficial.

This report provides an in-depth analysis of the Postal Service's financial health primarily using information reported in its FY 2019 Form 10-K measured against FY 2018 and its FY 2019 Integrated Financial Plan (Financial Plan). Additionally, data filed with the FY 2019 Annual Compliance Report (ACR), such as the Cost and Revenue Analysis report (CRA), the Cost Segments and Components (CSC) report, and the Revenue, Pieces, and Weight (RPW) report, are utilized in developing this report.

The FY 2019 analysis does not include the impact of COVID-19 on the Postal Service. However, unaudited current volumes and preliminary financial projections provided by the Postal Service point to precipitous declines in mail volume and revenue, which would exacerbate the large financial losses it experienced in FY 2019. The Commission continues to communicate with the Postal Service and policymakers regarding the effects of the COVID-19 pandemic and the rapidly evolving financial situation of the Postal Service.

This year's report is comprised of four chapters. Chapter 1 provides a summary of the Commission's findings. The first section presents highlights from the remaining chapters. The second section presents a high-level view of the Postal Service's Income Statement and Balance Sheet.

Chapter 2 analyzes the Postal Service's overall financial status, with a focus on key figures in the Income Statement, Balance Sheet and Cash Flow Statement. The Commission evaluates relationships between the essential components of the Postal Service's financial statements to understand the Postal Service's profitability, stability, and long-term viability.

Chapter 3 describes the calculation of attributable and institutional cost and examines the overall trends for Market Dominant and Competitive products and services. It includes comparisons of volume, revenue, and cost between FY 2018 and FY 2019 as well as trend analyses that highlight changes in volume, revenue, and cost that have occurred over time. It also provides analyses by cost segment.

This year the Commission has restructured its analysis of the Postal Service's Financial Results, moving the financial ratio analysis from Chapter 4 to Chapter 2 and developing a new Chapter 4 that divides broad categories of costs into segments categorized by function and includes a discussion of labor costs and workhours. The Commission then develops a contribution margin income statement that separates attributable and institutional costs by cost segments and facilitates analysis of the relationships between revenue, attributable costs, institutional costs, and overall net income or loss. The new Chapter 4 aims to provide a different view of the current financial condition of the Postal Service.

The Postal Service Is Not Financially Stable—Key Findings

The Postal Service remains on an unsustainable financial path. In FY 2019, the Postal Service recorded a net loss from operations[1] of $3.2 billion,[2] an increase of 53 percent over the previous year. This loss represents a $1.1 billion decline in profitability. The increase in the FY 2019 net operating loss is the result of higher operating expenses.[3] Net operating expenses were $1.6 billion higher than in FY 2018, primarily driven by increases in compensation and benefits and transportation costs.

When Non-operating Expenses (NOEs) are included,[4] the net operating loss of $3.2 billion becomes a total net loss of $8.8 billion. This is a decline of $4.9 billion compared to FY 2018. The decline is largely driven by an increase in the non-cash adjustment to the workers' compensation expense, resulting from a lower discount rate.[5]

Figure I-1 shows net income (loss) and net operating income (loss) results for the period FY 2010 to FY 2019.[6]

[1] United States Postal Service, 2019 Report on Form 10-K, November 14, 2019 (Postal Service FY 2019 Form 10-K). Net income or loss from operations is also referred to as net operating income (loss).

[2] The Commission's calculation of net operating income (loss) differs from the controllable net income (loss) reported in Postal Service Form 10-K by a negative $226 million and $138 million for FY 2019 and FY 2018, respectively. The Postal Service excludes the difference in the normal cost of Retiree Health Benefits from its controllable income (loss) because it is the result of actuarial changes. Postal Service FY 2019 Form 10-K at 18.

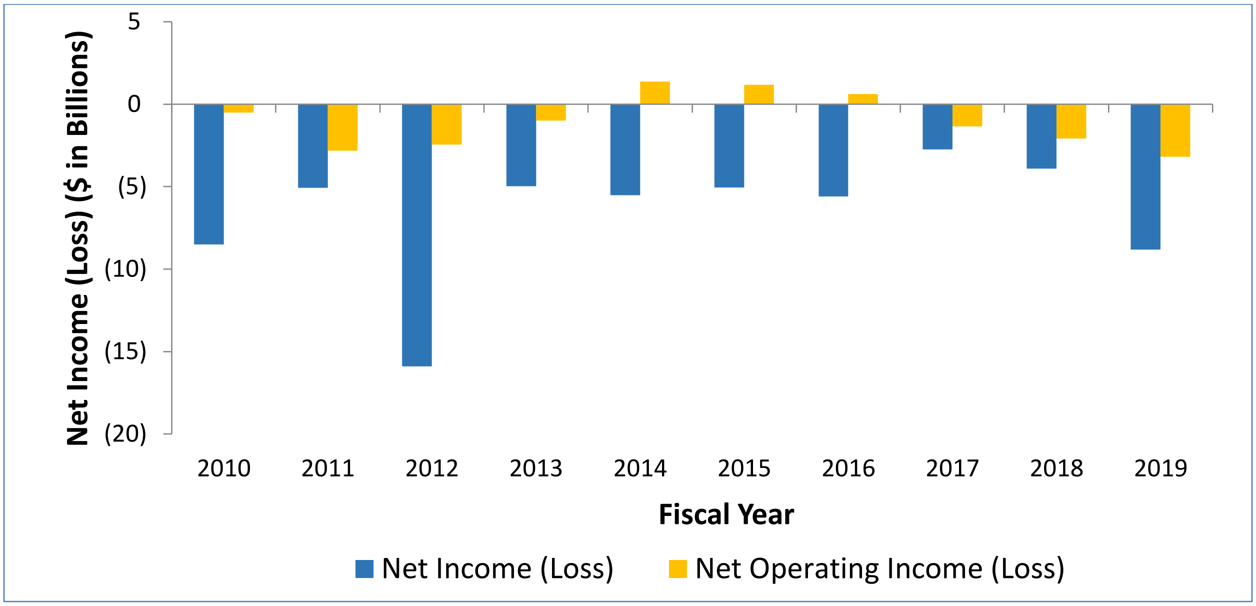
[3] Operating expenses include compensation and benefits, transportation, as well as supplies and services, depreciation and amortization, rent, utilities, vehicle maintenance, delivery vehicle fuel, information technology and communications, rural carrier equipment maintenance and miscellaneous other.

[4] NOEs include all non-cash workers' compensation costs, accruals to retirement accounts, and one-time adjustments.

[5] As will be discussed in more detail below, the workers' compensation expense is highly sensitive to changes in interest rates and the fluctuation in the non-cash adjustment has no effect on Postal Service's cash or operations.

[6] The Postal Service's fiscal year runs from October 1 of the preceding year through September 30.

Figure I-1
Postal Service's Financial Condition Has Declined in the Last Three Years



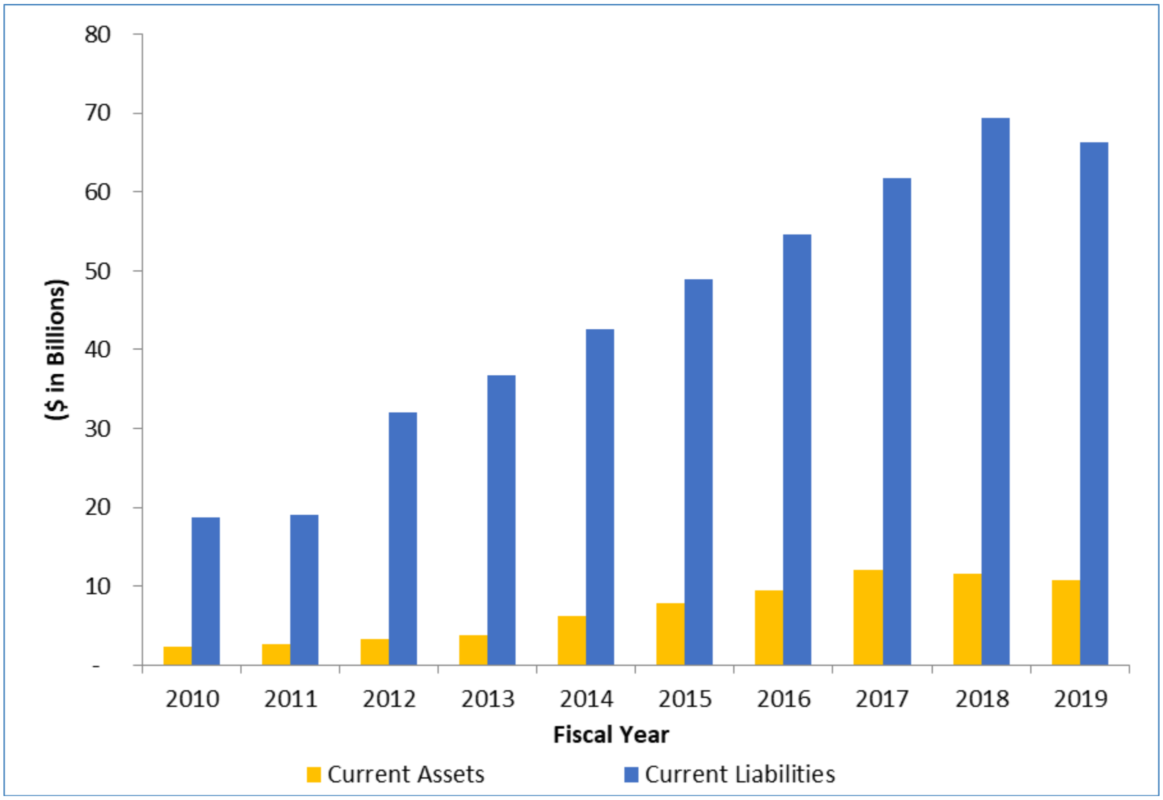
Source: United States Postal Service, 2010 Report on Form 10-K, November 15, 2010; United States Postal Service, 2011 Report on Form 10-K [Erratum], November 16, 2011; United States Postal Service, 2012 Report on Form 10-K, November 15, 2012; United States Postal Service, 2013 Report on Form 10-K, January 31, 2014; United States Postal Service, 2014 Report on Form 10-K, December 5, 2014; United States Postal Service, 2015 Report on Form 10-K, November 13, 2015; United States Postal Service, 2016 Report on Form 10-K, November 15, 2016; United States Postal Service, 2017 Report on Form 10-K, November 14, 2017; United States Postal Service, 2018 Report on Form 10-K, November 14, 2018 (Postal Service FY 2018 Form 10-K); Postal Service FY 2019 Form 10-K (collectively, Postal Service Form 10-K, FY 2010–FY 2019).

As seen in Figure I-1, the Postal Service has not had a profitable year in the last decade. Even when excluding NOEs, the Postal Service has posted a net operating income for only three of the last 10 years, FY 2014 through FY 2016, when the exigent price increase was in effect.[7]

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 2019, total assets decreased by $1.1 billion while total liabilities increased by $7.8 billion. At the end of FY 2019, the Postal Service recorded total assets of $25.6 billion and total liabilities of $97.2 billion. In FY 2019, the Postal Service continued to accrue unpaid RHB expenses which, at the end of FY 2019, totaled $47.2 billion. In FY 2019, the Postal Service had current assets of $10.8 billion and current liabilities of $66.3 billion as seen in Figure I-2.

[7] From January 2014 to April 2016, an exigent price surcharge allowed the Postal Service to recover $4.6 billion in net revenue above its price cap due to volume declines attributable to the Great Recession.

Figure I-2
The Gap Between the Postal Service's Current Assets and Current Liabilities Has Increased Considerably Over the Last Decade



Source: Postal Service Form 10-K, FY 2010–FY 2019.

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 above, the gap between current assets and current liabilities has increased substantially since FY 2010. A restructuring of short-term debt to long-term debt in FY 2019 led to a $3.1 billion decrease in current liabilities, the only such decrease since FY 2010. At the end of FY 2019, the Postal Service's outstanding debt, issued to the Federal Financing Bank, was financed at longer-term fixed rates and considered noncurrent.

The Postal Service's liquidity continued to improve in FY 2019. During FY 2019, the Postal Service paid down a portion of its debt, allowing for $4 billion in available borrowing authority. Its debt includes two revolving credit facilities with the Federal Financing Bank, neither of which are fully drawn. There are two reasons for the improved liquidity: (1) the Postal Service has not made a payment to the RHBF since FY 2010, and (2) beginning in FY 2017, the Postal Service has been required by statute to begin paying the amortization of the unfunded retirement benefits for the Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS). The Postal Service has not made the required payments for these unfunded pension liabilities.

Financial sustainability continues to erode due to large personnel-related liabilities and the slow replacement of fully depreciated capital assets. The overall financial condition is adversely impacted by insufficient current assets (42 percent of total assets) to cover current liabilities (68 percent of total liabilities).

At the end of FY 2019:

- The Postal Service's total net loss in FY 2019 was $8.8 billion.

- The Postal Service's cash and cash equivalents total, excluding $0.3 billion in restricted cash, was $8.8 billion; $1.3 billion lower than at the end of FY 2018. The Postal Service built up its cash by taking extraordinary actions to preserve liquidity, including defaulting on its prefunding obligations and failure to make payments towards FERS and CSRS, cutting operating costs, and suspending all but the most essential capital investments.

- The Postal Service had $4 billion in available borrowing authority, resulting from payments to the United States Department of Treasury made during the fiscal year. [8] However, significant balance sheet liabilities and off-balance sheet unfunded liabilities for pension and annuitant health benefits threaten the improvements in liquidity.

- The Postal Service recorded a $71.5 billion net deficit consisting of an accumulated deficit of $74.7 billion offset by capital contributions of $3.1 billion. This is primarily the result of several years of net operating losses that started in FY 2007.

- The Postal Service's labor costs are large. Compensation and benefits expenses made up 70.3 percent of Postal Service's total costs in FY 2019. Though the Postal Service aggressively reduced workhours between FY 2009 and FY 2014, this trend reversed in 2015 and workhours have continued to increase annually since then.

- First-Class Mail, Marketing Mail, and Shipping and Packages are the most important products for the Postal Service's finances. Combined, they provided 93 percent of the revenue from Mail and Services in FY 2019. With the exception of an anemic increase in Shipping and Packages volume, both First-Class Mail and Marketing Mail experienced volume declines. This means that in FY 2019, total revenue increased by less than 1 percent, while total cost increased by 7.3 percent.[9]

[8] In September 2018, the Postal Service paid down its debt by $1.8 billion, the first reduction in its annual debt since 2005. It made an additional payment of $2.2 billion in FY 2019.

[9] Total costs are separated into attributable costs and institutional costs (also known as common costs). Attributable costs include items like mail processing, delivery carriers, transportation, and retail transactions. Total attributable costs increased by 2.2 percent in FY 2019. The percentage of costs that are attributable as reported in the CRA were 56 percent in FY 2019. Institutional costs include items like delivery infrastructure (i.e., 160 million delivery points in 2019), administrative support, and retail infrastructure (i.e., 31,322 post offices). In addition, the Postal Service's institutional cost also includes substantial costs for retirement-related obligations and workers' compensation. These costs are impacted by actuarial assumptions, health care inflation rates, and discount rates, and they experience more year-to-year fluctuation than the costs for common overhead that are largely driven by inflation. Total institutional costs increased 14.6 percent in FY 2019.

- In FY 2019, consumer price index (CPI)-based price increases were not enough to offset revenue lost from declining Market Dominant mail volumes. Total Market Dominant revenue decreased by 1.6 percent.

- Several Market Dominant products failed to generate sufficient revenue to cover attributable cost. The total negative contribution to institutional cost from these products amounted to $1.7 billion in FY 2019.

- While parcel growth has been a bright spot in the Postal Service's finances, in FY 2019, Competitive products volume grew 0.2 percent, a rate of growth much lower than the 11.0 percent growth rate in FY 2018. Total revenue increased by 5.0 percent or $1.1 billion and attributable cost increased by 3.2 percent or $0.5 billion.

Chapter II. Postal Service Financial Status

Introduction

This chapter analyzes the Postal Service's overall financial status, with a focus on key figures in the financial statements. The Commission evaluates relationships between the essential components of the Postal Service's financial statements to understand the Postal Service's profitability, stability, and long-term viability.

The Commission's analysis, primarily based upon the Postal Service's Form 10-K financial statements for FY 2019 and FY 2018, provides a basis for comparison. The Commission also incorporates select key financial data from relevant time periods to support this analysis.

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

- Income Statements, which 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

- 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 includes an analysis of key financial ratios that help the Commission further assess the Postal Service's profitability.

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 section also discusses changes in net deficiency, which occurs because Postal Service liabilities exceed its assets. The remainder of the section provides a financial ratio analysis to assess both the short-term and long-term stability of the Postal Service.

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 revenue includes mail and services revenue as well as government appropriations revenue.[10] Net operating expense is calculated as total expenses minus payments for unfunded RHB, the supplemental contribution to the CSRS annuity, the supplemental contribution to the FERS annuity, and the non-cash adjustments to the workers' compensation liability. These adjustments and expenses are properly recognized as accrual entries on the Postal Service's Income Statements and are disaggregated by the Commission to provide an in-depth analysis of the financial results for FY 2019. Table II-1 illustrates the Commission's disaggregated version of the Income Statements.

Table II-1
Analysis of Postal Service Income Statements, FY 2019 and FY 2018
($ in Millions)

	FY 2019	FY 2018	$ Variance	FY 2019 Plan	$ Variance from Plan
Net Operating Revenue	**$ 71,154**	**$ 70,660**	**$ 494**	**$ 71,981**	**$ (827)**
Operating Expense as Reported by the Postal Service	79,879	74,445	5,434	78,549	1,330
Less: Amortization of RHB Unfunded Liability	(789)	(815)	26	(1,100)	311
Amortization of CSRS Unfunded Liability	(1,617)	(1,440)	(177)	(1,440)	(177)
Amortization of FERS Unfunded Liability	(1,060)	(958)	(102)	(958)	(102)
Non-Cash Change to Workers' Compensation Liability	(2,155)	1,389	(3,544)	-	(2,155)
Net Operating Expense	**$ 74,258**	**$ 72,621**	**$ 1,637**	**$ 75,051**	**$ (793)**
Interest Income	152	123	29	148	4
Interest Expense	240	251	(11)	220	20
Net Income (Loss) from Operations	**$ (3,192)**	**$ (2,089)**	**$ (1,103)**	**$ (3,142)**	**$ (50)**
Amortization of RHBF Unfunded Liability	789	815	(26)	1,100	(311)
Amortization of CSRS Unfunded Liability	1,617	1,440	177	1,440	177
Amortization of FERS Unfunded Liability	1,060	958	102	958	102
Non-Cash Change to Workers' Compensation Liability	2,155	(1,389)	3,544	-	2,155
Net Loss	**$ (8,813)**	**$ (3,913)**	**$ (4,900)**	**$ (6,640)**	**$ (2,173)**

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. ACR2019, Library Reference USPS-FY19-5, December 27, 2019; Docket No. ACR2018, Library Reference USPS-FY18-5, December 28, 2018; FY 2019 Plan data from USPS Preliminary Financial Information (Unaudited), September 2019, November 14, 2019, file "2019.11.14 September 2019 Monthly Financial Report to the PRC.pdf" (Postal Service September 2019 PFI Report).

The Postal Service incurred a net operating loss of $3.2 billion in FY 2019. In FY 2018, the Postal Service had a net operating loss of $2.1 billion. The FY 2019 loss represents a $1.1

[10] In FY 2019, $71 billion (99.8 percent) of total Postal Service revenue came from the sale of postage and mail services. It received a small governmental appropriation for providing free mail for the blind and overseas voting and a few other programs.

billion decline in profitability.[11] The FY 2019 net operating loss is the result of higher operating expenses. Net operating expenses were $1.6 billion higher than in FY 2018, primarily driven by increases in compensation and benefits and transportation costs. Operating revenue increased by $0.5 billion but was not enough to offset the increase in expenses.

After all adjustments and expenses are included, the net operating loss of $3.2 billion becomes a total net loss of $8.8 billion. This is a decline of $4.9 billion compared to FY 2018. The decline is largely driven by an increase in the non-cash adjustment to workers' compensation expense, resulting from a lower discount rate. Table II-2 details unpaid retirement expenses[12] for FY 2019 and FY 2018.

Table II-2
Postal Service Unpaid Retirement Expenses, FY 2019 and FY 2018
($ in Millions)

	FY 2019	FY 2018	$ Variance
Annual Amortization of CSRS Unfunded Liability	$ 1,617	$ 1,440	$ 177
Annual Amortization of FERS Unfunded Liability	1,060	958	102
Amortization of RHBF Unfunded Liability	789	815	(26)
Normal Costs of Retiree Health Benefits	3,775	3,666	109
Total Retirement Expense	**$ 7,241**	**$ 6,879**	**$ 362**

Source: Postal Service FY 2019 Form 10-K at 63.

Beginning in FY 2017, the Postal Service was required to begin making annual amortization payments to pay down the unfunded CSRS liability by FY 2043, pursuant to the PAEA.[13] The U.S. Office of Personnel Management (OPM) billed the Postal Service for $1.6 billion and $1.4 billion for this liability in FY 2019 and FY 2018, respectively.

The Postal Service is required to make annual amortization payments to pay down the unfunded FERS liability over a 30-year period. OPM billed the Postal Service for $1.1 and $1.0 billion for amortization of this liability in FY 2019 and FY 2018, respectively. The PAEA established the RHBF to fund long-term RHBs for postal employees, retirees, and their survivors. From FY 2006 through FY 2016, the PAEA required the Postal Service to make annual payments into the RHBF in order to prefund future liabilities. Beginning in FY 2017, these payments were replaced with annual amortization of the unfunded obligation as determined by OPM. In addition, the Postal Service began accruing the normal costs of retiree health benefits, also determined annually by OPM. In FY 2019, OPM billed the Postal

[11] The Commission's calculation of net operating income (loss) differs from the controllable net income (loss) reported in Postal Service Form 10-K by negative $226 million and $138 million for FY 2019 and FY 2018, respectively. The Postal Service excludes the difference in the normal cost of RHBs from its controllable income (loss) because it is the result of actuarial changes. Postal Service FY 2019 Form 10-K at 18.
[12] Normal cost is the present value of the estimated RHB attributable to active employees' current year of service.
[13] *Id.* at 30.

Service for both the amortization payment and normal costs of retiree health benefits in the amounts of $0.8 billion and $3.8 billion, respectively.[14]

MARKET DOMINANT REVENUE COMPARED TO PRIOR YEAR

The discussion in this section summarizes the overall revenue by class for Market Dominant products. Chapter 3 presents a more detailed discussion of revenue by class and product. Table II-3 shows FY 2019 and FY 2018 revenue by class.

Table II-3
Revenue by Market Dominant Class[15], FY 2019 and FY 2018
($ in Millions)

	FY 2019	FY 2018	$ Variance	% Variance
First-Class Mail	$ 25,462	$ 26,016	$ (554)	(2.1%)
Marketing Mail	16,407	16,554	(147)	(0.9%)
Periodicals	1,194	1,277	(83)	(6.5%)
Package Services	821	828	(6)	(0.8%)
Ancillary and Special Services	1,810	1,725	85	4.9%
Subtotal Market Dominant Mail and Services Revenue	**$ 45,695**	**$ 46,400**	**$ (705)**	**(1.5%)**
Other	1,299	1,196	103	8.6%
Total Market Dominant Mail and Services Revenue	**$ 46,994**	**$ 47,596**	**$ (602)**	**(1.3%)**

Decrease in revenue is denoted by ().
Numbers may not add across due to rounding.
Source: Library Reference PRC-LR-ACR2019/1, March 25, 2020; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1, April 12, 2019.

Total Market Dominant Mail and Services revenue declined 1.3 percent from the prior year. First-Class Mail revenue declined by 2.1 percent and USPS Marketing Mail revenue declined by 0.9 percent. Periodicals revenue declined by 6.5 percent and Package Services revenue declined by 0.8 percent. The only Market Dominant class with increased revenue was Ancillary and Special Services,[16] which increased by 4.9 percent compared to FY 2018. 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 mail volume, mail mix, and average revenue per piece for each year since FY 2014. The exigent surcharge was in effect between FY 2014 and FY 2016.[17] In FY 2016, Market Dominant products generated exigent surcharge revenue for 6 months before the surcharge expired in April 2016. The expiration of the exigent surcharge is the primary reason for the decline in revenue per piece in FY 2017.[18]

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[14] The Postal Service states that "We did not make any of these 2019, 2018 or 2017 payments totaling approximately $13.3 billion as of September 30, 2019, in order to preserve liquidity and to ensure that our ability to fulfill our primary universal service mission was not placed at undue risk." Postal Service FY 2019 Form 10-K at 6.

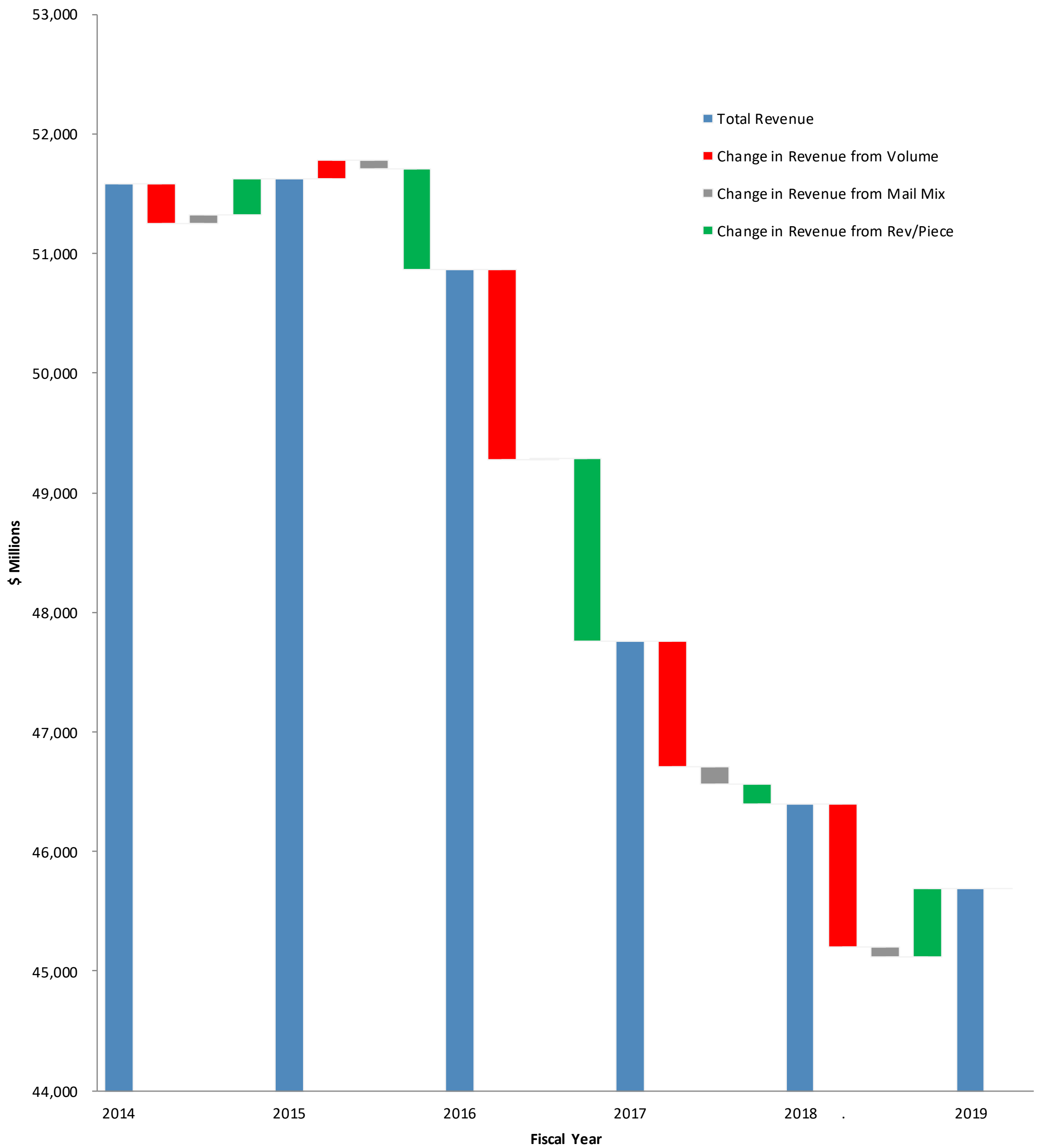
[15] Other Market Dominant revenue includes appropriations, miscellaneous item revenue, and revenue foregone.

[16] Ancillary and Special Services includes Certified Mail, Insurance, and Return Receipts, etc.

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

[18] The change in revenue per piece is affected by more than just rate changes. Changes in average weight per piece and—in the case of Periodicals—changes in the editorial/advertising content also influence the overall average revenue per piece. However, the predominant factor affecting changes in revenue per piece is generally changes in rates.

Figure II-1
Change in Market Dominant Revenue Due to Changes in Mail Volume, Mail Mix, and Average Revenue per Piece, FY 2014–FY 2019
($ in Millions)



Source: PRC derived from Docket No. ACR2014, Library Reference USPS-FY14-42, December 29, 2014; Docket No. ACR2015, Library Reference USPS-FY15-42, December 28, 2015; Docket No. ACR2016, Library Reference USPS-FY16-42, December 27, 2016; Docket No. ACR2017, Library Reference USPS-FY17-42, December 29, 2017; Docket No. ACR2018, Library Reference USPS-FY18-42, December 28, 2014; Library Reference USPS-FY19-42, December 27, 2019 (collectively, Postal Service RPW Report, FY 2014–FY 2019).

Table II-4 shows the changes in revenue caused by revenue per piece, volume, and mail mix fluctuations. In order to analyze the change in revenue for FY 2019, the Commission isolates changes in revenue per piece, volume, and mail mix fluctuations. As Figure II-1 and Table II-4 show, for Market Dominant products, increases in revenue per piece were not enough to offset volume decline and mail mix changes.

Table II-4
Disaggregation of Change in Market Dominant Revenue, FY 2019
($ in Millions)

	Change in Revenue from Changes in Revenue per Piece	Change in Revenue from Changes in Volume	Change in Revenue from Changes in Mail Mix	Net Change in Revenue
First-Class Mail	$ 277	$ (672)	$ (159)	$ (554)
Periodicals	9	(33)	(59)	(83)
USPS Marketing Mail	198	(428)	82	(147)
Package Services	18	(21)	(3)	(6)
Special Services	71	(45)	59	85
Total Market Dominant	**$ 573**	**$ (1,199)**	**$ (79)**	**$ (705)**

Source: PRC derived from Postal Service RPW Report, FY 2014–FY 2019.

Although Market Dominant mail revenue increased by $573 million primarily from the January 2019 price increases,[19] declines in volume resulted in a $705 million net decrease in Market Dominant mail revenue. First-Class Mail and USPS Marketing Mail lost $672 million and $428 million, respectively, from volume declines. Mail mix fluctuations resulted in revenue declines in First-Class Mail ($159 million) and Periodicals ($59 million). Overall mail mix changes had a slight effect on overall revenue decline, accounting for $79 million of the total Market Dominant revenue loss.

[19] *See* Docket No. R2019-1, United States Postal Service Notice of Market Dominant Price Change, October 10, 2018.

COMPETITIVE PRODUCT REVENUE COMPARED TO PRIOR YEAR

Competitive products' overall revenue increased $1.2 billion or 5.0 percent. The Competitive products price increase (effective January 27, 2019)[20] was the primary driver of the overall increase in revenue. Table II-5 compares revenue for Competitive products between FY 2019 and FY 2018.

Table II-5
Competitive Product Revenue, FY 2019 and FY 2018
($ in Millions)

	FY 2019	FY 2018	$ Variance	% Variance
Priority Mail	$ 9,464	$ 9,103	$ 361	4.0%
Total Ground	7,271	6,912	359	5.2%
First-Class Packages	4,466	3,871	596	15.4%
Priority Mail Express	716	751	(35)	(4.7%)
International	1,380	1,537	(157)	(10.2%)
Ancillary and Special Services	911	883	27	3.1%
Subtotal Competitive Products Mail and Services Revenue	**$ 24,207**	**$ 23,057**	**$ 1,150**	**5.0%**
Other Revenue	141	129	12	9.0%
Total Competitive Products Mail and Services Revenue	**$ 24,348**	**$ 23,187**	**$ 1,162**	**5.0%**

Decrease in revenue denoted by ().
Numbers may not add across due to rounding.
Source: Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2018/1; Library Reference USPS-FY19-42.

EXPENSE ANALYSIS AS COMPARED TO PRIOR YEAR

As shown in Table II-6, total expenses increased by $5.4 billion (7.3 percent) in FY 2019. Total operating expenses increased by $1.6 billion due to increases in personnel ($1.1 billion) and transportation ($0.3 billion) expenses. Lower discount rates used to calculate the non-cash portion of workers' compensation during FY 2019 resulted in an increase of $3.5 billion to the non-cash adjustment to workers' compensation. CSRS and FERS amortization payments also increased by $177 million and $102 million, respectively, but were offset slightly by a $26 million decline in the RHB amortization payment.

[20] *See* Docket No. CP2019-3, Order Approving Price Adjustments for Competitive Products, November 13, 2018 (Order No. 4876).

Table II-6
Total Expenses, FY 2019 and FY 2018
($ in Millions)

					% of Total Expenses	
	FY 2019	FY 2018	$ Variance	% Variance	FY 2019	FY 2018
Compensation & Benefits Expenses:						
Salaries and Benefits	$ 50,723	$ 49,684	$ 1,039	2.1%	63.5%	66.7%
Workers' Compensation - Cash Outlays	1,349	1,393	(44)	(3.2%)	1.7%	1.9%
Normal Costs of Retiree Health Benefits	3,774	3,666	108	2.9%	4.7%	4.9%
Other Personnel-Related	317	320	(3)	(1.0%)	0.4%	0.4%
Subtotal Personnel Expenses Excluding Systemwide Personnel Expenses	**$ 56,163**	**$ 55,063**	**$ 1,100**	**2.0%**	**70.3%**	**74.0%**
Transportation	8,184	7,861	323	4.1%	10.2%	10.6%
Other Expenses	9,911	9,697	214	2.2%	12.4%	13.0%
Total Operating Expenses	**$ 74,258**	**$ 72,621**	**$ 1,637**	**2.3%**	**93.0%**	**97.5%**
Systemwide Personnel Expenses:						
Non-Cash Change to Workers' Compensation Liability	2,155	(1,389)	3,544	NMF	2.7%	(1.9%)
Amortization of RHB Unfunded Liability	789	815	(26)	(3.2%)	1.0%	1.1%
Amortization of FERS Unfunded Liability	1,060	958	102	10.6%	1.3%	1.3%
Amortization of CSRS Unfunded Liability	1,617	1,440	177	12.3%	2.0%	1.9%
Total Expenses	**$ 79,879**	**$ 74,445**	**$ 5,434**	**7.3%**	**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 United States Postal Service, National Trial Balance and Statement of Revenue and Expenses, September 2019, November 14, 2019 (September 2019 Postal Service National Trial Balance); United States Postal Service, National Trial Balance and Statement of Revenue and Expenses, September 2018, November 14, 2018 (September 2018 Postal Service National Trial Balance).

PERSONNEL EXPENSES AS SHARE OF TOTAL EXPENSES

In FY 2019, personnel expenses excluding system-wide costs for non-cash adjustment to workers' compensation and amortization costs of unfunded retirement liabilities made up 70.3 percent of total expenses. This was a decline of 3.7 percentage points from FY 2018, when these expenses constituted 74.0 percent of total expenses. Although these personnel expenses increased by 2.0 percent over FY 2018, the variance in total expenses was much higher, primarily due to the large year-to-year fluctuation of the non-cash change to workers' compensation liability.

Other non-personnel-related expenses, such as purchased transportation costs, were 10.2 percent of total expenses—a decrease in share of 0.4 percentage points from FY 2018. Other Expenses[21] constituted the remaining 12.4 percent share of total expenses, a decrease of 0.6 percentage points from the prior year.

[21] 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 2019 Form 10-K at 38.

PERSONNEL EXPENSES

Table II-7 shows that total personnel expenses for FY 2019 increased by $4.9 billion from FY 2018, resulting from increases in both personnel operating expenses ($1.1 billion) and the non-cash adjustment to workers' compensation liability[22] ($3.5 billion). Compensation, retirement, and health benefit expenses all increased during FY 2019.

Table II-7
Breakdown of Total Personnel Expenses, FY 2019 and FY 2018
($ in Millions)

	FY 2019	FY 2018	$ Variance	% Variance
Total Compensation	$ 38,756	$ 37,795	$ 961	2.5%
Retirement	6,846	6,720	126	1.9%
Health Benefits - Current Employees	5,121	5,169	(48)	(0.9%)
Workers' Compensation - Cash Outlays	1,349	1,393	(44)	(3.2%)
Normal Costs of Retiree Health Benefits	3,774	3,666	108	2.9%
Other Compensation	317	320	(3)	(0.9%)
Total Personnel Operating Expenses	**$ 56,163**	**$ 55,063**	**$ 1,100**	**2.0%**
Non-Cash Change to Workers' Compensation Liability	2,155	(1,389)	3,544	NMF
Amortization of RHB Unfunded Liability	789	815	(26)	(3.2%)
Amortization of FERS Unfunded Liability	1,060	958	102	10.6%
Amortization of CSRS Unfunded Liability	1,617	1,440	177	12.3%
Total Personnel Expenses	**$ 61,784**	**$ 56,887**	**$ 4,897**	**8.6%**

Decrease in expenses is denoted by (). NMF denotes not meaningful figures.
Numbers may not add across due to rounding.
Source: PRC derived from September 2019 Postal Service National Trial Balance; September 2018 Postal Service National Trial Balance.

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 work force. Total compensation in FY 2019 increased by $0.09 billion compared to FY 2018 primarily due to contractual salary increases,[23] COLAs, and additional overtime hours.[24]

The Postal Service's work force 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 2017, FY 2018, and FY 2019.

[22] Workers' compensation expense consists of cash payments, miscellaneous expenses, and the net increase (decrease) in the workers' compensation liability.
[23] Postal Service FY 2019 Form 10-K at 25.
[24] *Id.*

Table II-8
Postal Service Employee Complement, FY 2017–FY 2019

	FY 2019	FY 2018	Change FY 2019 over FY 2018	FY 2017	Change FY 2018 over FY 2017
Career Employees	496,934	497,157	(223)	503,103	(5,946)
Postal Support Employees	26,251	26,386	(135)	26,823	(437)
City Carrier Assistants	42,121	42,115	6	44,486	(2,371)
Mailhandler Assistants	6,369	6,274	95	6,463	(189)
Other Non-Career	61,433	62,515	(1,082)	63,249	(734)
Total On-Roll Employees	**633,108**	**634,447**	**(1,339)**	**644,124**	**(9,677)**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
Source: United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2019, October 15, 2019 (Postal Service September 2019 ORPES Report); United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2018, October 10, 2018 (Postal Service September 2018 ORPES Report); United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2017, October 6, 2017 (Postal Service September 2017 ORPES Report).

In FY 2019, the Postal Service's career workforce remained essentially unchanged compared to the prior year. The non-career workforce declined by approximately 1,000 employees. According to the Postal Service, this change resulted from normal attrition and conversions of non-career employees to career status as required by operational needs or contractual provisions.[25]

In May 2019, the Postal Service reached a 3-year agreement with the National Rural Letter Carriers Association, which includes general wage increases of 3.4 percent over the life of the contract.[26] A July 2016 agreement with the American Postal Workers Union included general wage increases of 3.8 percent over the life of the contract and expired in September 2018. In June 2019, the parties entered into interest arbitration, during which a three-member arbitration panel will decide the terms of the successor agreement. Both parties agreed to extend the contract terms until a new contract is reached through the arbitration process.[27] A May 2017, 40-month agreement with the National Association of Letter Carriers (NALC) included general wage increases totaling 2.5 percent over the life of the contract. That contract expired in September 2019, after which both parties entered a dispute resolution process. The NALC agreement's terms will be applicable until a new contract is reached.[28] Figure II-2 illustrates the change in workhours for all hourly employees since FY 2004. This timeframe includes a significant reduction in workhours during the Great Recession and little net change in more recent years.

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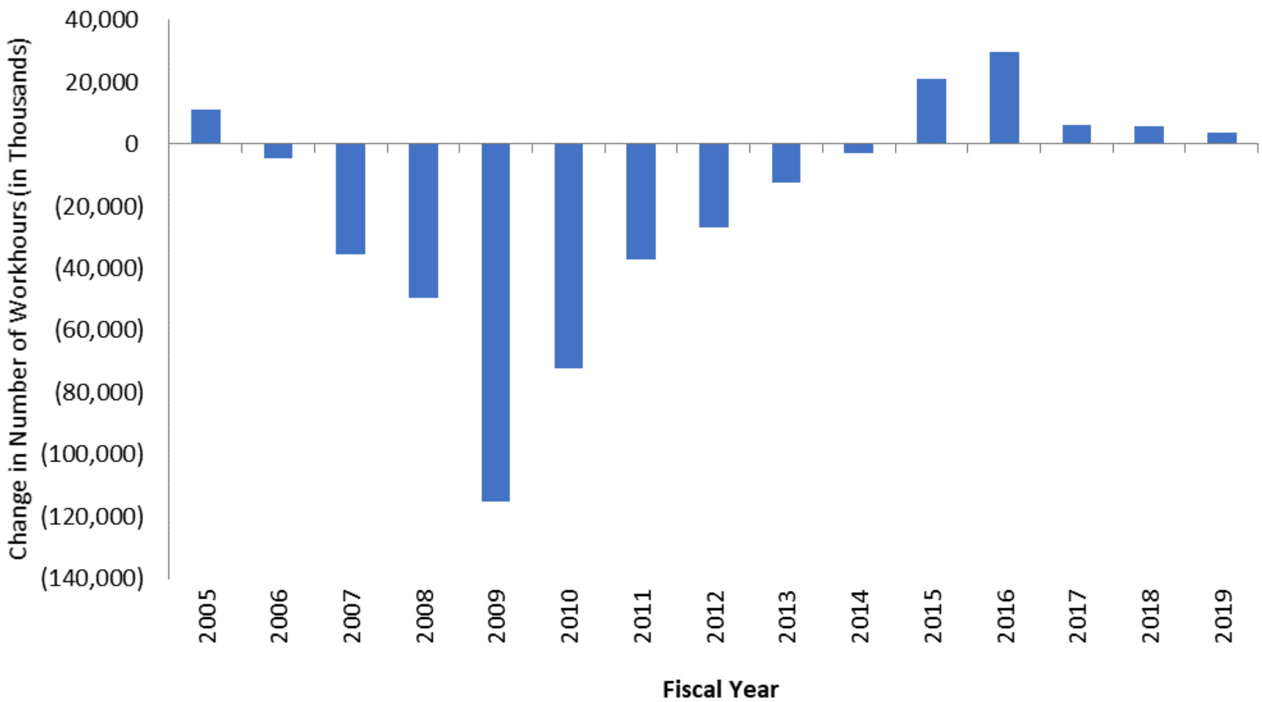
[25] Postal Service FY 2019 Form 10-K at 25.
[26] *Id.* at 5.
[27] *Id.*
[28] *Id.* at 6.

Figure II-2
Change in Total Workhours, FY 2005–FY 2019



Source: Postal Service Form 10-K, FY 2004–FY 2019.

Total workhours increased by approximately 3.5 million during FY 2019.[29] In FY 2019, workhours increased in Rural Delivery (3.2 percent), Vehicle Maintenance (2.8 percent), and Other (1.1 percent) categories.[30] Workhours declined in Mail Processing (1.6 percent), Customer Service (0.2 percent), City Delivery (0.1 percent), and Plant & Equipment (1.2 percent).

[29] Postal Service FY 2019 Form 10-K at 26.
[30] The "Other" category represents Operations Support, Finance, Human Resources, Administration, Training, and Rehabilitation workhours.

Table II-9
Workhours by Function (Thousands of Workhours), FY 2017–FY 2019

	FY 2019	FY 2018	% Variance FY 2019 over FY 2018	FY 2017	% Variance FY 2018 over FY 2017
Mail Processing	194,905	198,029	(1.6%)	202,069	(2.0%)
Customer Service	168,992	169,372	(0.2%)	170,725	(0.8%)
Delivery Service:					
City Delivery	425,894	426,353	(0.1%)	422,811	0.8%
Rural Delivery	211,505	204,874	3.2%	197,574	3.7%
Maintenance:					
Plant & Equipment	62,525	63,302	(1.2%)	64,477	(1.8%)
Vehicle	30,822	29,990	2.8%	28,877	3.9%
Other	78,566	77,697	1.1%	77,345	0.5%
Total Workhours	**1,173,208**	**1,169,617**	**0.3%**	**1,163,878**	**0.5%**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Library Reference USPS-FY19-7, December 27, 2019; Docket No. ACR2018, Library Reference USPS-FY18-7, December 28, 2018; Docket 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."

The Postal Service defines productive hourly wage rates as the labor costs per work hour by cost segment/craft.[31] This metric reflects the effect of wage levels, the composition of workers, overtime, pay premiums, and leave usage on hourly labor costs. The productive hourly wage rates are shown in Table II-10.[32] The productive hourly wage rate for clerks decreased by 0.6 percent, compared to the prior year. The productive hourly wage rate for city delivery carriers (2.5 percent), rural carriers (3.9 percent), and building equipment (7.7 percent) all increased compared to the prior year. From FY 2017 through FY 2019, the productive hourly wage rate increased in every category except vehicle drivers.[33]

[31] USPS-FY19-17 Preface at 1.
[32] The productive hourly wage rate is a measure of total compensation and benefits costs per hour worked. Compensation includes overtime, annual, sick, or holiday pay and any other hourly pay premiums.
[33] The percent change from FY 2017 through FY 2019 is calculated by adding the percent change from FY 2019 to FY 2018 and the percent change from FY 2018 to FY 2017.

Table II-10
Productive Hourly Wage Rates ($ per Workhour), FY 2017–FY 2019

Segment/Subsegment	FY 2019	FY 2018	% Change FY 2019 over FY 2018	FY 2017	% Change FY 2018 over FY 2017
Supervisors & Technicians	$ 52.78	$ 52.52	0.5%	$ 51.54	1.9%
Clerks	40.61	40.87	(0.6%)	39.94	2.3%
Mailhandlers	41.45	41.27	0.5%	40.37	2.2%
City Delivery Carriers	42.34	41.31	2.5%	40.43	2.2%
Vehicle Drivers	45.41	45.67	(0.6%)	45.61	0.1%
Rural Carriers	38.17	36.72	3.9%	36.48	0.7%
Building Services	42.96	43.37	(0.9%)	41.67	4.1%
Operating Equipment	54.36	55.32	(1.7%)	54.24	2.0%
Building Equipment	55.32	51.36	7.7%	50.40	1.9%
Motor Vehicle Service	50.66	49.86	1.6%	48.65	2.5%
Headquarters	71.36	68.07	4.8%	67.72	0.5%

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
NMF = Not Meaningful Figure

Source: Library Reference USPS-FY19-7, December 28, 2019; Library Reference USPS-FY18-7, December 28, 2018; Docket No. ACR2017, Library Reference PRC-ACR2017/1.

Workers' compensation expenses increased by $3.5 billion in FY 2019. 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 United States 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 expense 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. These factors cause the non-cash portion of workers' compensation to fluctuate year to year. In FY 2019, the non-cash component of long-term workers' compensation expense increased by $3.5 billion compared to the prior year. The portion of long-term workers' compensation expense attributable to the impact of discount rate changes resulted in a $3.4 billion increase.[34] Table II-11 disaggregates components factoring into the workers' compensation expense for the past 2 years.

[34] Postal Service FY 2019 Form 10-K at 36.

Table II-11
Components of Workers' Compensation Expense, FY 2019 and FY 2018
($ in Millions)

	FY 2019	FY 2018	$ Variance	% Variance
Medical and Compensation Claims Payments	$ 1,266	$ 1,312	$ (46)	(3.5%)
Administrative Fee	83	81	2	2.5%
Cash Outlays	**$ 1,349**	**$ 1,393**	**$ (44)**	**(3.2%)**
(Decrease) Increase in Long-Term Workers' Compensation Obligation	2,155	(1,389)	3,544	NMF
Workers' Compensation Expense	**$ 3,504**	**$ 4**	**$ 3,500**	**NMF**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
NMF = Not Meaningful Figure

Source: Postal Service FY 2019 Form 10-K at 36.

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* Table II-7.

Table II-12
Transportation Costs by Category, FY 2019 and FY 2018
($ in Millions)

	FY 2019	FY 2018	$ Variance	% Variance
Highway Transportation	$ 4,517	$ 4,319	$ 198	4.6%
Air Transportation	3,070	2,892	178	6.2%
International Transportation	556	611	(55)	(9.0%)
Other Transportation	41	39	2	5.1%
Total Transportation	**$ 8,184**	**$ 7,861**	**$ 323**	**4.1%**

Decrease in expenses is denoted by (). Numbers may not add across due to rounding.
Source: Postal Service FY 2019 Form 10-K at 37.

Total transportation expenses increased by 4.1 percent from FY 2018. Highway transportation costs increased by 4.6 percent. According to the Postal Service, this increase was primarily caused by higher unit costs per mile, resulting in part from a national shortage of long-haul truck drivers and higher diesel fuel prices.[35] Air transportation costs increased by 6.2 percent, primarily due to increased volumes and higher jet fuel prices.[36] These expenses are slightly offset by a decline in international transportation (9.0 percent), which includes only expenses related to outbound mail. This decline resulted from volume declines in Priority Mail International and other international service volumes.[37]

[35] Postal Service FY 2019 Form 10-K at 37.
[36] *Id.*
[37] *Id.*

Table II-13 shows all other non-personnel-related expenses increased by $0.2 billion in FY 2019. Increases in depreciation, rent and utilities, information technology, rural carrier equipment maintenance, and miscellaneous other expenses were partially offset by declines in supplies and services, vehicle maintenance, and delivery vehicle fuel. According to the Postal Service, the 41.8 percent increase in miscellaneous other expenses is the result of the impact of the lower FY 2018 expenses relating to adjustments for contingent liabilities for labor and employment matters.[38] Miscellaneous other expenses consist mainly of travel, training, repairs, and contingency accounts.

Table II-13
Other Non-Personnel Expenses, FY 2019 and FY 2018
($ in Millions)

	FY 2019	FY 2018	$ Variance	% Variance
Supplies and Services	$ 2,819	$ 2,991	$ (172)	(5.8%)
Depreciation and Amortization	1,697	1,669	28	1.7%
Rent and Utilities	1,714	1,694	20	1.2%
Vehicle Maintenance Services	627	629	(2)	(0.3%)
Delivery Vehicle Fuel	491	502	(11)	(2.2%)
Information Technology and Communications	916	913	3	0.3%
Rural Carrier Equipment Maintenance	588	552	36	6.5%
Miscellaneous Other	1,059	747	312	41.8%
Total Other Non-Personnel Expenses	**$ 9,911**	**$ 9,697**	**$ 214**	**2.2%**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service FY 2019 Form 10-K at 38.

Comparison of Postal Service Actual Results to Operating Plan

The Postal Service's FY 2019 Operating Plan, as outlined in its 2019 Integrated Financial Plan (IFP), projected a net loss of $6.6 billion in FY 2019.[39] The actual total net loss of $8.8 billion was $2.2 billion more than the Postal Service estimated. Total revenue was $0.8 billion less than planned. Total operating expenses were $0.8 billion less than planned with total retirement accruals unchanged. However, because the $2.2 billion unfavorable change in the non-cash workers' compensation was not included in the plan, the Postal Service's net loss was greater than initially projected. Table II-14 compares actual FY 2019 results with the estimated results in the Operating Plan.

[38] *Id.*
[39] United States Postal Service, Integrated Financial Plan, Fiscal Year 2019, November 20, 2018, at 1 (Postal Service FY 2019 IFP); *see also* Postal Service September 2019 PFI Report.

Table II-14
Actual and Operating Plan Income Statements, FY 2019
($ in Billions)[40]

	FY 2019 Actual	FY 2019 Operating Plan	$ Variance
Total Revenue	$ 71.3	$ 72.1	$ (0.8)
Total Operating Expense	74.5	75.3	(0.8)
Net Operating Income/(Loss)	**$ (3.2)**	**$ (3.2)**	**$ (0.0)**
Non-Cash Change to Workers' Compensation	2.2	0.0	2.2
RHBF Unfunded Liability Amortization	0.8	1.1	(0.3)
FERS Unfunded Liability Amortization	1.1	1.0	0.1
CSRS Unfunded Liability Amortization	1.6	1.4	0.2
Total Net Income/(Loss)	**$ (8.8)**	**$ (6.7)**	**$ (2.2)**

Decrease in revenue and expense is denoted by (). Increase in net loss is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service September 2019 PFI Report at 1, 3.

As seen in Table II-15, total revenue from Market Dominant mail and Competitive mail were both lower than expected. First-Class Mail revenue was $0.2 billion more than expected while Periodicals, USPS Marketing Mail, and Other mail were all under plan.[41] Revenue from Competitive mail and Other Parcels was $0.1 billion less than what was projected. International mail revenue was $0.4 billion less than planned.

[40] Total revenue includes investment income.
[41] Other mail includes Market Dominant Package Services, Special Services, and Other Ancillary Services.

Table II-15
Actual and Operating Plan Revenue by Categories Shown in IFP,[42] FY 2019
($ in Billions)[43]

	FY 2019 Actual	FY 2019 Operating Plan	$ Variance
First-Class Mail	$ 24.4	$ 24.2	$ 0.2
Periodicals	1.2	1.2	(0.0)
USPS Marketing Mail	16.4	16.8	(0.4)
Other	3.7	3.9	(0.2)
Competitive and Other Parcels	23.0	23.1	(0.1)
International	2.5	2.9	(0.4)
Total Mail Revenue	**$ 71.1**	**$ 72.1**	**$ (1.0)**

Decrease in revenue is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service September 2019 PFI Report at 2; Postal Service FY 2019 IFP at 4.

Total volume was 1.1 billion pieces less than expected, primarily due to lower than expected volume in USPS Marketing Mail. Additionally, Competitive and Other Parcels volume was 0.8 billion pieces lower than expected. Table II-16 compares volumes for FY 2019 with the volume projected in the Operating Plan.

Table II-16
Actual and Operating Plan Volume by Categories Shown in IFP,[44] FY 2019
(in Billions)

	FY 2019 Actual	FY 2019 Operating Plan	Variance
First-Class Mail	54.9	54.3	0.6
Periodicals	4.6	4.7	(0.1)
Marketing Mail	75.7	77.2	(1.5)
Other	0.9	0.3	0.6
Competitive and Other Parcels	5.5	6.3	(0.8)
International	0.9	0.9	(0.0)
Total Mail Volume	**142.6**	**143.7**	**(1.1)**

Decrease is denoted by (). Numbers may not add due to rounding.
Source: Postal Service September 2019 PFI Report at 2; Postal Service FY 2019 IFP at 3.

[42] The Postal Service FY 2019 IFP isolates volume from International and Parcels from the other categories. *See* Postal Service FY 2019 IFP at 4.
[43] Total mail revenue excludes investment income.
[44] The Postal Service FY 2019 IFP isolates revenue from International and Parcels from the other categories. *See* Postal Service FY 2019 IFP at 4.

Total expenses were $1.3 billion more than anticipated. Operating expenses were $0.8 billion lower than expected, offset by higher than expected non-operating expenses of $2.1 billion. Total expenses were more than expected because the $2.2 billion unfavorable change in the non-cash workers' compensation was not included in the plan. Total expenses would be $0.8 billion less than projected with the exclusion of the change in the non-cash workers' compensation. As shown in Table II-17, the compensation and benefits expense was $0.2 billion lower than planned, primarily resulting from an adjustment made to RHB normal cost actuarial revaluation which was not anticipated in initial projections.[45]

Total non-personnel expenses were $0.5 billion less than projected, the only positive variances being for rent ($0.3 billion), utilities ($0.06 billion), rural carrier equipment maintenance ($0.04 billion), and other expenses ($0.3 billion).

Table II-17
Actual and Operating Plan Expenses, FY 2019
($ in Billions)

	FY 2019 Actual	FY 2019 Operating Plan	$ Variance
Compensation & Benefits	$ 56.2	$ 56.4	$ (0.2)
Transportation	8.2	8.2	(0.0)
Supplies & Services	2.8	3.1	(0.3)
Depreciation and Amortiation	1.7	1.7	(0.03)
Rent/Utilities/Other	5.4	5.6	(0.2)
Total Operating Expenses	**$ 74.3**	**$ 75.1**	**$ (0.8)**
Workers' Compensation Adj.	2.2	0.0	2.2
RHB Unfunded Amortization	0.8	1.1	(0.3)
FERS Unfunded Amortization	1.1	1.0	0.1
CSRS Unfunded Amortization	1.6	1.4	0.2
Total Expenses	**$ 79.9**	**$ 78.5**	**$ 1.3**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service September 2019 PFI Report at 3.

[45] *See* Postal Service September 2019 PFI Report.

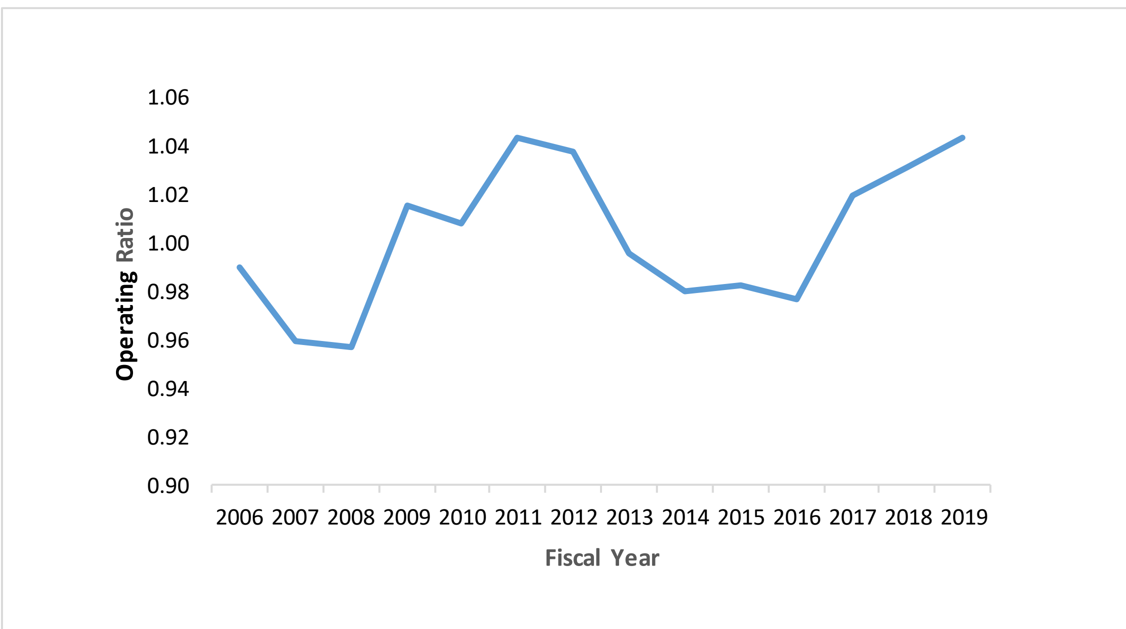
Financial Ratio Analysis

Financial ratios are used to interpret accounting information. The Commission calculated key financial ratios to facilitate its analysis of the Postal Service's financial performance between FY 2006 and FY 2019. These ratios provide a concise and systematic way to organize financial data into meaningful information. The historic accounting information used in ratio analysis is not adjusted for inflation.

OPERATING RATIO

The operating ratio measures how well an organization is able to keep operating costs low while generating revenue. The Commission measures this by comparing the Postal Service's total revenue with total operating expenses. Figure II-3 shows the operating ratio since FY 2006.

Figure II-3
Operating Ratio Trend Since FY 2006



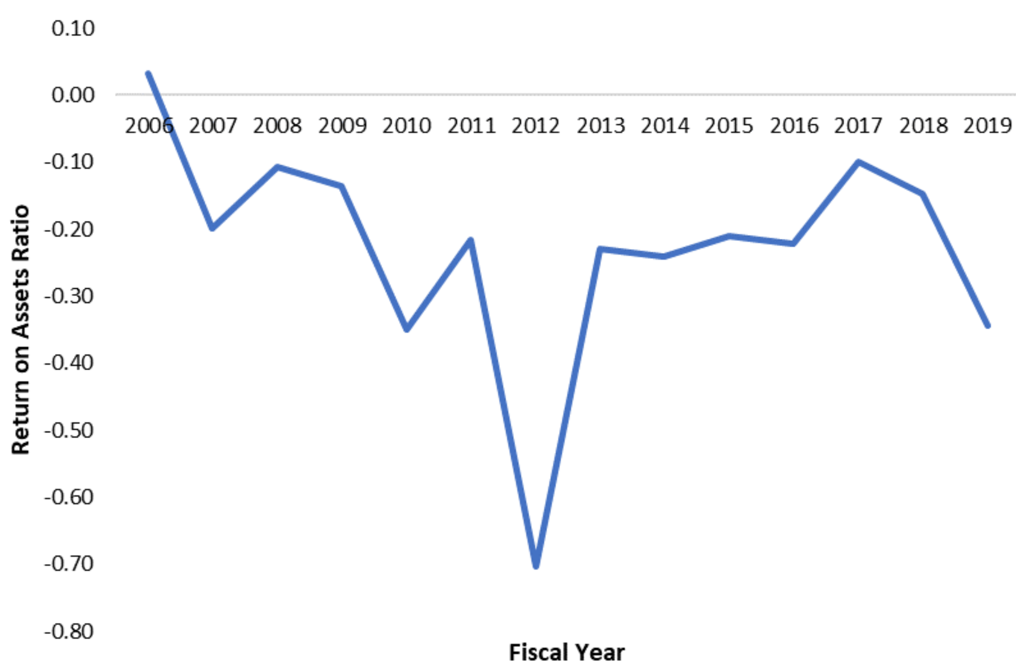
Source: Postal Service Form 10-K, FY 2006–FY 2019.

The operating ratio at the end of FY 2019 was 1.04, an increase of 0.01 compared to FY 2018. An increasing operating ratio indicates a deterioration in the Postal Service's ability to reduce costs while generating revenue. Total operating expenses include total expenses minus accruals for certain personnel-related expenses, such as amortization of unfunded retirement obligations, mandated retirement prefunding of RHB, and the non-cash adjustments to the workers' compensation that are affected by fluctuations in the discount rate. The FY 2019 ratio is at the same level as in FY 2011 and FY 2012 and slightly higher than the historical 10-year average of 1.01.

RETURN ON ASSETS

The return on assets ratio is a measure of how efficiently an organization uses its assets to generate profits. The Postal Service's return on assets since FY 2006 is shown in Figure II-4.

Figure II-4
Return on Assets Trend Since FY 2006



Source: Postal Service Form 10-K, FY 2006–FY 2019.

The Postal Service's total assets are comprised of cash and cash equivalents, receivables, and property, plant, and equipment. At the end of FY 2019, the Postal Service had a negative return on assets ratio of 0.34, a decline of 0.20 compared to the end of FY 2018. This was the result of the large increase in the Postal Service's net loss, primarily caused by an increase in operating expenses and an unfavorable change to the non-cash workers' compensation expense.

FY 2006 showed a positive ratio. This was during the Postal Reorganization Act regime when revenue was required to cover costs (break-even). From FY 2007 through FY 2010, the effects of the Great Recession and the annual RHBF payments resulted in operating losses. The percentage change in year to year net losses were greater than the percentage change in year to year total assets resulting in increasingly negative ratios. The Postal Service began using available debt to invest in capital and fund its operations. From FY 2007 through FY 2010, the Postal Service used $7.8 billion of its $15 billion allowable debt.[46] The sharp decline in FY 2012 was largely the result of two RHB prefunding payments totaling $11.1 billion. The improvement in FY 2014 through FY 2016 was primarily the result of revenue generated from the exigent surcharge[47] and improving cash balances resulting from defaults on annual RHB prefunding payments. The improvement in FY 2017 resulted from lower retirement-related health benefit expenses compared to the statutory prefunding of the RHBF and a decrease in non-cash workers' compensation expense from higher discount rates.

Analysis of Balance Sheets

This section analyzes the Postal Service's financial situation and use of resources based on data from Balance Sheets prepared according to U.S. Generally Accepted Accounting Principles (U.S. GAAP). The analysis compares two points in time, September 30, 2019 (FY 2019) and September 30, 2018 (FY 2018). Table II-18 compares certain categories in the Postal Service's asset and liability structure for FY 2019 with FY 2018. This analysis is derived from the Postal Service's Balance Sheets.

[46] Postal Service Form 10-K, Balance Sheet, FY 2007–FY 2010.

[47] *See* Docket No. R2013-11, Order Granting Exigent Price Increase, December 24, 2013 (Order No. 1926).

Table II-18
Structure of Assets and Liabilities, FY 2019 and FY 2018
($ in Millions)

				% of Total Assets	
	FY 2019	FY 2018	$ Variance	FY 2019	FY 2018
Assets					
Cash and Cash Equivalents (includes Restricted Cash)	$ 9,161	$ 10,336	$ (1,175)	35.7%	38.7%
Receivables	1,461	1,094	367	5.7%	4.1%
Supplies and Prepayments	178	153	25	0.7%	0.6%
Total Current Assets	10,800	11,583	(783)	42.1%	43.4%
Non-Current Assets	14,833	15,105	(272)	57.9%	56.6%
Total Assets	**$ 25,633**	**$ 26,688**	**$ (1,055)**	**100.0%**	**100.0%**
				% of Total Liabilities	
	FY 2019	**FY 2018**	**$ Variance**	**FY 2019**	**FY 2018**
Liabilities					
Retiree Benefits	$ 47,205	$ 42,641	$ 4,564	48.6%	47.7%
Current Portion of Long-Term Debt	-	11,000	(11,000)	0.0%	12.3%
Deferred Revenue-Prepaid Postage	2,225	2,066	159	2.3%	2.3%
Other Current Liabilities	16,852	13,763	3,089	17.3%	15.4%
Total Current Liabilities	66,282	69,470	(3,188)	68.2%	77.8%
Workers' Compensation Costs, Non-Current	17,170	15,026	2,144	17.7%	16.8%
Non-current Portion of Long-Term Debt	11,000	2,200	8,800	11.3%	2.5%
Other Non-Current Liabilities	2,713	2,629	84	2.8%	2.9%
Total Non-Current Liabilities	30,883	19,855	11,028	31.8%	22.2%
Total Liabilities	**$ 97,165**	**$ 89,325**	**$ 7,840**	**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 2019 Postal Service National Trial Balance.

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

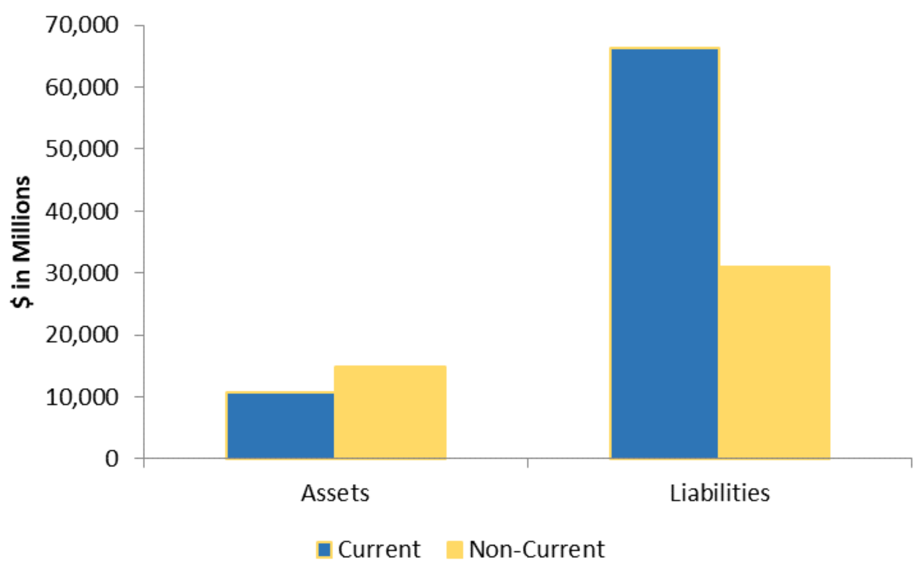
Liabilities at the end of FY 2019 totaled $97.2 billion, 68.2 percent of which were current liabilities. Current liabilities are obligations that will come due within 1 year, while non-current liabilities are long-term financial obligations. Current liabilities consist largely of missed payments for statutory RHBF prefunding and amortization of unfunded RHB obligations, and defaulted payments for amortization of unfunded CSRS and FERS obligations. The Postal Service continued to accrue unpaid retirement expenses, which totaled $47.2 billion at the end of FY 2019. This includes accruals for FY 2012 through FY 2016, when the Postal Service was unable to pay down the obligation along with the amortization payments on the RHB unfunded obligation. This obligation is 71.2 percent of current liabilities. Long-term liabilities consist mainly of workers' compensation liability ($17.2 billion) and the total net debt owed to the Federal Financing Bank ($11 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 2019, the Postal Service recorded a $71.5 billion net deficit consisting of an accumulated deficit of $74.7 billion[48] offset by capital contributions of $3.1 billion. This is primarily the result of several years of net operating losses, starting in FY 2007.

Figure II-5 shows the mix of the Postal Service's asset and liability structure as of September 30, 2019. The shortage of current assets (42 percent of total assets) to cover current liabilities (68.2 percent of total liabilities) adversely affects the Postal Service's financial condition. Non-current assets comprise 57.9 percent of total assets, while non-current liabilities only comprise 31.8 percent of total liabilities.

Figure II-5
Categories of Assets and Liabilities, FY 2019



Source: Postal Service FY 2019 Form 10-K at 52.

Working capital is the difference between current assets and current liabilities. In FY 2019, the Postal Service's working capital was negative $55.5 billion.

[48] In FY 2018, the Postal Service adopted new accounting standards which slightly modified the beginning balance of net deficiency and current liabilities by a net amount of $82 million. Postal Service FY 2019 Form 10-K at 59.

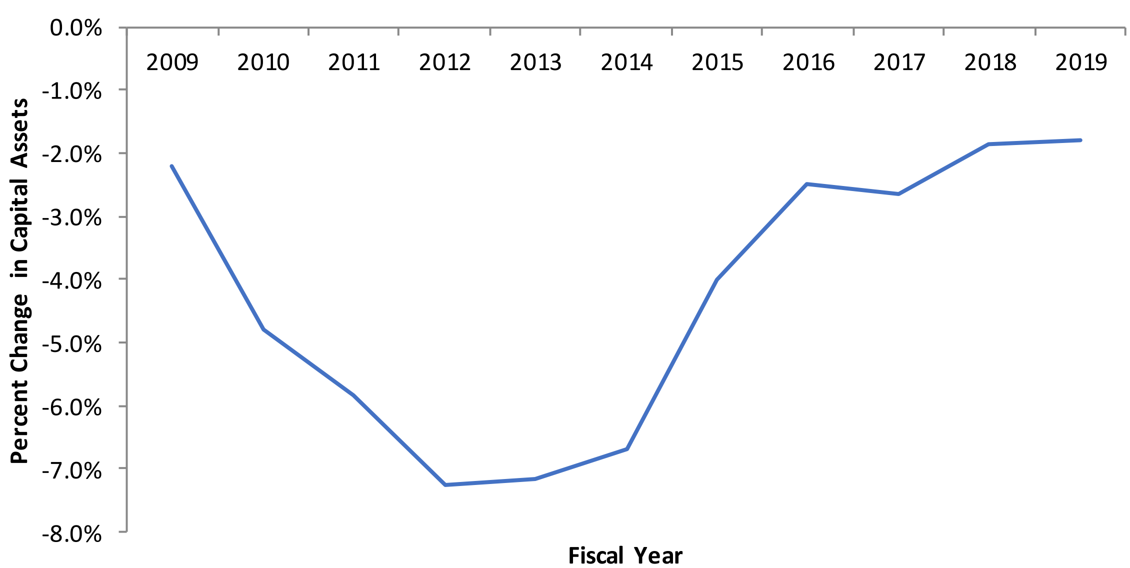
During FY 2019, total assets decreased by $1.1 billion primarily due to a $1.2 billion decrease in the cash balance. The decrease in cash resulted from payments on notes payable due to the Federal Financing Bank. However, the issuance of additional long-term debt offsets those payments by $1.8 billion. Aging capital assets and the continued restrictions on capital investment resulted in depreciation costs in excess of investments.

Total liabilities increased by $7.8 billion mainly due to personnel-related liabilities, such as the accrual of the unpaid retirement expenses for FY 2019.

Assets

Aging capital assets and the continued restriction in capital investment resulted in a decline in net property, plant, and equipment of $0.3 billion. Depreciation costs of $1.7 billion offset property and equipment investments of $1.4 billion. Figure II-6 illustrates the trend in the Postal Service's net capital assets since FY 2008. Aging capital assets and the continued restrictions on capital investment resulted in depreciation costs in excess of investments, which resulted from FY 2009 in a net decrease in fixed assets of $8.3 billion.

Figure II-6
Percent Change in Capital Assets, FY 2008–FY 2019

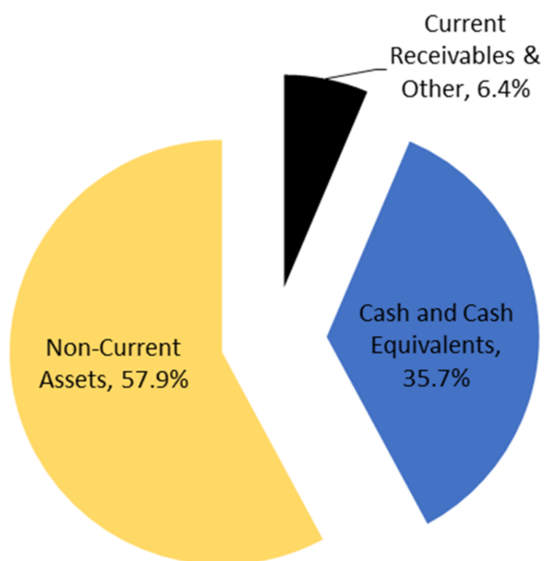


Source: Postal Service Form 10-K, FY 2008–FY 2018.

The Postal Service continues to limit its capital expenditures to necessary safety, customer support, and high-return investments.[49] Figure II-7 shows the breakdown of the Postal Service assets as of September 30, 2019.

[49] Postal Service FY 2019 Form 10-K at 41.

Figure II-7
Postal Service Asset Structure, September 30, 2019



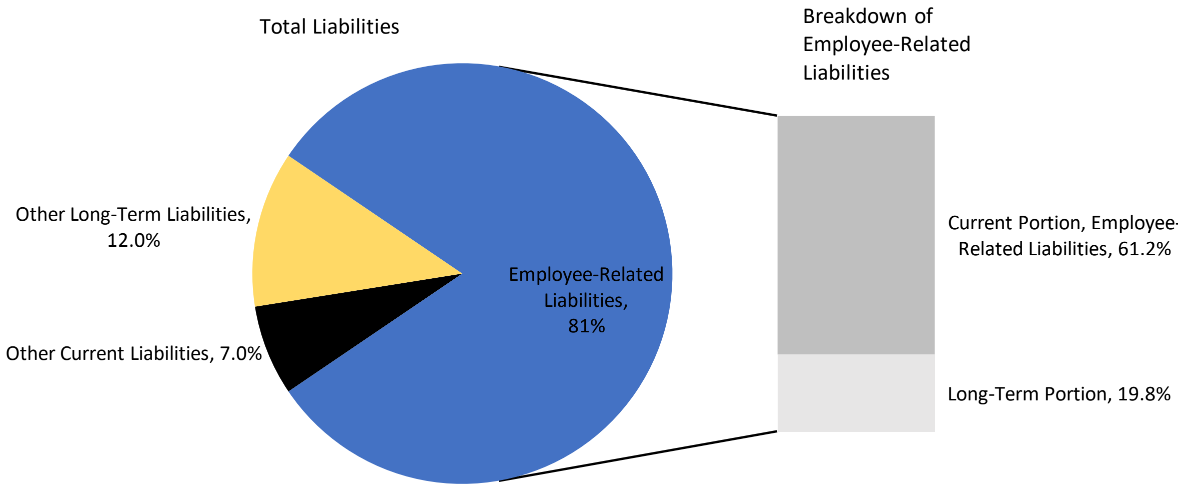
Source: Postal Service FY 2019 Form 10-K at 52; PRC derived from September 2019 Postal Service National Trial Balance.

Liabilities

In FY 2019, total liabilities increased by $7.8 billion, largely due to higher balances in retirement-related liabilities and the long-term workers' compensation expense.

The long-term portion of workers' compensation increased by $2.1 billion in FY 2019. 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, 2019.

Figure II-8
Postal Service Liabilities Structure, September 30, 2019



Source: Postal Service FY 2019 Form 10-K at 52; PRC derived from September 2019 Postal Service 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.[50] The CSRDF provides pension benefits to retired and disabled Federal employees, including Postal Service employees covered by CSRS and FERS.[51]

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.

Balance Sheet Trend Analysis

To facilitate its analysis, the Commission applies key financial ratios to the Postal Service's Balance Sheet in order to further assess the current and historical financial stability of the Postal Service.

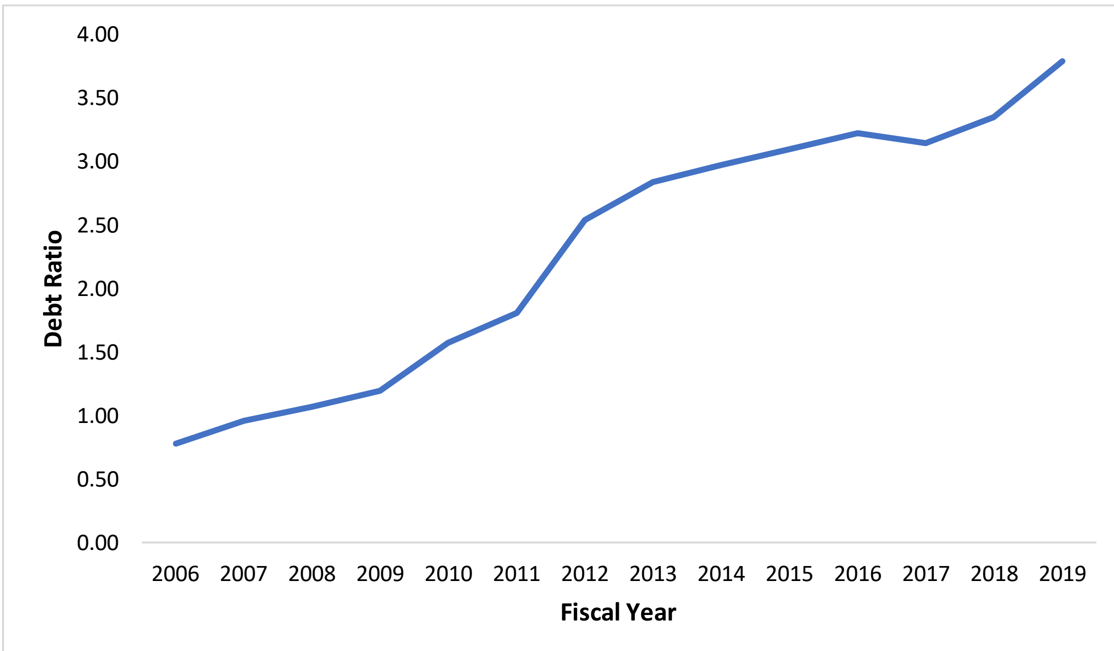
DEBT RATIO

Debt ratio is the amount of total liabilities an entity has on its Balance Sheet compared to its total assets. The higher the ratio, the greater the risk that the entity's debt level may

[50] *See* 5 U.S.C. § 8909a.
[51] *See* 5 U.S.C. § 8348.

impede its ability to effectively respond to challenges and opportunities. Figure II-9 reflects the Postal Service's debt ratio trend since FY 2006.

Figure II-9
Debt Ratio, FY 2006–FY 2019



Source: Postal Service Form 10-K, FY 2006–FY 2019.

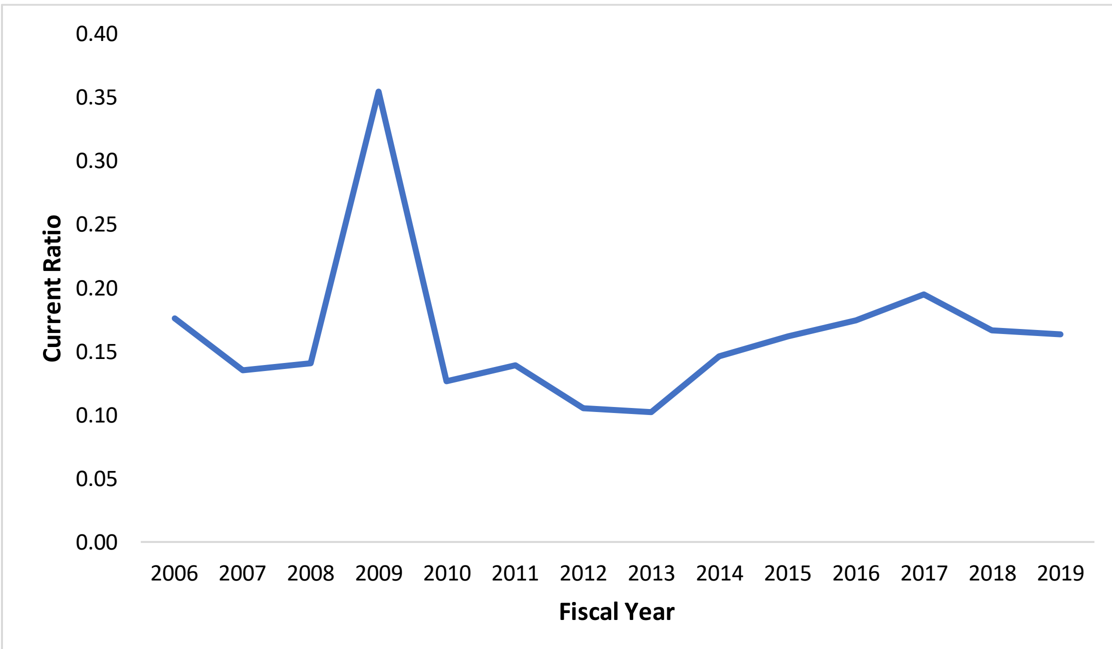
The ratio is generally a conservative measurement because the liabilities are carried at estimated amounts of expected cash outflows. At the same time, some assets may be understated because no adjustments have been made to restate for fair value. For example, land or a fully depreciated building or 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 asset base.

At the end of FY 2019, the debt ratio increased to 3.79 from the 3.35 debt ratio for FY 2018. The Postal Service's FY 2019 debt ratio was also higher than the average 10-year debt ratio of 2.68. The increase is the result of higher liabilities, primarily retirement obligations, which are increasing more than the growth of total assets. This ratio is indicative of the Postal Service's inability to possess sufficient resources that would allow it the ability to invest in capital and pay down its obligations.

CURRENT LIABILITY RATIO

The current liability 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. Figure II-10 highlights the fluctuations in the current ratio since FY 2006.

Figure II-10
Current Ratio, FY 2006–FY 2019



Source: Postal Service Form 10-K, FY 2006–FY 2019.

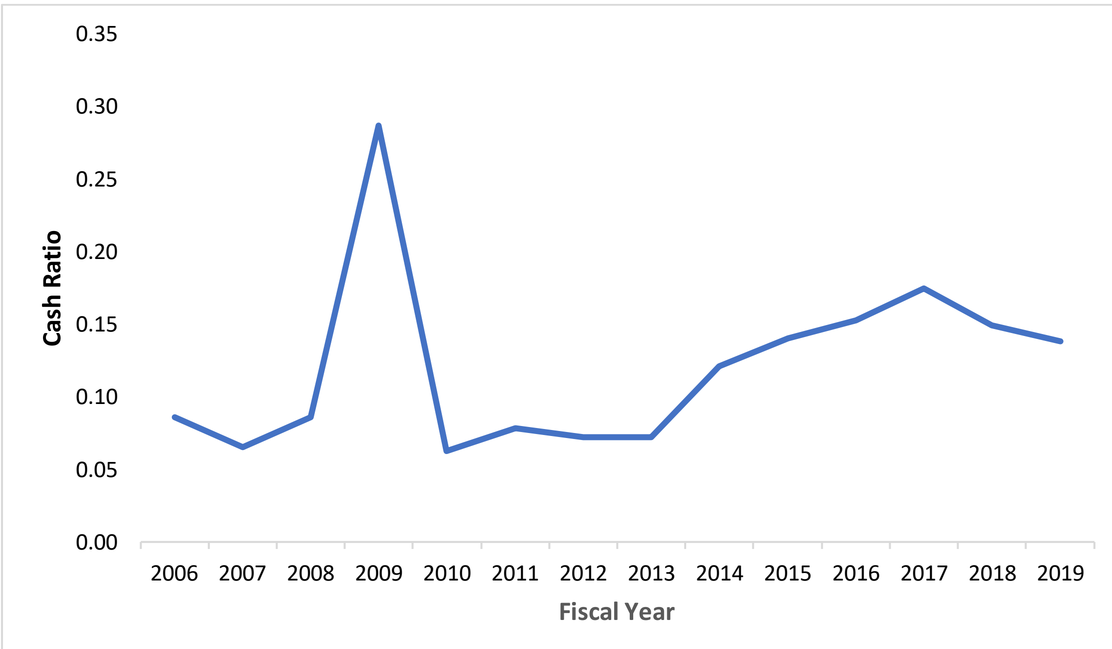
At the end of FY 2019, the Postal Service had a current ratio of 0.16, a slight decline of 0.01 from the end of FY 2018. This is slightly lower than the 10-year average of 0.17.

Current liabilities declined by $3.2 billion resulting from a decline in the current portion of long-term debt, offset by an increase in retirement-related obligations. The reduction of statutory prefunding payments in FY 2009 resulted in a higher current ratio. A combination of increasing current liabilities resulting from the retirement-related accruals and increasing cash has helped the current ratio remain relatively flat.

CASH RATIO

The cash ratio compares total liquid assets to its current liabilities. The ratio is used to measure an entity's ability to pay current liabilities with available cash or cash equivalents. Figure II-11 illustrates the cash ratio from FY 2006 through FY 2019.

Figure II-11
Cash Ratio, FY 2006–FY 2019



Source: Postal Service Form 10-K, FY 2006–FY 2019.

The Postal Service had a cash ratio of 0.14 at the end of FY 2019. This is slightly lower than the prior year's cash ratio of 0.15. The FY 2019 ratio is slightly higher than the 10-year average of 0.13. In FY 2008 and FY 2009, the Postal Service's cash balances increased by $533 million and $2.7 billion, respectively, which increased the cash ratio. During FY 2011 through FY 2018, the Postal Service's cash balance gradually increased along with its current liabilities, resulting in a relatively flat cash ratio.

Analysis of Statements of Cash Flows

At the end of FY 2019, the Postal Service's cash and cash equivalents total, excluding $0.3 billion in restricted cash, were $8.8 billion. Cash and cash equivalents excluding restricted cash were $1.3 billion lower than at the end of FY 2018. At the end of FY 2019, the Postal Service has $4 billion in available borrowing authority, resulting from payments made during the fiscal year, which reduced its debt below the PAEA-mandated debt ceiling of $15 billion. Table II-19 compares the Postal Service's cash flows from FY 2011 to FY 2019.

Table II-19
Postal Service Statements of Cash Flows, FY 2011–FY 2019
($ in Millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Net Income/(Loss)	$ (5,067)	$(15,906)	$ (4,977)	$ (5,508)	$ (5,060)	$ (5,591)	$ (2,742)	$ (3,913)	$ (8,813)
Non-Cash Items and Other Cash Flows	5,561	15,474	5,912	8,822	7,939	8,327	6,565	6,680	11,278
Cash Flows From Investing Activities:									
Decrease (Increase) in Restricted Cash	(10)	(28)	(79)	66	13	(20)	(38)	16	(91)
Purchase of Property and Equipment	(1,190)	(705)	(667)	(781)	(1,222)	(1,428)	(1,344)	(1,409)	(1,419)
Proceeds From Sale of Property and Equipment	137	148	158	129	120	206	58	32	27
Net Cash Used in Investing Activities	(1,063)	(585)	(588)	(586)	(1,089)	(1,242)	(1,324)	(1,361)	(1,483)
Cash Flows From Financing Activities:									
Increase (Decrease) in Debt	1,000	2,000	-	-	-	-	-	(1,800)	1,800
Payments for Capital Leases	(51)	(51)	(59)	(58)	(62)	(51)	(63)	(58)	(48)
Net Change in Revolving Credit Line	-	-	-	-	-	-	-	-	(4,000)
U.S. Government Appropriations - Expensed	(63)	(129)	(48)	(90)	-	-	-	-	-
Net Cash (Used) Provided by Financing Activities	886	1,820	(107)	(148)	(62)	(51)	(63)	(1,858)	(2,248)
Net Increase/(Decrease) in Cash	317	803	240	2,580	1,728	1,443	2,436	(452)	(1,266)
Cash Balance Beginning of Year	1,161	1,283	2,086	2,326	4,906	6,634	8,077	10,513	10,061
Cash Balance End of Year	**$ 1,283**	**$ 2,086**	**$ 2,326**	**$ 4,906**	**$ 6,634**	**$ 8,077**	**$10,513**	**$10,061**	**$ 8,795**
Debt Outstanding	$13,000	$ 15,000	$15,000	$15,000	$15,000	$15,000	$15,000	$13,200	$11,000

Numbers may not add across due to rounding.
Source: Postal Service Form 10-K, FY 2011–FY 2019.

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. During FY 2019, the Postal Service paid down a portion of its debt, allowing for $4 billion in available borrowing authority. Its debt includes two revolving credit facilities with the Federal Financing Bank, neither of which are fully drawn.

Table II-20
Total Postal Service Liquidity
End of FY 2019 Compared to FY 2018

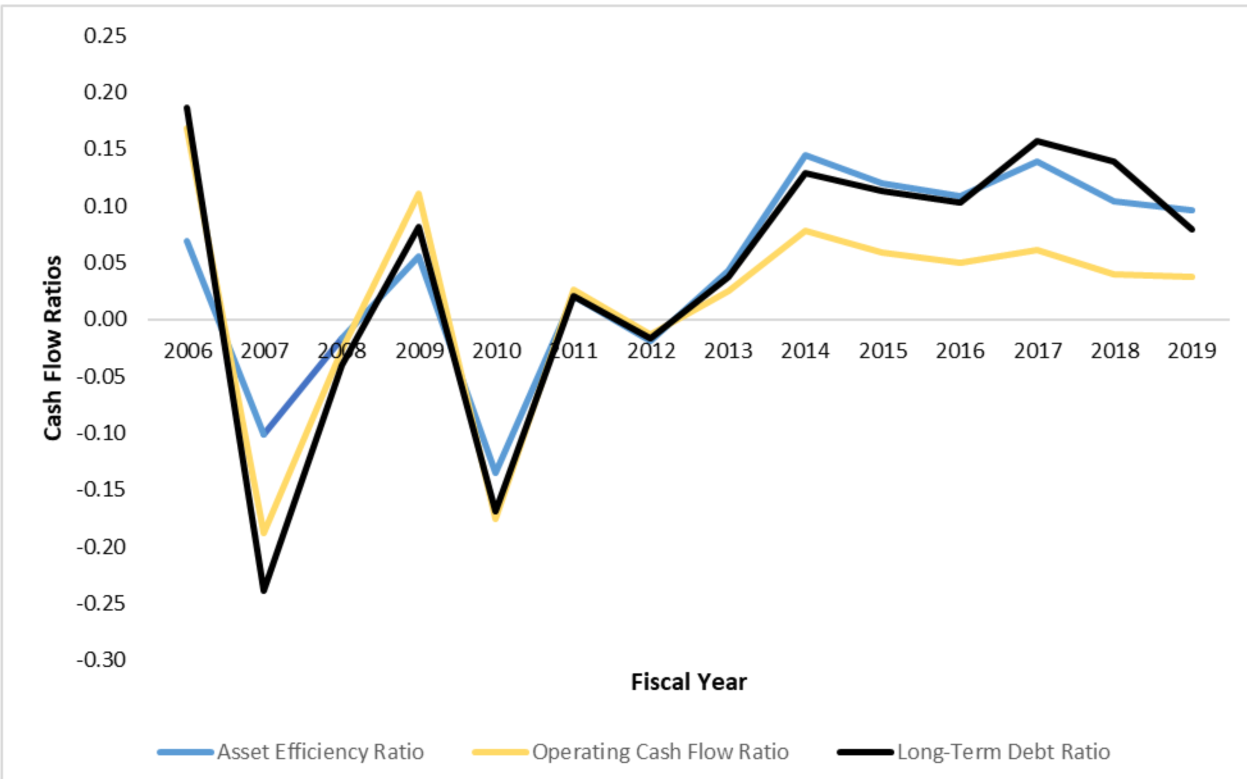
	FY 2019	FY 2018
Cash and Cash Equivalents	$ 8,795	$ 10,061
Current Portion of Debt	-	11,000
Long-Term Debt	11,000	2,200
Total Debt	**$ 11,000**	**$ 13,200**
Statutory Debt Limit	15,000	15,000
Available Debt	4,000	1,800
Total Liquidity (Cash + Available Debt)	**$ 12,795**	**$ 11,861**

Source: Postal Service FY 2019 Form 10-K at 52.

CASH FLOW RATIO ANALYSIS

Cash flow ratios are applied in the Commission's analysis in order to illustrate the ability of the Postal Service to be financially solvent. The asset efficiency ratio, current liability ratio, and long-term debt ratio are all helpful indicators of the Postal Service's current and historical ability to pay down debt and remain financially solvent. Figure II-12 shows all three ratios and their trends since FY 2006.

Figure II-12
Cash Flow Ratio Trend Analysis FY 2006–FY 2019



Source: Postal Service Form 10-K, FY 2006–FY 2019.

The asset efficiency ratio compares operating cash flows to total assets. It is used to measure how efficiently an entity uses its assets to generate cash. At the end of FY 2019, the Postal Service had an asset efficiency ratio of 0.10, which is unchanged from the prior year. The FY 2019 asset efficiency ratio was 0.02 higher than the historical 10-year average of 0.06. The Postal Service had an operating cash loss in FY 2007 and FY 2008 resulting from newly required retirement obligations and effects of the Great Recession. In FY 2010, the ratio dipped below zero again as a result of both the RHBF prefunding obligation and revenue declines negatively impacting cash from operations. The ratio gradually ticked up from FY 2012 through FY 2014 as a result of defaulting on RHBF obligations and increases in revenue from the exigent surcharge. From FY 2017 through FY 2019, both cash from operations and total assets declined slightly resulting in a relatively flat trend. This ratio illustrates the Postal Service’s inability to generate sufficient operating cash, using its total assets.

The Postal Service had an operating cash flow ratio of 0.04 at the end of FY 2019, which is unchanged from the prior year and slightly higher than the historical 10-year average. The operating cash flow ratio measures the ability of an entity to generate cash that can be used to cover current debt. In FY 2007 and FY 2008, the ratio was below zero resulting from negative operating cash flows caused by payments to the RHBF. FY 2012 was the first year the Postal Service defaulted on its RHBF payment, which increased cash from operations but also increased current liabilities. Since FY 2012, the Postal Service has been unable to pay down its unfunded RHB obligation and the cumulative missed payments increase the current liability on the balance sheet. The increase in operating cash from these defaulted payments was not enough to offset revenue loss from declining volume, resulting in a relatively flat increase in operating cash and gradually increasing current liabilities.

The long-term debt ratio compares the Postal Service’s cash from operations to its long-term debt. It illustrates the Postal Service’s ability to pay down long-term debt using cash it generates from operations. Long-term debt includes non-current workers’ compensation expense and non-current portions of debt owed to the Federal Financing Bank. At the end of FY 2019, the Postal Service had a long-term debt ratio of 0.08, down 0.06 from the end of FY 2018. This further indicates the Postal Service’s inability to generate sufficient cash to use in paying down its total debt.

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 and institutional cost. 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 2018 and FY 2019;[52] trend analyses that highlight changes in volume, revenue, and cost that have occurred over the last 10 years; and analyses by cost segment.

Overall Volume, Revenue, and Cost Trends

Attributable and Institutional Cost Calculation

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 determined that attributable costs include volume-variable costs,[53] which, in the aggregate, increase as volume increases and decrease as volume decreases; product-specific fixed costs, which are costs caused by a specific product or class but do not vary with volume; and inframarginal costs developed as part of the estimation of incremental costs.[54] Attributable costs are equal to incremental costs, which reflect the total marginal costs of the volume in a class or product.[55]

The Commission intends to provide insight into the cost of the activities performed in handling mailpieces and analyze changes in cost for certain cost segments. Attributable

[52] FY 2018 volume, revenue, and cost data that are not depicted in tables in this section can be found in the corresponding section of the FY 2018 Financial Report.
[53] Total volume-variable cost is calculated by multiplying total cost by the volume variability ratio for each cost segment.
[54] 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).
[55] 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-20, III-23, and III-25.

cost is distributed to products using distribution keys that reflect the underlying cost driver.[56] These costs are piggybacked to include the indirect costs of each activity. 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.

Market Dominant Products and Services

Table III-1 illustrates the changes in total volume, revenue, attributable cost, and contribution to institutional cost for Market Dominant products and services between FY 2018 and FY 2019.

Table III-1
Market Dominant Volume, Revenue, and Cost, FY 2019 and FY 2018

	FY 2019	FY 2018	Variance
Volume (Millions)	136,897	140,738	-2.7%
Revenue ($ Millions)	45,695	46,432	-1.6%
Attributable Cost ($ Millions)	28,891	28,437	1.6%
Contribution to Institutional Cost ($ Millions)	16,804	17,995	-6.6%

Negative values are denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Total Market Dominant revenue decreased by 1.6 percent in FY 2019, due to a decrease in Market Dominant volume. On a unit basis, revenue remained unchanged since FY 2017 at $0.33 per piece.

Total attributable cost for Market Dominant products increased by 1.6 percent from FY 2018. The average unit attributable cost increased from $0.20 per piece in FY 2018 to $0.21 in FY 2019.

Total Market Dominant contribution to institutional cost decreased by $1.2 billion or 6.6 percent in FY 2019, as Market Dominant volume decreased by 3.8 billion pieces or 2.7 percent.

Market Dominant products accounted for 96.0 percent of total mail volume, a drop of 0.1 percentage points from FY 2018. Revenue from these products as a percentage of total revenue from mail and services decreased from 65.8 percent to 64.2 percent. Market

[56] 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.

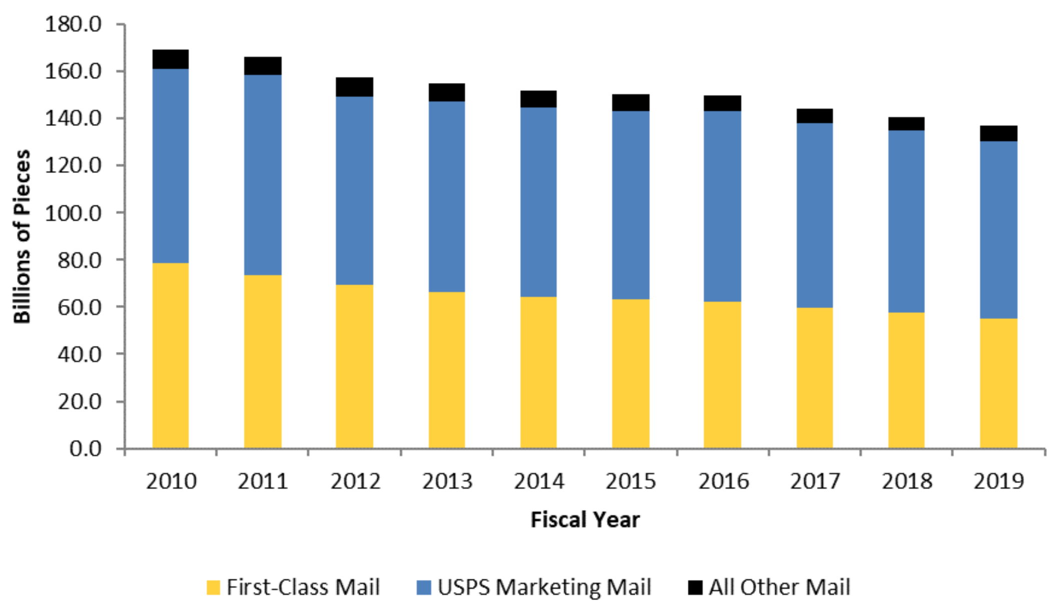
Dominant attributable cost as a percentage of total attributable cost decreased from 64.7 percent in FY 2018 to 64.3 percent in FY 2019.

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 $1.7 billion in FY 2019; in FY 2018, negative contribution was 1.6 billion. Six domestic mail products failed to cover their attributable cost: USPS Marketing Mail Flats ($744.3 million), USPS Marketing Carrier Route ($1.4 million), USPS Marketing Mail Parcels ($36.6 million), Periodicals Outside County ($630.8 million), Periodicals In-County ($40.1 million), and Package Services Media Mail/Library Mail ($113.0 million). In addition, Inbound Letter Post had a negative contribution in FY 2019.

Market Dominant Volume Trends

Figure III-1 shows the total volume for Market Dominant products over the last 10 years. Over the last decade, volume for Market Dominant products has declined by 38.8 billion pieces.

Figure III-1
Market Dominant Volume, FY 2010–FY 2019



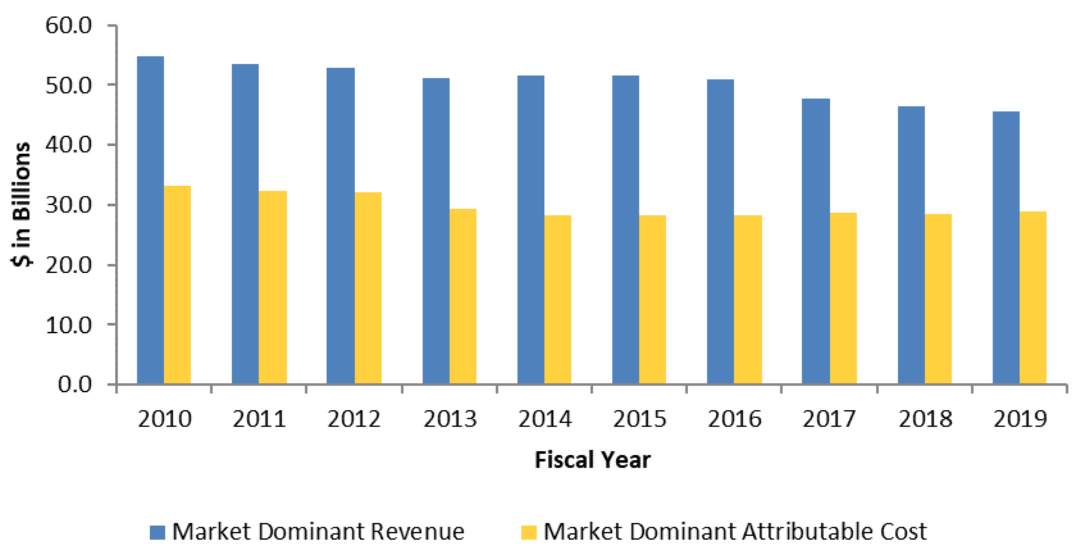
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, PRC-LR-ACR2018/1; Docket No. ACR2017, PRC-LR-ACR2017/1; Docket No. ACR2016, PRC-LR-ACR2016/1, March 28, 2017; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1, March 28, 2016; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1, March 27, 2015; Docket No. ACR2007, *Annual Compliance Determination*, March 27, 2008 (FY 2007 ACD); Docket No. ACR2008, *Annual Compliance Determination*, March 30, 2009 (FY 2008 ACD); Docket No. ACR2009, *Annual Compliance Determination*, March 29, 2010 (FY 2009 ACD); Docket No. ACR2010, *Annual Compliance Determination*, March 29, 2011 (FY 2010 ACD); Docket No. ACR2011, *Annual Compliance Determination*, March 28, 2012 (FY 2011 ACD); Docket No. ACR2012, *Annual Compliance Determination*, March 28, 2013 (FY 2012 ACD); Docket No. ACR2013, *Annual Compliance* Determination, March 27, 2014 (FY 2013 ACD); Docket No. ACR2014, *Annual Compliance Determination*, March 27, 2015 (FY 2014 ACD).

In FY 2019, First-Class Mail and USPS Marketing Mail accounted for 95.9 percent of total Market Dominant volume. First-Class Mail volume has declined by 28.8 billion pieces over the last decade, representing a 34.4 percent loss in volume. USPS Marketing Mail volume has also declined considerably, by 6.8 billion pieces over the last decade.

Market Dominant Revenue and Cost Trends

Total Market Dominant revenue and attributable cost have also declined since FY 2010. Total revenue declined by 16.5 percent while total attributable cost declined by 12.8 percent. Figure III-2 compares revenue and attributable cost since FY 2010.

Figure III-2
Market Dominant Revenue and Attributable Cost, FY 2010–FY 2019



Source: FY 2010–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

Competitive Products and Services

In FY 2019, although volume for Competitive products remained nearly unchanged, revenue for Competitive products increased. Table III-2 compares the total volume, revenue, and cost of these products and services between FY 2018 and FY 2019.

Table III-2
Competitive Volume, Revenue, and Cost, FY 2019 and FY 2018

	FY 2019	FY 2018	Variance
Volume (Millions)	5,672	5,663	0.2%
Revenue ($ Millions)	24,207	23,059	5.0%
Attributable Cost ($ Millions)	15,960	15,466	3.2%
Contribution to Institutional Cost ($ Millions)	8,247	7,593	8.6%

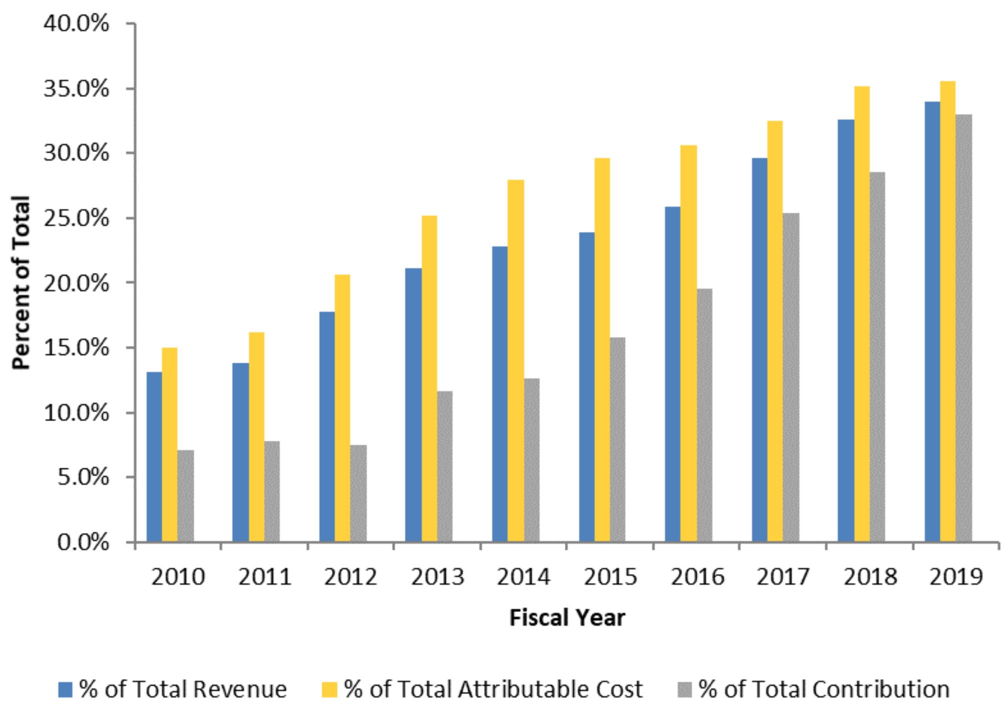
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference USPS-FY18-42.

Volume grew 0.2 percent in FY 2019 compared with 11.0 percent in FY 2018.[57] In FY 2019, both revenue and unit revenue increased. Revenue increased by 5.0 percent or $1.1 billion, while unit revenue increased by 4.8 percent. Similarly, attributable cost increased by 3.2 percent in FY 2019, while unit attributable cost increased by 3.0 percent. Contribution to institutional cost also increased, both in the aggregate and on a unit basis. In FY 2019, contribution to institutional cost increased by 8.6 percent, and by 8.4 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 2010. Competitive products' share of contribution to institutional cost has also steadily increased from just 7.1 percent in FY 2010 to 33.0 percent in FY 2019.

[57] About a third of the 11 percent increase in FY 2018 was due to the transfer of the First-Class Mail Parcels product from the Market Dominant product list to the Competitive product list.

Figure III-3
Competitive Percent Share of Total Postal Service Revenue, Cost, and Contribution to Institutional Cost, FY 2010–FY 2019

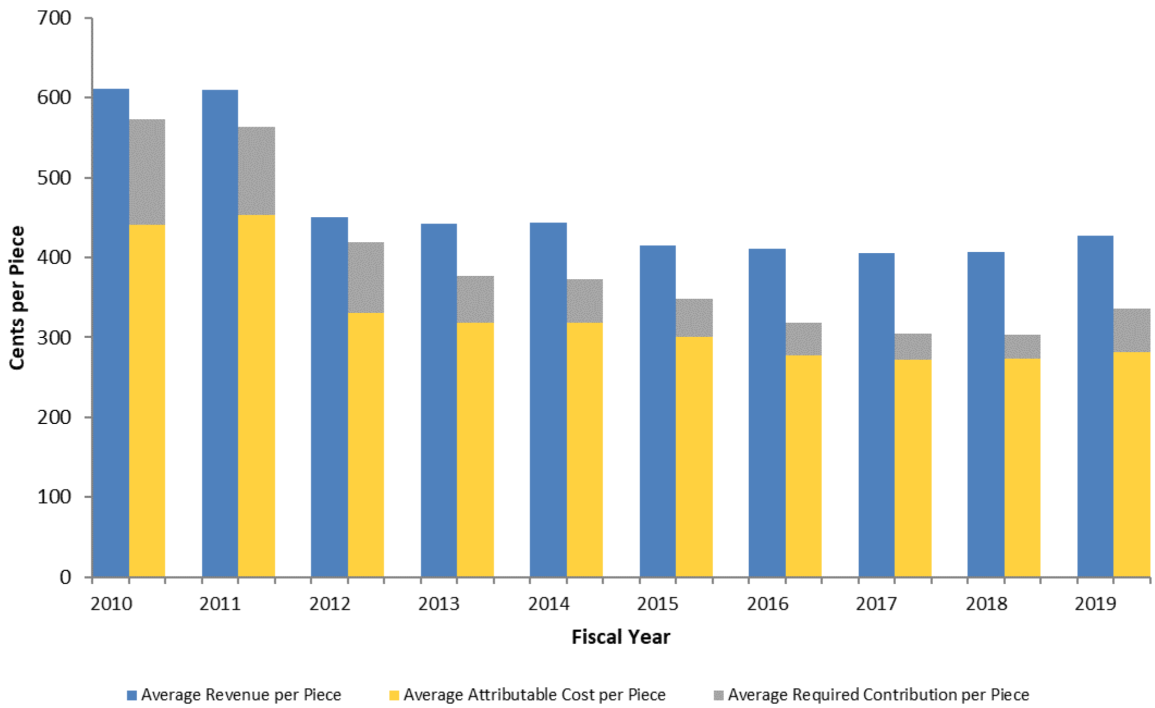


Source: Docket No. ACR2010, Library Reference USPS-FY10-1, December 29, 2010; Docket No. ACR2011, Library Reference USPS-FY11-1, December 29, 2011; Docket No. ACR2012, Library Reference USPS-FY12-1, December 28, 2012; Docket No. ACR2013, Library Reference USPS-FY13-1, December 27, 2013; Docket No. ACR2014, Library Reference USPS-FY14-1, December 29, 2014; Docket No. ACR2015, Library Reference USPS-FY15-1, December 29, 2015; Docket No. ACR2016, Library Reference USPS-FY16-1, December 29, 2016; Docket No. ACR2017, Library Reference USPS-FY17-1, December 29, 2017; Docket No. ACR2018, Library Reference USPS-FY18-1, December 28, 2018; Library Reference USPS-FY19-1, December 27, 2019 (collectively, Postal Service CRA Report, FY 2010–FY 2019).

Figure III-4 illustrates the changes in average unit revenue and cost from FY 2010 to FY 2019. For FY 2019, Competitive products are required to collectively cover 8.8 percent of the Postal Service's institutional cost.[58] The minimum required contribution is shown in Figure III-4 as an average cents per piece. Since FY 2010, average unit revenue for Competitive products and services exceeded the combined average unit attributable cost and required contribution per piece.

[58] 39 C.F.R. § 3035.7(c).

Figure III-4
Competitive Average Unit Revenue and Cost, FY 2010–FY 2019

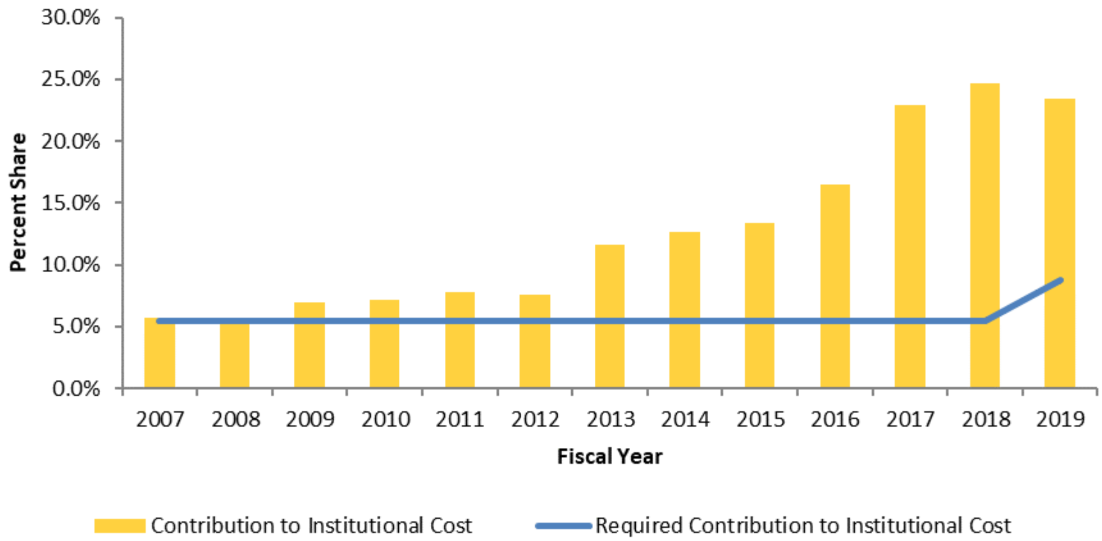


Source: Postal Service CRA Report, FY 2010–FY 2019.

Through FY 2019, total contribution to institutional cost from Competitive products continued to exceed the required contribution to institutional cost.[59] As shown in Figure III-5, although the contribution of Competitive products has increased significantly in recent years, in FY 2019 the share of institutional cost contributed by Competitive products dropped for the first time since FY 2012.

[59] *See* Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019 (Order No. 4963). On April 14, 2020, the United States Court of Appeals for the District of Columbia remanded Order No. 4963 to the Commission for further explanation. *United Parcel Serv. v. Postal Regulatory Comm'n*, No. 19-1026 (D.C. Cir. Apr. 14, 2020). Order No. 4963 prescribed the formula for determining the appropriate share. Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019 (Order No. 4963). The Commission is reviewing the court's decision to determine its next actions with respect to this issue.

Figure III-5
Competitive Contribution to Institutional Cost, FY 2007–FY 2019



Source: FY 2007–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

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."[60]

FIRST-CLASS MAIL LETTERS COMPARED WITH FY 2018

Table III-3 summarizes the FY 2019 change in total volume and revenue for First-Class Mail letters. First-Class Mail letters volume continued to decline in FY 2019, although the rate of decline appears to be slowing. For single-piece letters, the rate of decline was 5.2 percent in FY 2019 compared to 5.6 percent in FY 2018 and 5.7 percent in FY 2017. Presorted letters volume decreased 1.6 percent in FY 2019, compared to 2.4 percent in FY 2018.

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[60] "All other" includes single-piece and presorted postcards, Outbound Single-Piece First-Class Mail International, Inbound Letter Post, and Inbound International negotiated service agreements (NSAs).

Revenue for First-Class Mail letters decreased by 1.0 percent in FY 2019, due to loss of volume. Unit revenue increased slightly from 42 cents per piece in FY 2018 to 43 cents in FY 2019. Single-piece letters volume declined more than presorted letters volume, resulting in a larger decrease in total revenue for single-piece letters than presorted letters, 1.6 percent and 0.6 percent, respectively.

Table III-3
First-Class Mail Letters Volume and Revenue, FY 2019 and FY 2018

	Mail Volume				Mail Revenue			
	(Millions)		Increase or	Percent	($ in Millions)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Single-Piece	15,954	16,830	(876)	-5.2%	8,347	8,480	(133)	-1.6%
Presorted	35,207	35,796	(589)	-1.6%	13,725	13,812	(87)	-0.6%
Total Letters	**51,161**	**52,626**	**(1,465)**	**-2.8%**	**22,071**	**22,292**	**(221)**	**-1.0%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Table III-4 summarizes the FY 2019 change in total attributable cost for First-Class Mail letters. Total attributable cost for First-Class Mail letters increased by $277 million from FY 2018, despite a decrease in volume. Consequently, average unit attributable cost increased 5.8 percent. On a unit basis, attributable cost for both single-piece letters and presorted letters increased in FY 2019, 6.6 percent and 6.7 percent, respectively. However, the larger loss of volume for single-piece letters caused single-piece letters total attributable cost to increase more moderately than the total attributable cost for presorted letters, 1.1 percent and 5.0 percent, respectively. These changes are discussed in further detail in the following section.

Table III-4
First-Class Mail Letters Attributable Cost and Average Unit Attributable Cost, FY 2019 and FY 2018

	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or	Percent	(Cents per Piece)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Single-Piece	5,273	5,217	56	1.1%	33.0	31.0	2.1	6.6%
Presorted	4,678	4,456	222	5.0%	13.3	12.4	0.8	6.7%
Total Letters	**9,951**	**9,673**	**277**	**2.9%**	**19.4**	**18.4**	**1.1**	**5.8%**

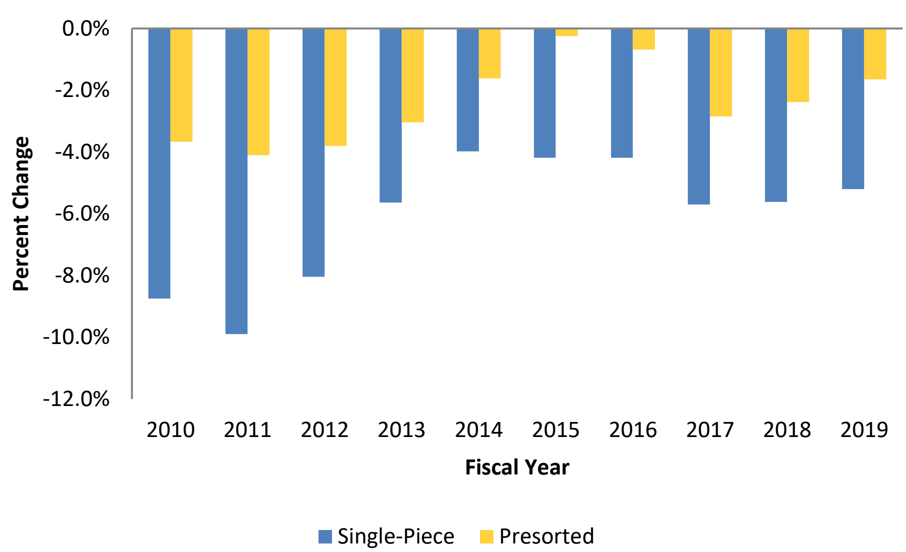
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

TRENDS IN FIRST-CLASS MAIL LETTERS

Customer "migration toward electronic communication and transaction alternatives" continues to erode First-Class Mail letters volume.[61] Figure III-6 illustrates the rate of decline for First-Class Mail letters volume. In FY 2019, the rate of decline for single-piece letters decreased for the second year in a row, however, the rates of decline for the last 3 years exceed those of the previous 3 years.

Over the last decade, volume of First-Class Mail presorted letters has decreased every year. The rate of decline for First-Class Mail presorted letters volume decreased to 1.6 percent in FY 2019 from 2.4 percent in FY 2018; however, it is still relatively high compared with FY 2015 and FY 2016.

Figure III-6
First-Class Mail Letters Percent Change in Volume, FY 2010–FY 2019



Source: Docket No. ACR2010, Library Reference USPS-FY10-42, January 24, 2011; Docket No. ACR2011, Library Reference USPS-FY11-42, December 29, 2011; Docket No. ACR2012, Library Reference USPS-FY12-42, December 28, 2012; Docket No. ACR2013, Library Reference USPS-FY13-42, December 27, 2013; Postal Service RPW Report, FY 2014–FY 2019 (collectively, Postal Service RPW Report, FY 2010–FY 2019).

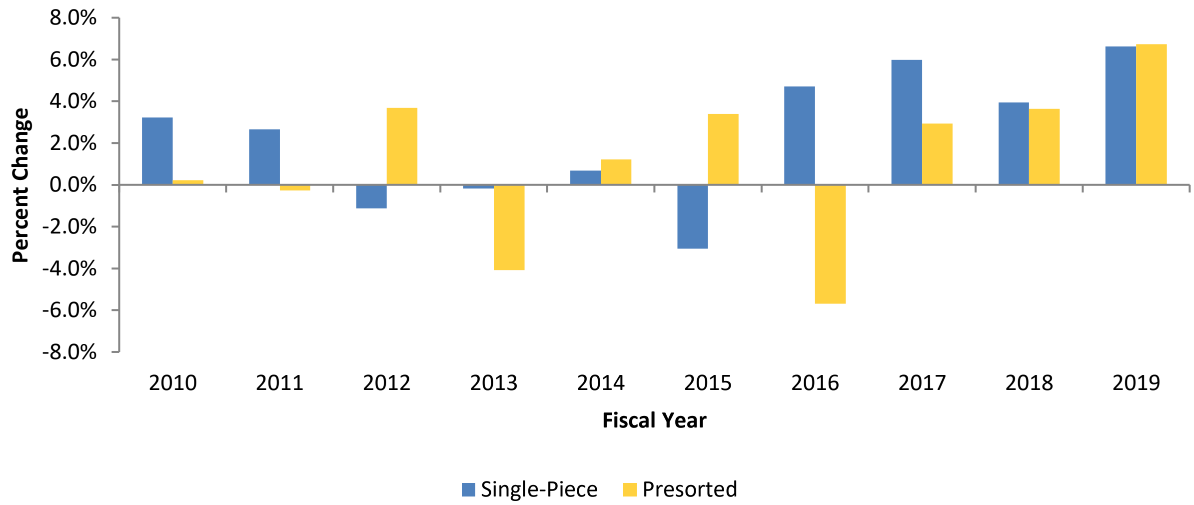
Figure III-7 shows the change in the average unit attributable cost for First-Class Mail letters. The average unit attributable cost of First-Class Mail single-piece letters has increased each year for the last 4 years.

The average unit attributable cost for First-Class Mail presorted letters increased for the third year in a row. Additionally, the rate of increase appears to be growing. Unit attributable cost for First-Class Mail presorted letters increased 2.9 percent in FY 2017,

[61] Postal Service FY 2019 Form 10-K at 20.

increased 3.6 percent in FY 2018, and increased 6.7 percent in FY 2019. The FY 2019 increase is the largest over the last decade.

Figure III-7
First-Class Mail Letters Percent Change in Average Unit Attributable Cost, FY 2010–FY 2019



Source: FY 2009–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

Table III-5 compares the average unit attributable cost for presorted letters, by cost segment, for FY 2014 through FY 2019. This unit attributable cost includes all of the indirect cost that is piggybacked to the direct cost.[62] Mail processing and city carrier in-office unit costs for presorted letters increased in FY 2019, by 4.4 percent and 5.1 percent, respectively. 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 the city carrier street cost segment increased 3.7 percent from FY 2018. As Table II-5 also shows, rural carrier unit cost and transportation unit cost remained nearly unchanged from FY 2018.

[62] 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 Servicewide Labor Costs (such as, workers’ compensation, etc.). These “indirect” costs are referred to as “piggybacked” costs and are developed in Library Reference USPS-FY19-24. The unit attributable cost by cost segment presented in this report are “piggybacked” costs, unless stated otherwise.

Table III-5
First-Class Mail Presorted Letters Average Unit Attributable Cost by Segment, FY 2014–FY 2019

Cost Segment	Unit Attributable Cost Cents per Piece		Change in Unit Attributable Cost	
	FY 2019	FY 2018	FY 2019	FY 2018
Mail Processing	5.75	5.51	4.4%	4.8%
City Carrier In-Office	1.65	1.57	5.1%	8.3%
City Carrrier Street	2.54	2.45	3.7%	5.6%
Rural Carriers	0.91	0.91	0.0%	2.2%
Transportation	1.43	1.42	0.7%	4.4%
All Other	0.67	0.59	13.6%	3.5%

Source: Docket No. ACR2018, Library Reference USPS-FY18-2, December 28, 2018; Docket No. ACR2019, Library Reference USPS-FY19-2, December 27, 2019 (collectively, Postal Service CSC Report, FY 2018, FY 2019).

FIRST-CLASS MAIL FLATS COMPARED WITH FY 2018

Table III-6 shows the total volume and revenue for First-Class Mail Flats. First-Class Mail single-piece flats volume declined 10.4 percent in FY 2019 compared to a 4.4 percent decline in FY 2018. First-Class Mail presorted flats volume declined just 0.1 percent in FY 2019, after a 4.8 percent decrease in FY 2018.

Total revenue for First-Class Mail Flats also declined compared with FY 2018. The decrease in FY 2019 far exceeds the decrease in FY 2018, 13.7 percent versus 3.9 percent.

Table III-6
First-Class Mail Flats Volume and Revenue, FY 2019 and FY 2018

	Mail Volume				Mail Revenue			
	(Millions)		Increase or	Percent	($ in Millions)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Single-Piece	741	827	(86)	-10.4%	1,144	1,365	(221)	-16.2%
Presorted	555	555	(0)	-0.1%	509	549	(41)	-7.4%
Total Flats	**1,295**	**1,382**	**(87)**	**-6.3%**	**1,652**	**1,914**	**(262)**	**-13.7%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Table III-7 summarizes the FY 2019 change in attributable cost. Total attributable cost for First-Class Mail Flats decreased by 2.6 percent. However, on a unit basis, costs increased by 4.1 percent. The average unit attributable cost for single-piece flats and presorted flats increased by 4.8 percent and 5.3 percent, respectively.

Table III-7
First-Class Mail Flats Attributable Cost and Average Unit Attributable Cost, FY 2019 and FY 2018

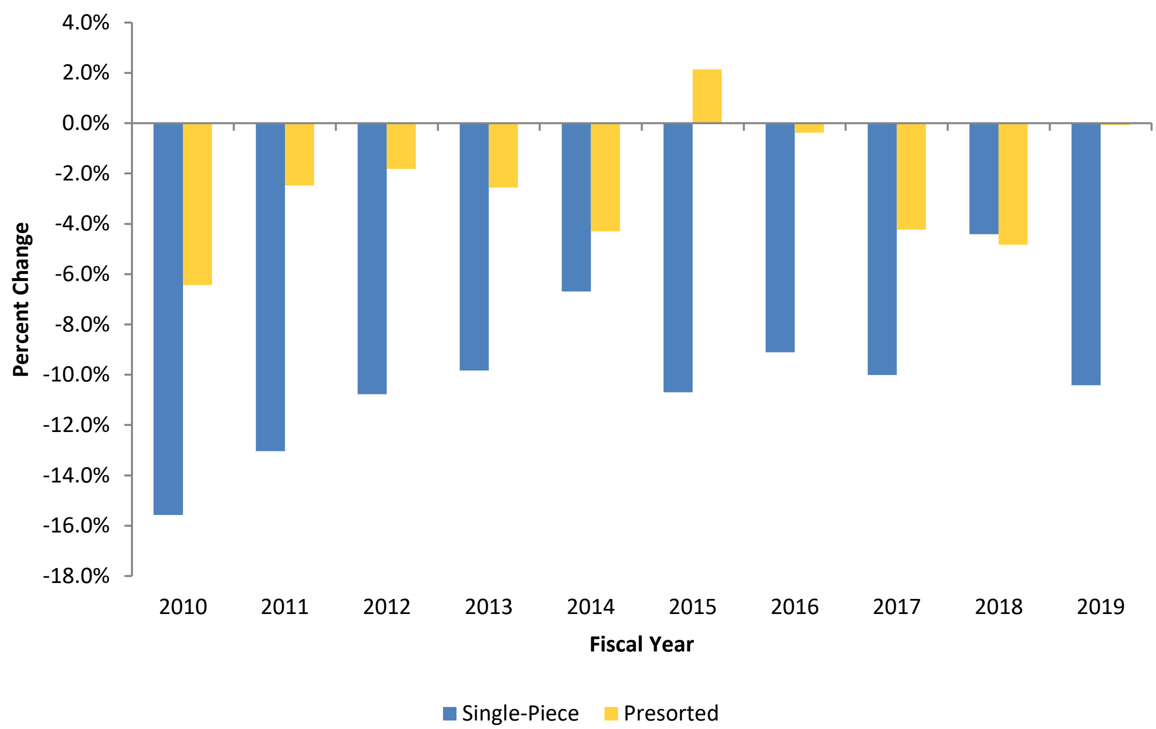
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or	Percent	(Cents per Piece)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Single-Piece	1,015	1,081	(66)	-6.1%	137.1	130.7	6.3	4.8%
Presorted	498	473	25	5.2%	89.8	85.3	4.5	5.3%
Total Flats	**1,513**	**1,554**	**(41)**	**-2.6%**	**117.0**	**112.5**	**4.6**	**4.1%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

TRENDS IN FIRST-CLASS MAIL FLATS

First-Class Mail Flats volume has been declining for years. Figure III-8 compares the percent change in First-Class Mail Flats volume from FY 2010 to FY 2019. Over the last 10 years, volume decreased by 54.8.percent Single-piece flats volume continues on a downward trend. Although both presorted flats and single-piece flats lost volume since FY 2009, most of the First-Class Mail Flats volume loss occurred in First-Class Mail single-piece flats. Over that period, single-piece flats have decreased 65.5 percent, compared to a 22.5 percent volume decrease for presorted flats. As Figure III-8 shows, since that time, presorted flats volume decreased annually, with the loss of 0.1 percent in FY 2019 being the smallest decrease since FY 2015.

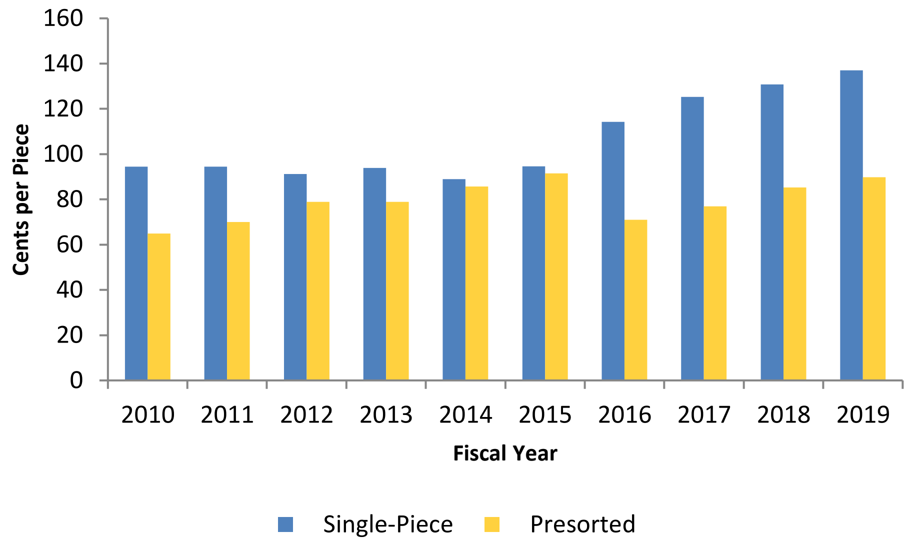
Figure III-8
Percent Change in First-Class Mail Flats Volume, FY 2010–FY 2019



Source: Postal Service RPW Report, FY 2010–FY 2019.

Figure III-9 compares the average unit attributable cost for First-Class Mail single-piece and presorted flats since FY 2010. The average unit attributable cost for First-Class Mail single-piece flats has increased every year since FY 2014. However, the FY 2019 and FY 2018 increases are relatively small, compared with the increases over the previous few years. For First-Class Mail presorted flats, the percent increase in average unit attributable cost was the lowest since FY 2013. The changes 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 flats to First-Class Mail single-piece flats.

Figure III-9
First-Class Mail Flats Average Unit Attributable Cost, FY 2010–FY 2019



Source: FY 2010–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

Table III-8 compares the average unit attributable cost by cost segment of First-Class Mail single-piece and presorted flats for FY 2018 and FY 2019.

For all cost segments except rural carrier, in FY 2019, average unit attributable cost for First-Class Mail single-piece flats exceeded the average unit attributable cost for First-Class Mail presorted flats. Compared to FY 2018, the average unit attributable cost for both First-Class Mail single-piece flats and First-Class Mail presorted flats increased in all cost segments except city carrier in-office and all other.

Table III-8
First-Class Mail Flats Average Unit Attributable Cost by Segment, FY 2019 and FY 2018

	FY 2018			FY 2019		
Cost Segment	Single-Piece	Presorted	Diff.	Single-Piece	Presorted	Diff.
Mail Processing	75.4	47.5	27.9	76.0	51.4	24.6
City Carrier In-Office	13.9	14.6	(0.7)	14.3	13.2	1.1
City Carrrier Street	8.1	4.4	3.7	8.7	4.7	4.0
Rural Carriers	3.1	3.3	(0.2)	3.5	3.5	0.0
Transportation	19.0	12.1	6.9	23.8	13.6	10.2
All Other	11.3	2.7	8.6	10.8	1.3	9.5
Total	**130.7**	**84.8**	**45.9**	**137.1**	**87.7**	**49.4**

Negative values denoted by ().
Source: PRC derived from Postal Service CSC Report, FY 2018 and FY 2019.

OTHER FIRST-CLASS MAIL COMPARED WITH FY 2018

Table III-9 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 2019. 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.

Similar to volume, revenue decreased for Cards, Outbound Single-Piece First-Class Mail International, and Inbound International NSAs compared with FY 2018, while Inbound Letter Post revenue increased significantly. For Outbound Single-Piece First-Class Mail International, the loss in revenue in FY 2019 represents less than half the revenue loss in FY 2018. Conversely, cards revenue decreased more significantly in FY 2019 than in FY 2018, 7.7 percent and 2.2 percent, respectively.

Table III-9
All Other First-Class Mail Volume and Revenue, FY 2019 and FY 2018

	Mail Volume				Mail Revenue			
	(Millions)		Increase or	Percent	($ in Millions)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Total Cards	2,487	2,706	(219)	-8.1%	711	770	(59)	-7.7%
Outbound Single-Piece First Class Mail International	126	132	(6)	-4.5%	184	198	(14)	-6.9%
Inbound Letter Post	560	444	116	26.2%	598	422	176	41.7%
Inbound International NSAs	3	178	(176)	-98.5%	245	420	(175)	-41.6%
Total Other First-Class Mail	**3,176**	**3,460**	**(284)**	**-8.2%**	**1,738**	**1,810**	**(71)**	**-3.9%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Table III-10 presents the changes in total attributable cost and average unit attributable cost for "all other" First-Class Mail between FY 2018 and FY 2019. On a unit basis, only the attributable cost of Outbound Single-Piece First-Class Mail International decreased in FY 2019. First-Class Mail cards and Inbound Letter Post increased 10.6 percent and 19.9 percent, respectively. For the inbound international products, the change in unit attributable cost reflects the movement of NSA volume to the Inbound First-Class Mail International product.

Table III-10
Other First-Class Mail Attributable Cost and Average Unit Attributable Cost, FY 2019 and FY 2018

	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or	Percent	(Cents per Piece)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Total Cards	360	354	6	1.7%	14.5	13.1	1.4	10.6%
Outbound Single-Piece First Class Mail International	127	139	(13)	-9.2%	100.4	105.7	(5.2)	-4.9%
Inbound Letter Post	762	504	258	51.3%	136.0	113.4	22.6	19.9%
Inbound International NSAs	379	258	121	47.0%	1,453.9	144.8	1,309.1	904.0%
Total Other First-Class Mail	**1,628**	**1,256**	**373**	**29.7%**	**51.3**	**36.3**	**15.0**	**41.3%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

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 2018

Table III-11 summarizes the FY 2019 change in volume and revenue of letter-shaped USPS Marketing Mail. Although High Density and Saturation Letters volume decreased slightly, revenue increased in FY 2019. Similarly, for USPS Marketing Mail Letters volume decreased and revenue increased slightly in FY 2019, reflecting increases in prices.[63]

[63] *See* Docket No. R2019-1, United States Postal Service Notice of Market Dominant Price Change, October 10, 2018.

Table III-11
USPS Marketing Mail Letters Volume and Revenue, FY 2019 and FY 2018

	Mail Volume				Mail Revenue			
	(Millions)		Increase or	Percent	($ in Millions)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Letters	45,966	46,517	(551)	-1.2%	9,735	9,678	57	0.6%
High Density and Saturation Letters	7,254	7,265	(12)	-0.2%	1,199	1,157	42	3.6%
Total Letters	**53,220**	**53,782**	**(563)**	**-1.0%**	**10,934**	**10,835**	**99**	**0.9%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Table III-12 summarizes the FY 2019 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. The attributable cost for USPS Marketing Mail Letters increased 3.3 percent in FY 2019. High Density and Saturation Letters increased by 4.6 percent. However, High Density and Saturation Letters is a relatively lower volume product compared with Letters. Therefore, the increase in total attributable cost for all letter shaped USPS Marketing Mail was 3.4 percent, driven primarily by the increase in the attributable cost of Letters**.**

Table III-12
USPS Marketing Mail Letters Attributable Cost and Average Unit Attributable Cost, FY 2019 and FY 2018

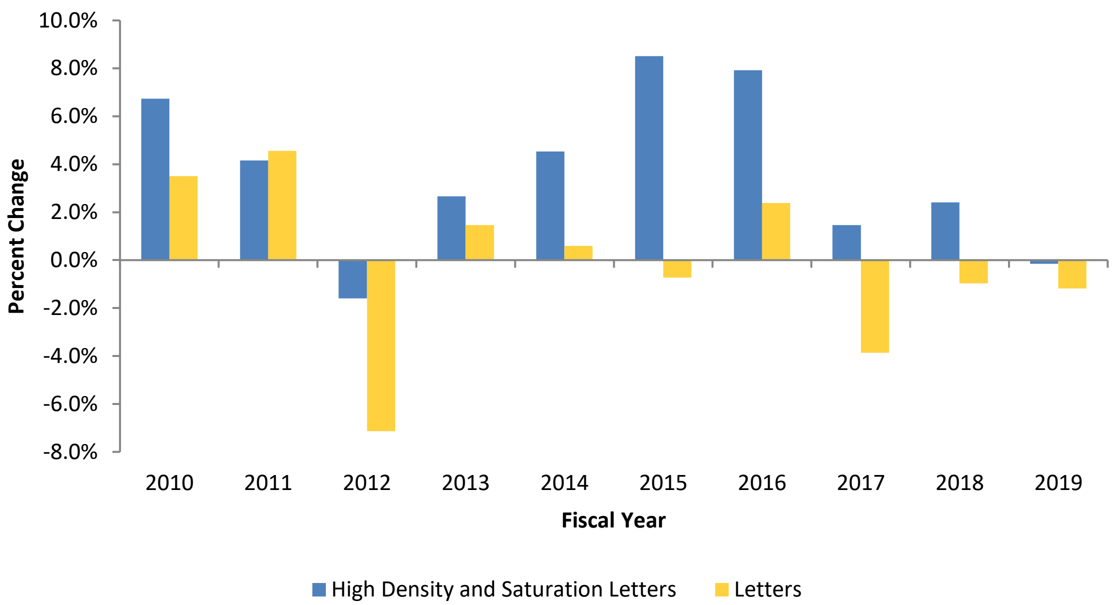
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or	Percent	(Cents per Piece)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Letters	5,124	4,963	161	3.3%	11.1	10.7	0.5	4.5%
High Density and Saturation Letters	586	560	26	4.6%	8.1	7.7	0.4	4.8%
Total Letters	**5,710**	**5,523**	**187**	**3.4%**	**10.7**	**10.3**	**0.5**	**4.5%**

Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

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 except in FY 2019. Annual changes in USPS Marketing Mail Letters volume have been relatively small since FY 2013, with volume decreasing for the past 3 years.

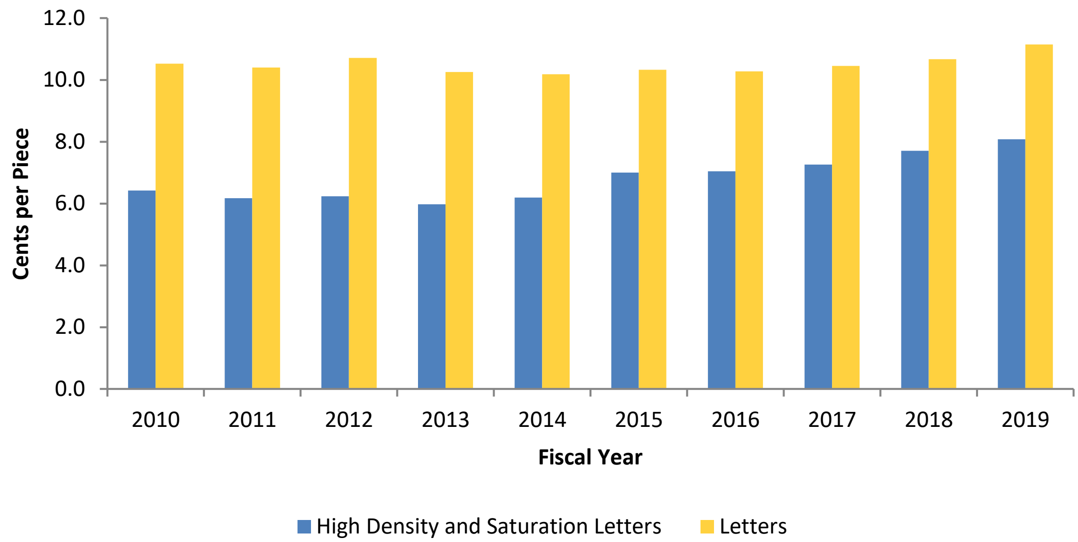
Figure III-10
Percent Change in USPS Marketing Mail Letters Volume, FY 2010–FY 2019



Source: FY 2010–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

Figure III-11 shows the average unit attributable cost for USPS Marketing Mail letters since FY 2010. Average unit attributable cost for both High Density and Saturation Letters and USPS Marketing Mail Letters have grown in recent years. The average unit attributable cost for USPS Marketing Mail Letters increased for the last 3 years, while High Density and Saturation Letters unit attributable cost has been on the rise since FY 2014.

Figure III-11
USPS Marketing Mail Letters Average Unit Attributable Cost, FY 2010–FY 2019



Source: FY 2010–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

USPS MARKETING MAIL FLATS COMPARED WITH FY 2018

Table III-13 summarizes the FY 2019 changes in volume and revenue for flat-shaped USPS Marketing Mail.[64] Volume for all flat-shaped USPS Marketing Mail declined in FY 2019. Carrier Route flats experienced the largest decline (10.1 percent) decrease in FY 2019. USPS Marketing Mail Flats and EDDM-R also experienced significant decreases, 6.4 percent and 8.9 percent, respectively. High Density and Saturation Flats/Parcels remained nearly unchanged in FY 2019.

Revenue for flat-shaped USPS Marketing Mail declined 4.4 percent in FY 2019. The large decrease in Carrier Route volume resulted in a 10.1 percent decrease in revenue in FY 2019. Flats and EDDM-R revenue also declined, reflecting the loss of FY 2019 volume. However, High Density and Saturation Flats/Parcels revenue increased 1.6 percent in FY 2019 primarily due to higher prices.

[64] Some products include parcels; however, those products contain predominantly flat-shaped mailpieces.

Table III-13
USPS Marketing Mail Flat Volume and Revenue, FY 2019 and FY 2018

	Mail Volume				Mail Revenue			
	(Millions)		Increase or	Percent	($ in Millions)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
High Density and Saturation Flats/Parcels	11,607	11,621	(14)	-0.1%	2,071	2,039	33	1.6%
Carrier Route	6,359	7,074	(715)	-10.1%	1,672	1,860	(188)	-10.1%
Flats	3,818	4,079	(261)	-6.4%	1,562	1,651	(89)	-5.4%
Every Door Direct Mail – Retail	649	713	(63)	-8.9%	120	127	(7)	-5.6%
Total	**22,433**	**23,486**	**(1,053)**	**-4.5%**	**5,425**	**5,677**	**(252)**	**-4.4%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Table III-14 summarizes the FY 2019 change in USPS Marketing Mail flats attributable cost. Total attributable cost for flat-shaped USPS Marketing Mail decreased 0.8 percent in FY 2019. Attributable cost decreased for all flat-shaped USPS Marketing Mail products except High Density and Saturation Flats/Parcels. On a unit basis, all flat-shaped USPS Marketing Mail products experienced an increase in FY 2019.

Table III-14
USPS Marketing Mail Flats Attributable Cost and Average Unit Attributable Cost, FY 2019 and FY 2018

	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or	Percent	(Cents per Piece)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
High Density and Saturation Flats/Parcels	1,499	1,404	95	6.7%	12.9	12.1	0.8	6.9%
Carrier Route	1,673	1,712	(39)	-2.3%	26.3	24.2	2.1	8.7%
Flats	2,307	2,403	(96)	-4.0%	60.4	58.9	1.5	2.5%
Every Door Direct Mail – Retail	46	47	(1)	-2.7%	7.1	6.7	0.4	6.8%
Total	**5,525**	**5,567**	**(42)**	**-0.8%**	**24.6**	**23.7**	**0.9**	**3.9%**

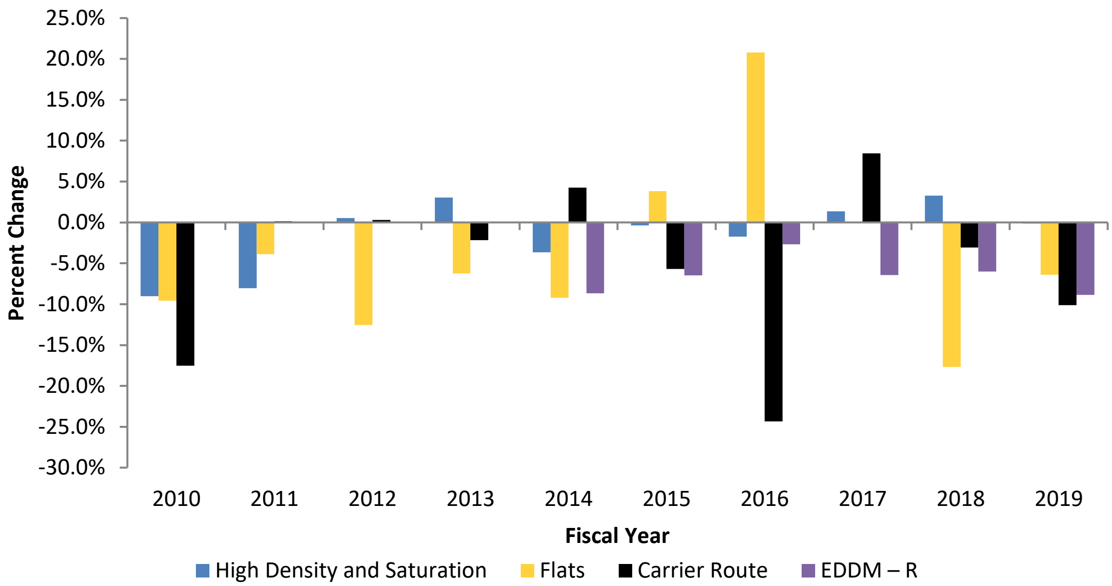
Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

TRENDS IN USPS MARKETING MAIL FLATS

Total volume for flat-shaped USPS Marketing Mail has declined 31.3 percent since FY 2009. As shown in Figure III-12, since FY 2012, volume changes for High Density and Saturation Flats/Parcels remained relatively small. Although both Flats and Carrier Route volumes continued their downward trends in FY 2019, the decrease in Carrier Route is particularly large.[65]

[65] 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* Docket No. ACR2017, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement*, April 5, 2018, at 53-54.

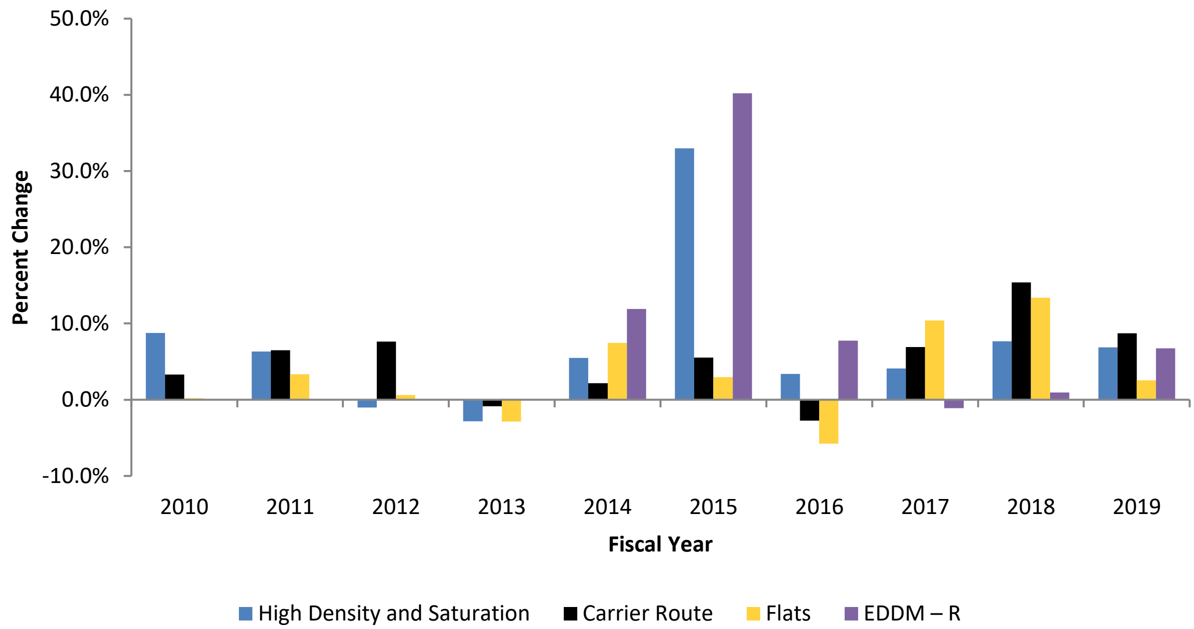
Figure III-12
USPS Marketing Mail Flats Percent Change in Volume, FY 2010–FY 2019



Source: FY 2009–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

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. With the exception of EDDM-R, increases in unit attributable cost were more modest in FY 2019 than in FY 2018. Over the last decade, average unit attributable cost increased nearly every year for flat-shaped USPS Marketing Mail products.

Figure III-13
USPS Marketing Mail Flats Percent Change in Average Unit Attributable Cost, FY 2010–FY 2019



Source: FY 2009–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

Table III-15 compares the change in the average unit attributable cost between FY 2018 and FY 2019. With the exception of USPS Marketing Mail Flats city carrier in-office unit cost, unit costs increased for all USPS Marketing Mail flats products.

Table III-15
Change in USPS Marketing Mail Flats Average Unit Attributable Cost by Cost Segment, FY 2019 and FY 2018

	High Density and Saturation	Carrier Route	Flats	Every Door Direct Mail-Retail
Mail Processing				
FY 2019	1.7906	8.4318	32.7557	0.2137
FY 2018	1.5165	7.4566	31.0590	0.1096
% Change	18.1%	13.1%	5.5%	94.9%
City Carrier In-Office				
FY 2019	1.4086	6.5614	12.5872	1.3441
FY 2018	1.3993	6.4537	13.3815	1.3360
% Change	0.7%	1.7%	-5.9%	0.6%
City Carrier Street				
FY 2019	5.4544	5.5262	4.8294	4.5456
FY 2018	5.1971	4.9641	4.7222	4.3192
% Change	5.0%	11.3%	2.3%	5.2%
Rural Carriers				
FY 2019	3.6605	4.1299	3.9017	0.5598
FY 2018	3.3270	3.7054	3.5460	0.5251
% Change	10.0%	11.5%	10.0%	6.6%

Source: PRC derived from Library Reference USPS-FY19-24, December 27, 2019; Docket No. ACR2018, Library Reference USPS-FY18-24, December 28, 2018.

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 2018

Table III-16 summarizes the FY 2019 changes in volume and revenue for Periodicals. In FY 2019, Periodicals volume declined by 359 million pieces, or 7.2 percent, with most of the decrease occurring in Outside County publications. In FY 2019, Outside County volume decreased 7.8 percent compared to a 2.2 percent decrease for In-County volume. Total revenue for Periodicals declined 6.5 percent in FY 2019. The decline in total revenue is due to the loss of volume, as unit revenue increased slightly for both Outside County and In-County Periodicals.

Table III-16
Periodicals Volume and Revenue, FY 2019 and FY 2018

	Mail Volume				Mail Revenue			
	(Millions)		Increase or	Percent	($ in Millions)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
In-County	499	510	(11)	-2.2%	56	57	(0)	-0.7%
Outside County	4,135	4,483	(348)	-7.8%	1,138	1,220	(82)	-6.7%
Total	**4,635**	**4,993**	**(359)**	**-7.2%**	**1,194**	**1,277**	**(83)**	**-6.5%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Table III-17 compares total attributable cost and average unit attributable cost for Periodicals for FY 2018 and FY 2019. Total Periodicals attributable cost decreased by $25 million, or 1.3 percent. The decrease in Outside County overwhelmed the increase in In-County attributable cost. However, on a unit basis, both In-County and Outside County costs increased in FY 2019.

Table III-17
Periodicals Attributable Cost and Average Unit Attributable Cost, FY 2019 and FY 2018

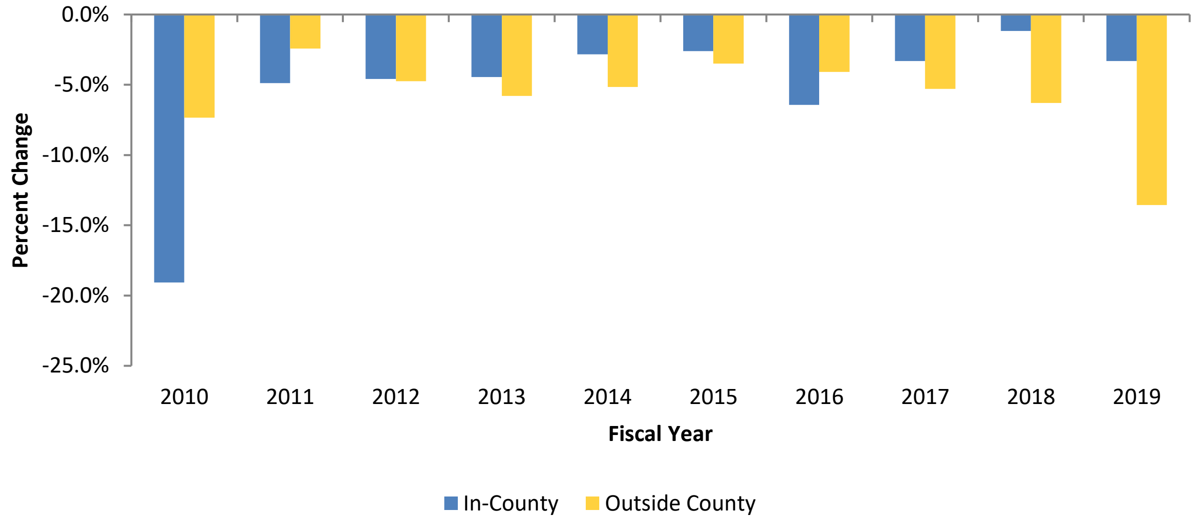
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or	Percent	(Cents per Piece)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
In-County	96	83	13	15.6%	19.3	16.3	3.0	18.1%
Outside County	1,769	1,806	(38)	-2.1%	42.8	40.3	2.5	6.1%
Total	**1,866**	**1,890**	**(25)**	**-1.3%**	**40.3**	**37.9**	**2.4**	**6.3%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

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. For In-County Periodicals, the decline in FY 2019 is similar to the declines seen in recent years. Volume loss for Outside County Periodicals appears to have accelerated in recent years. Since FY 2010, volume for Outside County Periodicals decreased by 37.1 percent, or 2.4 billion pieces.

Figure III-14
Periodicals Percent Change in Volume, FY 2010–FY 2019

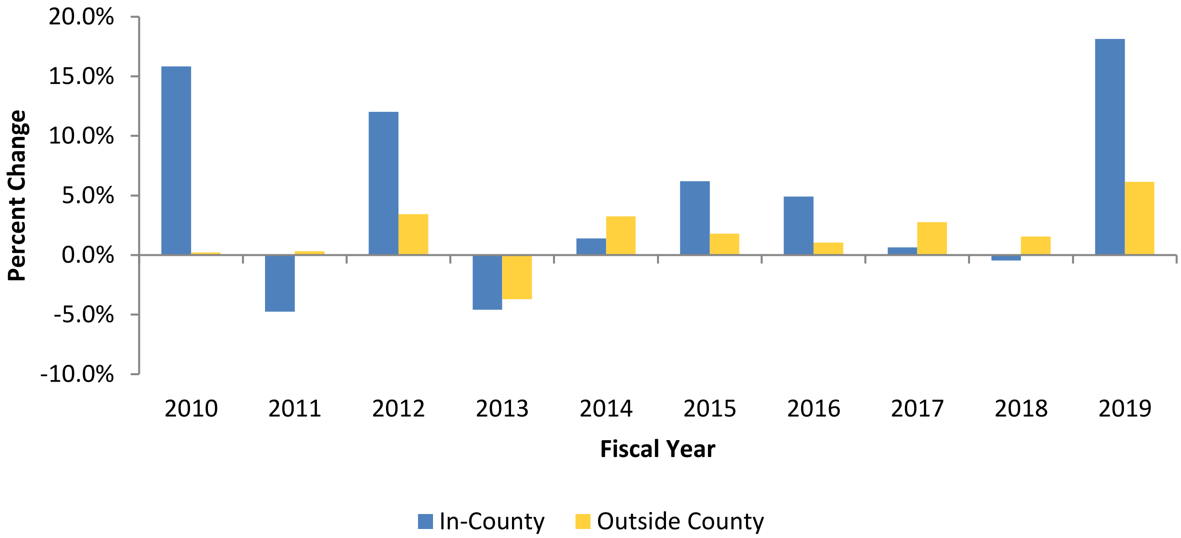


Source: FY 2009–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

The percent 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 costs increased significantly in FY 2019,[66] after several years of more modest changes.

[66] For a detailed discussion of unit attributable costs for flat shaped mail see Chapter 6 of FY 2019 ACD, March 25, 2020.

Figure III-15
Periodicals Percent Change in Average Unit Attributable Cost, FY 2010–FY 2019



Source: FY 2009–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

Table III-18 disaggregates the average unit attributable cost of Outside County Periodicals for FY 2017 to FY 2019. As shown in Table III-18, the average city carrier in-office unit cost and average mail processing unit cost decreased in both FY 2018 and in FY 2019, unit costs for both transportation and rural carriers increased in FY 2019. The unit cost for city carrier street remained unchanged from FY 2018.

Table III-18
Outside County Periodicals Average Unit Attributable Cost by Segment, FY 2017–FY 2019

	Average Unit Attributable Cost Cents per Piece			Change in Average Unit Attributable Cost	
Cost Segment	FY 2017	FY 2018	FY 2019	FY 2018	FY 2019
Mail Processing	20.19	20.07	19.41	-0.6%	-3.3%
City Carrier In-Office	6.76	6.60	6.19	-2.4%	-6.2%
City Carrrier Street	4.10	4.29	4.29	4.6%	0.0%
Rural Carriers	3.55	3.89	4.09	9.6%	5.1%
Transportation	3.57	4.09	4.26	14.6%	4.2%
All Other	1.40	1.24	1.22	-11.4%	-1.6%

Source: PRC derived from Postal Service CSC Report, FY 2017–FY 2019.

Package Services

The Package Services class consists of four products: Alaska Bypass Service; Bound Printed Matter (BPM) Flats; BPM Parcels; and Media Mail/Library Mail. Table III-19 summarizes the FY 2019 changes in volume and revenue for Package Services. Overall, Package Services volume decreased 2.9 percent in FY 2019. However, Alaska Bypass Service and Media Mail/Library Mail volumes were minimally higher compared with FY 2018.

With the exception of Media Mail/Library Mail, all Package Services products had lower revenue in FY 2019 than in FY 2018, resulting in lower revenue overall for the Package Services class. Unit revenue increased slightly for all Package Services products except Alaska Bypass Service. Alaska Bypass Service unit revenue decreased 4.8 percent in FY 2019.

Table III-19
Package Services Volume and Revenue, FY 2019 and FY 2018

	Mail Volume				Mail Revenue			
	(Millions)		Increase or	Percent	($ in Millions)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Alaska Bypass Service	1	1	0	1.3%	32	33	(1)	-3.6%
Bound Printed Matter Flats	254	265	(11)	-4.2%	191	198	(7)	-3.6%
Bound Printed Matter Parcels	286	295	(9)	-3.0%	315	319	(4)	-1.3%
Media Mail/Library Mail	80	79	1	1.5%	284	276	8	2.7%
Total	**622**	**640**	**(19)**	**-2.9%**	**821**	**826**	**(5)**	**-0.6%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

As shown in Table III-20, attributable cost increased in the aggregate for all Package Services products compared with FY 2018, except for BPM Flats. In FY 2019, Alaska Bypass Service cost, which consists entirely of Cost Segment 14 transportation, increased both in the aggregate and on a unit basis, by 8.8 percent and 7.4 percent, respectively. The attributable cost of BPM Parcels increased 1.5 percent due to an increase in unit cost (4.6 percent) compared with FY 2018. Media Mail/Library Mail experienced a 10.2 percent increase in attributable cost in FY 2019. BPM Flats attributable cost remained virtually unchanged in the aggregate but increased from FY 2018 on a unit basis.

Table III-20
Package Services Attributable Cost and Average Unit Attributable Cost, FY 2019 and FY 2018

	Attributable Cost ($ in Millions)				Unit Attributable Cost (Cents per Piece)			
	FY 2019	FY 2018	Increase or Decrease	Percent Change	FY 2019	FY 2018	Increase or Decrease	Percent Change
Alaska Bypass Service	20	19	2	8.8%	1,598	1,488	110	7.4%
Bound Printed Matter Flats	133	133	0	-0.1%	52	50	2	4.2%
Bound Printed Matter Parcels	297	292	4	1.5%	104	99	5	4.6%
Media/Library Mail	397	360	37	10.2%	496	456	39	8.6%
Total	**848**	**805**	**42**	**5.2%**	**136**	**126**	**11**	**8.4%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Table III-21 shows the FY 2019 percent change in unit attributable cost for selected cost segments. As shown in Table III-21, BPM Flats unit cost increased in FY 2019 for city carrier activities, transportation, and vehicle service drivers. The unit cost for all other segments depicted decreased, but most notably, rural carrier unit cost decreased by 25.7 percent in FY 2019.

For BPM Parcels, while attributable cost increased overall in FY 2019, unit costs decreased in half of the cost segments depicted. For this product, motor vehicles service unit cost decreased 28.4 percent, the largest decrease of any segment.

Although three of the segments depicted decreased slightly in FY 2019, increases in the remaining segments resulted in an overall increase in the unit cost of Media Mail/Library Mail. Unit cost for mail processing, vehicle service driver, and rural carriers increased considerably in FY 2019, 13.3 percent, 27.5 percent, and 18.6 percent, respectively.

Table III-21
Package Services Percent Change in Average Unit Attributable Cost by Segment, FY 2019

	BPM Flats	BPM Parcels	Media Mail/ Library Mail
Mail Processing	-0.7%	7.7%	13.3%
City Carrier In-Office	23.7%	4.0%	0.3%
City Carrier Street	7.9%	-1.5%	-0.9%
Vehicle Service Driver	38.4%	-28.4%	27.5%
Rural Carriers	-25.7%	24.7%	18.6%
Motor Vehicle Service	-2.9%	-1.6%	-1.4%
Transportation	25.6%	-8.9%	-0.4%
All Other	-4.2%	0.3%	5.7%
Total Attributable Cost	**4.2%**	**4.6%**	**8.6%**

Source: PRC derived from Postal Service CSC Report, FY 2018 and FY 2019.

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,[67] 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-22, total revenue for Special Services declined $52 million in FY 2019. Revenue decreased for three services in FY 2019: Insurance (1.8 percent), Registered Mail (16.9 percent), and Other Ancillary Services (3.0 percent).

Table III-22
Market Dominant Ancillary Services and Special Services Revenue, FY 2019 and FY 2018

	Revenue			
	($ in Millions)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change
Certified Mail	654	614	40	6.5%
Collect on Delivery	4	4	0	5.8%
Insurance	78	79	(1)	-1.8%
Registered Mail	24	29	(5)	-16.9%
Stamped Envelopes & Cards	13	12	1	8.4%
Other Ancillary Services	390	402	(12)	-3.0%
Money Orders	163	159	4	2.8%
Post Office Box Service	294	287	7	2.4%
Other Services	191	173	18	10.3%
Total Services	**1,811**	**1,759**	**52**	**3.0%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Table III-23 shows that attributable cost for Special Services decreased $20 million in FY 2019, following a $112 million decrease in FY 2018. The decrease in attributable cost is primarily due to decreases in attributable cost for Certified Mail and Insurance.

[67] 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-23
Market Dominant Ancillary Services and Special Services Attributable Cost, FY 2019 and FY 2018

	Attributable Cost ($ in Millions)			
	FY 2019	FY 2018	Increase or Decrease	Percent Change
Certified Mail	478	530	(52)	-9.7%
Collect on Delivery	3	3	0	-12.2%
Insurance	41	48	(7)	-14.5%
Registered Mail	17	18	(1)	-7.5%
Stamped Envelopes & Cards	11	12	(1)	-12.0%
Other Ancillary Services	247	230	18	7.6%
Money Orders	155	147	8	5.3%
Post Office Box Service	256	255	1	0.5%
Other Services	95	79	16	19.5%
Total Services	**1,323**	**1,343**	**(20)**	**-1.5%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Competitive Volume, Revenue, and Cost by Product

Competitive products consist of both domestic and international products. Domestic Competitive products include Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; First-Class Package Service; Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services; Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies. There were also a total of 1,144 Domestic Competitive NSA products in effect during FY 2019. 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 2019 there were also 785 International Outbound NSAs and 8 International Inbound NSAs.

To facilitate comparisons, the products have been grouped into several broad categories. Table III-24 summarizes the FY 2019 changes in volume and revenue for Competitive products and services. Total volume for Competitive products increased by 0.2 percent in FY 2019, as three categories experienced volume losses, while only two experienced volume growth. First-Class Package Service volume increased less dramatically in FY 2019 than in FY 2018, 9.7 percent versus 32.8 percent. However, the FY 2018 increase was 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 volume increased by just 1.0 percent in FY 2019.

Total Competitive product revenue increased 5.0 percent, or $1.1 billion, in FY 2019. Revenue for every domestic Competitive product except Priority Mail Express increased, mirroring increases in volume. On a unit basis, for domestic Competitive products overall, revenue increased by approximately 5.5 percent.

Table III-24
Competitive Products Volume and Revenue, FY 2019 and FY 2018

	Mail Volume				Mail Revenue			
	(Millions)		Increase or	Percent	($ in Millions)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Priority Mail Express	26	28	(2)	-7.3%	716	751	(35)	-4.7%
First-Class Package Service	1,398	1,275	124	9.7%	4,466	3,871	596	15.4%
Priority Mail	1,085	1,074	11	1.0%	9,464	9,103	361	4.0%
Ground Parcels	2,997	3,099	(102)	-3.3%	7,271	6,913	357	5.2%
International	166	187	(21)	-11.2%	1,380	1,544	(164)	-10.6%
Domestic Services					911	877	33	3.8%
Total Competitive	**5,672**	**5,663**	**9**	**0.2%**	**24,207**	**23,059**	**1,148**	**5.0%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Table III-25 summarizes the FY 2019 changes in attributable cost. Total attributable cost for Competitive products increased 3.2 percent, or approximately $494 million, in FY 2019. The largest increases in attributable costs were for First-Class Package Service and Domestic Services. On a unit basis, attributable cost increased for Priority Mail Express, for First-Class Package Service, for Ground Parcels and for International. Only Priority Mail experienced a unit cost decrease.

Table III-25
Competitive Products Attributable Cost and Unit Attributable Cost, FY 2019 and FY 2018

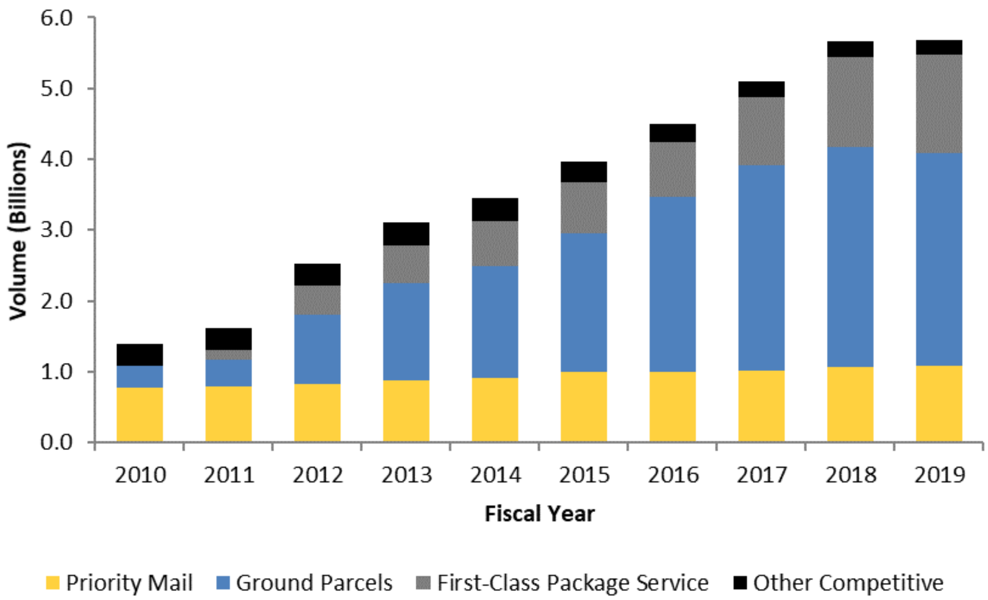
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or	Percent	(Cents per Piece)		Increase or	Percent
	FY 2019	FY 2018	Decrease	Change	FY 2019	FY 2018	Decrease	Change
Priority Mail Express	301	315	(14)	-4.5%	1,149	1,116	33	2.9%
First-Class Package Service	3,014	2,692	322	11.9%	216	211	4	2.0%
Priority Mail	7,045	6,983	61	0.9%	649	650	(1)	-0.1%
Ground Parcels	3,841	3,721	120	3.2%	128	120	8	6.8%
International	981	1,025	(44)	-4.3%	592	549	43	7.8%
Domestic Services	483	441	42	9.6%				
Total Competitive	**15,960**	**15,466**	**494**	**3.2%**	**281**	**273**	**8**	**3.0%**

Negative values denoted by ().
Source: Library Reference PRC-LR-ACR2019/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1.

Trends in Competitive Products

Competitive product volume remained virtually unchanged in FY 2019, after exceeding 10 percent growth each year since FY 2012.[68] Figure III-16 highlights the growth in Competitive categories since FY 2010.

Figure III-16
Competitive Volume by Product, FY 2010–FY 2019



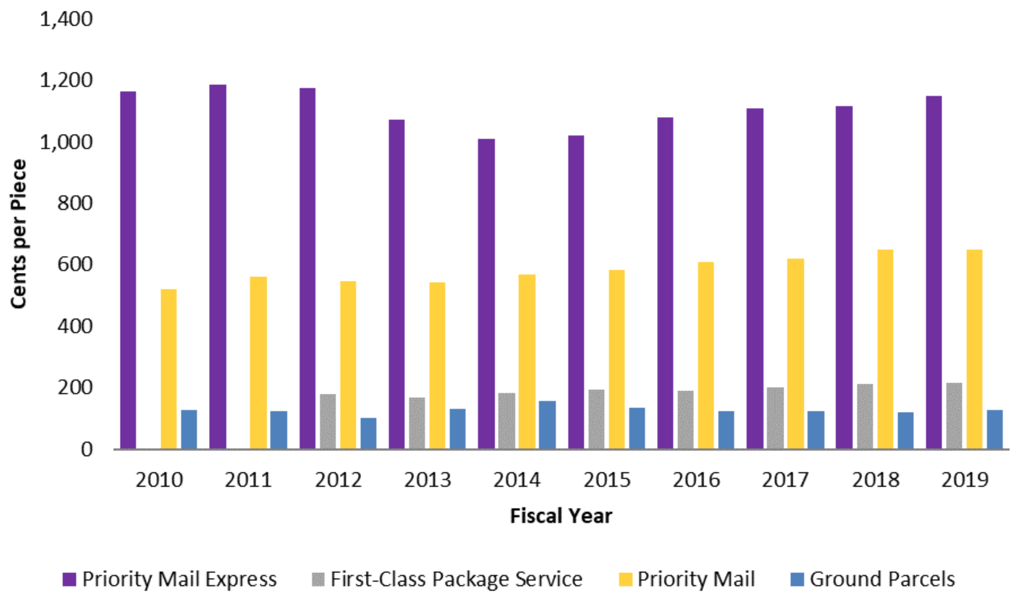
Source: FY 2012 and FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-CR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-1.

Competitive products attributable cost has grown rapidly over the last decade, and now comprises 36 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, single-piece Parcel Post from Market Dominant products to the Competitive Standard Post product, and First-Class Mail single-piece retail Parcels to the First-Class Package Service product.[69]

[68] The transfer of First-Class Mail commercial parcels and lightweight Standard Mail parcels from the market dominant product list to the Competitive product list was completed by FY 2012.
[69] *See* Docket No. MC2011-22, Order Adding Lightweight Commercial Parcels to the Competitive Product List, April 6, 2011 (Order No. 710); Docket No. MC2010-36, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011 (Order No. 689); Docket No. MC2012-13 Competitive Product List Order Conditionally Granting Request to Transfer Parcel Post to the Competitive Product List, July 19, 2012 (Order No. 1411); and Docket No. MC2015-7, Order Conditionally Approving Transfer, July 20, 2017 (Order No. 4009).

Figure III-17 shows the average unit attributable cost by category from FY 2010 to FY 2019. Average unit attributable cost is higher for all Competitive parcel categories than it was in FY 2012 except for Priority Mail Express. With the exception of ground parcels, average unit attributable cost for Competitive products has generally trended upward in recent years. The average unit attributable cost of ground parcels increased in FY 2019, after several years of cost decreases.

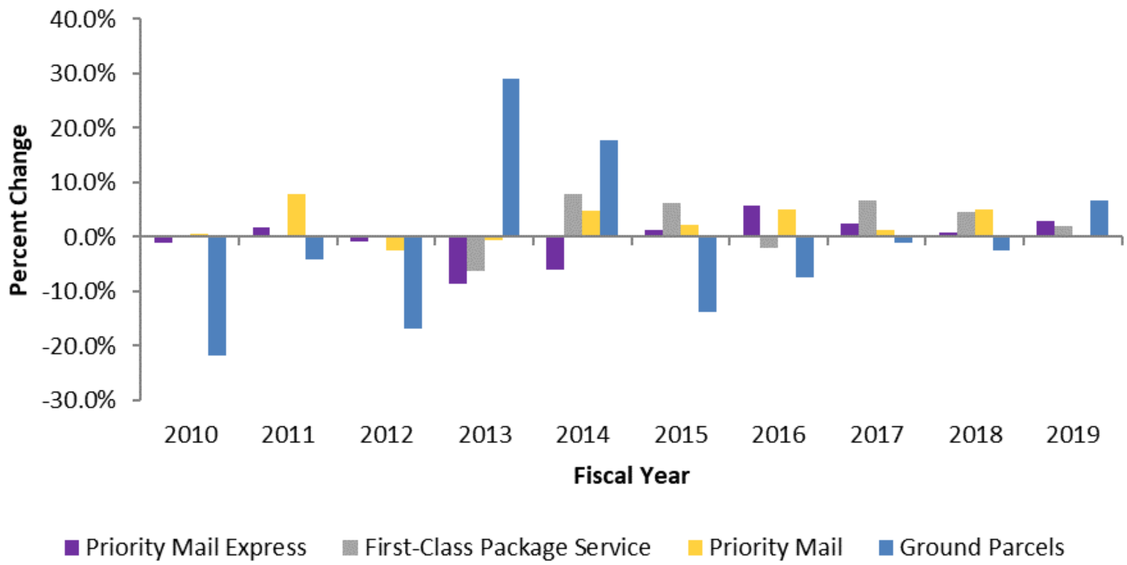
Figure III-17
Competitive Products Average Unit Attributable Cost by Category, FY 2010–FY 2019



Source: FY 2012 and FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

Figure III-18 shows the percent change in average unit attributable cost by category from FY 2010 to FY 2019. Increases and decreases in unit attributable cost are generally smaller in magnitude over the last 3 years compared with the preceding 3 years.

Figure III-18
Competitive Percent Change in Average Unit Attributable Cost by Category, FY 2010–FY 2019



Source: FY 2012 and FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1.

Chapter IV. Cost and Profit Analysis

Introduction

Chapter 4 divides the broad categories of costs analyzed in Chapter 2 into segments categorized by function, and explores how these costs are impacted by operations and how they impact total net income/loss. As stated in Chapter 2 (*see* Table II-6), the single largest cost for the Postal Service is employee salaries and benefits. This chapter contains a discussion of labor costs and workhours. The chapter concludes with a summary of a measure of productivity, the total factor productivity (TFP).

The analyses in this chapter are based on reports filed by the Postal Service in FY 2019: the Cost and Revenue Analysis Report, the Cost Segment and Components Report, and payroll data.

Contribution Margin Income Statement

The contribution margin income statement distinguishes between the institutional and attributable costs of each individual cost segment. By bifurcating the costs from Chapter 2 into institutional and attributable cost categories, it aims to provide a different view of the current financial condition of the Postal Service.

The contribution margin income statement analyzes the relationships between revenue, attributable costs, institutional costs, and overall net income or loss.

Contribution margin on the contribution margin income statement differs from the controllable loss on the Postal Service Form 10-K.[70] The Postal Service defines controllable loss, a non-GAAP measure, as the excess of revenue over costs for normal business operations and calculates it by adding to total net loss those costs that it determines do not arise from normal business operations and over which it has no control. These costs include amortization of unfunded retirement obligations as well as adjustments to the value of workers' compensation and retirement obligations due to actuarial revaluation and discount rate changes.

Contribution margin, also a non-GAAP measure, is the excess of revenue over attributable costs. As mentioned in Chapter III, attributable costs are 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 [.][71] In Order No. 3506, the Commission revised the methodology for determining attributable cost to include inframarginal costs developed as part of the

[70] Postal Service FY 2019 Form 10-K at 18.
[71] 39 U.S.C. § 3622(c)(2).

estimation of incremental costs. Previously, attributable cost only included the sum of volume-variable costs, 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.

Postal Service costs are initially recorded as accrued costs. Accrued costs are separated into cost segments generally corresponding to major divisions in the Postal Service's chart of accounts. The separation is accomplished through use of a variety of systems designed to determine the cost of various postal activities. Cost drivers that reflect the essential activity of each cost component are identified to determine the volume variable portion of attributable costs. Most cost segments contain multiple cost components. Attributable costs are distributed to products using distribution keys that reflect the underlying cost driver.[72]

After attributable costs are determined, the residual costs are classified as institutional cost. 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 contribution margin income statement separates attributable and institutional costs by cost segments. Table IV-1 presents a high-level view of the contribution margin income statement, highlighting total attributable and institutional costs.

[72] 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.

Table IV-1
Condensed Contribution Margin Income Statement[73]

	FY 2018	FY 2019	FY 2019 over FY 2018	
			$ Variance	% Variance
Total Revenue	**$ 70,783**	**$ 71,305**	**$ 523**	**0.7%**
Total Attributable Costs	43,972	44,920	948	2.2%
Contribution Margin	26,811	26,386	(426)	(1.6%)
Total Institutional Costs	30,724	35,199	4,475	14.6%
Net Loss	**$ (3,913)**	**$ (8,814)**	**$ (4,901)**	**125.2%**
Total All Mail and Services Volume (in Millions)	**146,401**	**142,570**	**(3,831)**	**(2.6%)**

Source: Postal Service CRA Report, FY 2018 and FY 2019.

From FY 2018 to FY 2019, total revenue increased 0.7 percent, total attributable cost increased 2.2 percent, and total institutional cost increased 14.6 percent. In both FY 2018 and FY 2019, the Postal Service generated a positive contribution after all attributable costs were subtracted from revenue. However, total institutional cost exceeded the contribution amount leading to a net loss in both years. Between FY 2018 and FY 2019, the net loss increased 125 percent. Total volume declined 2.6 percent during that same period. All else being constant, total attributable costs should generally track volume declines; however, changes to the mail mix and cost of inputs impact expected results.

The Postal Service's institutional costs include substantial costs for retirement-related obligations and workers' compensation. These costs can be highly volatile and are impacted by actuarial assumptions, health care inflation rates, and discount rates. These costs experience more year-to-year fluctuation at a faster rate than the costs for common overhead such as non-labor items for rent, supplies, and transportation, which are largely driven by inflation.

To better understand the increase in institutional cost in FY 2019, the Commission analyzes changes in individual cost segments. Table IV-2 presents the underlying changes in institutional cost by year, beginning in FY 2014. In the last 3 years, the largest changes have been in workers' compensation. Except for FY 2016, the combined annual changes in annuitant health benefits, amortization on unfunded retirement funds, and other operational costs are not as significant as the year-to-year changes in workers' compensation cost.

[73] The Postal Service includes inframarginal and group-specific costs in institutional costs. Table IV-4 reallocates inframarginal and group-specific costs as attributable costs.

Table IV-2
Change in Institutional Cost by Segment, FY 2014–FY 2019
($ in Millions)[74]

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Annuitant Health Benefits	$ 333	$ 28	$ 389	$ (4,914)	$ 14	$ 9
CSRS Supplemental Liability	-	-	-	1,550	(270)	204
City Carriers	(250)	366	248	(84)	124	145
Rural Carriers	134	114	141	165	187	218
FERS Supplemental Liability	3	103	149	669	42	102
Transportation	(24)	(31)	103	580	99	112
Supplies and Services	43	20	117	74	3	(35)
Clerks and Mailhandlers	55	240	100	35	54	(25)
Other	(521)	(441)	464	394	(392)	361
Subtotal	**$ (227)**	**$ 397**	**$ 1,711**	**$ (1,531)**	**$ (140)**	**$ 1,091**
Workers' Compensation	1,290	(655)	966	(3,420)	1,002	3,495
Total Change	**$ 1,063**	**$ (258)**	**$ 2,677**	**$ (4,951)**	**$ 862**	**$ 4,585**

Source: Postal Service CRA Report, FY 2014–FY 2019.

To further understand the cost changes that contribute to the Postal Service's net loss, Table IV-3 breaks out both attributable and institutional cost by cost segment.

[74] 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.

Table IV-3
Contribution Margin Income Statement, FY 2018 and FY 2019
($ in Millions)

			FY 2019 over FY 2018	
	FY 2018	FY 2019	$ Variance	% Variance
Total Revenue	**$ 70,783**	**$ 71,305**	**$ 523**	**0.7%**
Attributable Costs:				
Postmasters	$ 287	$ 293	$ 6	2.1%
Supervisors and Technicians	1,843	1,910	67	3.6%
Clerks and Mailhandlers	12,259	12,350	91	0.7%
City Delivery Carriers – Office Activity	3,101	3,142	42	1.3%
City Delivery Carriers – Street Activity	4,808	4,904	95	2.0%
Vehicle Service Drivers	459	493	34	7.4%
Rural Carriers	2,834	3,055	221	7.8%
Custodial and Maintenance Services	2,158	2,348	190	8.8%
Motor Vehicle Service	667	657	(10)	(1.5%)
Miscellaneous Local Operations	284	287	2	0.8%
Purchased Transportation	6,256	6,467	211	3.4%
Building Occupancy	1,419	1,449	30	2.1%
Supplies and Services	1,600	1,462	(138)	(8.6%)
Research and Development	0	-	0	n/a
Servicewide Personnel Benefits and HQ/Area Operations	3,066	3,071	5	0.2%
General Management Systems	0	0	0	n/a
Other Accrued Expenses (Servicewide)	1,492	1,484	(8)	(0.6%)
Total Attributable Costs	**$ 42,535**	**$ 43,373**	**$ 838**	**2.0%**
Contribution Margin	**$ 28,248**	**$ 27,933**	**$ (315)**	**(1.1%)**
Institutional Costs:				
Postmasters	$ 1,346	$ 1,373	$ 26	2.0%
Supervisors and Technicians	1,562	1,595	33	2.1%
Clerks and Mailhandlers	2,729	2,704	(25)	(0.9%)
City Delivery Carriers – Office Activity	612	624	12	2.0%
City Delivery Carriers – Street Activity	7,935	8,080	145	1.8%
Vehicle Service Drivers	301	323	22	7.4%
Rural Carriers	5,242	5,460	218	4.2%
Custodial and Maintenance Services	1,012	842	(170)	(16.8%)
Motor Vehicle Service	1,045	1,048	3	0.3%
Miscellaneous Local Operations	413	334	(79)	(19.1%)
Purchased Transportation	1,605	1,717	112	7.0%
Building Occupancy	579	596	17	2.9%
Supplies and Services	1,652	1,616	(35)	(2.1%)
Research and Development	53	27	(27)	n/a
Servicewide Personnel Benefits and HQ/Area Operations	5,467	9,750	4,282	78.3%
General Management Systems	18	18	0	n/a
Other Accrued Expenses (Servicewide)	590	641	50	8.5%
Total Institutional Costs	**$ 32,161**	**$ 36,746**	**$ 4,585**	**14.3%**
Total Costs	**$ 74,696**	**$ 80,119**	**$ 5,423**	**7.3%**
Net Loss	**$ (3,913)**	**$ (8,814)**	**$ (4,901)**	**125.2%**
Total All Mail and Services Volume (in Millions)	**146,401**	**142,570**	**(3,831)**	**(2.6%)**

Source: Postal Service CRA Report, FY 2018 and FY 2019.

As seen in Table IV-3, attributable costs increased for Custodial and Maintenance Services, but institutional costs decreased for this segment. The increase in attributable cost was primarily due to a 16.7 percent increase from the prior year in Operating Equipment Maintenance. In FY 2019, Operating Equipment Maintenance consisted of slightly less than half of total accrued costs (48 percent) for Custodial and Maintenance Services. Operating equipment maintenance costs are for personnel responsible for the maintenance of mail processing equipment, Point of Service, Intelligent Mail Devices (IMDs) and Mobile Delivery Devices (MDDs), and other window service and computer equipment. The decrease in institutional cost for this segment is because the volume variability percentage for IMDs and MDDs increased from the prior year.

Miscellaneous Local Operations are costs incurred for contract stations; carfare and drive out agreements; tolls and ferriage; Federal Reserve Bank and commercial bank charges and retail credit card fees; arbitration settlements and individual awards; freight charges for supplies; rental allowances for cost ascertainment group L offices; and other local operations costs, including costs of postal field offices. Although overall costs are small for this component, it experienced a large percentage decrease in FY 2019. The decrease in total costs (attributable plus institutional) in this segment is primarily caused by a 29 percent decline in Arbitration Settlements and Individual Awards. Arbitration Settlements and Individual Awards costs relate to arbitration awards resulting from contractual negotiations and grievances and employee awards for outstanding performance.

As seen in Table IV-3, certain cost segments show large absolute increases from FY 2018 amounts. The three largest absolute increases from the prior year, which occur in the cost segments for rural carriers, purchased transportation, and Servicewide Personnel Benefits and HQ/Area Operations, are discussed below.

Rural carriers deliver to and collect mail from non-urban zones that are determined through labor negotiations.[75] The rural carrier cost segment is comprised of three cost components: Evaluated Routes, Other Routes, and Equipment Maintenance Allowance. The largest portion of cost in this segment is comprised of labor costs for full-time or Evaluated Routes, which increased by 5.1 percent from FY 2018. Compared to FY 2018, higher costs in this segment partly result from a 3 percent increase in headcount for full-time rural delivery carriers, from 70,852 to 73,165 carriers[76] and the growth of rural routes (0.8 percent) and residential and business rural delivery points (1.9 percent).[77] Evaluated Routes have a volume variability of 38.1 percent, which means 68.9 percent of these costs are institutional.[78]

Purchased Transportation consists of the costs of contracted air, trucking, rail, and water transportation. This cost segment is comprised of six components: Domestic Air, Domestic

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[75] United States Postal Service, Rule 39 C.F.R. Section 3050.60(f) Report for FY 2018 (Summary Descriptions), July 1, 2019, folder "SummaryDescriptionsFY2018," file "CS10-18.docx," at 10-1 (Postal Service FY 2018 Summary Descriptions).

[76] Library Reference USPS-FY19-17, December 27, 2019, file "FY19.Annual.Report.USPS.FY19.17.pdf," at 16 (Postal Service FY 2019 Annual Report to Congress).

[77] Postal Service FY 2019 Annual Report to Congress at 14.

[78] Postal Service FY 2018 Summary Descriptions, folder "SummaryDescriptionsFY2018," file "CS10-18.docx," at 10-1.

Alaska Air, Highway, Railroad, Domestic Water, and International. The largest portion of the increase from FY 2018 occurred in Domestic Air and Highway. Total accrued costs in these components increased by 5.9 percent and 4.5 percent, respectively. The Postal Service states that the main causes of higher air transportation costs were higher air rates, higher volumes, and higher average jet fuel prices. Higher highway costs resulted from higher average fuel costs and higher unit costs per mile, due to a national shortage of truck drivers.[79]

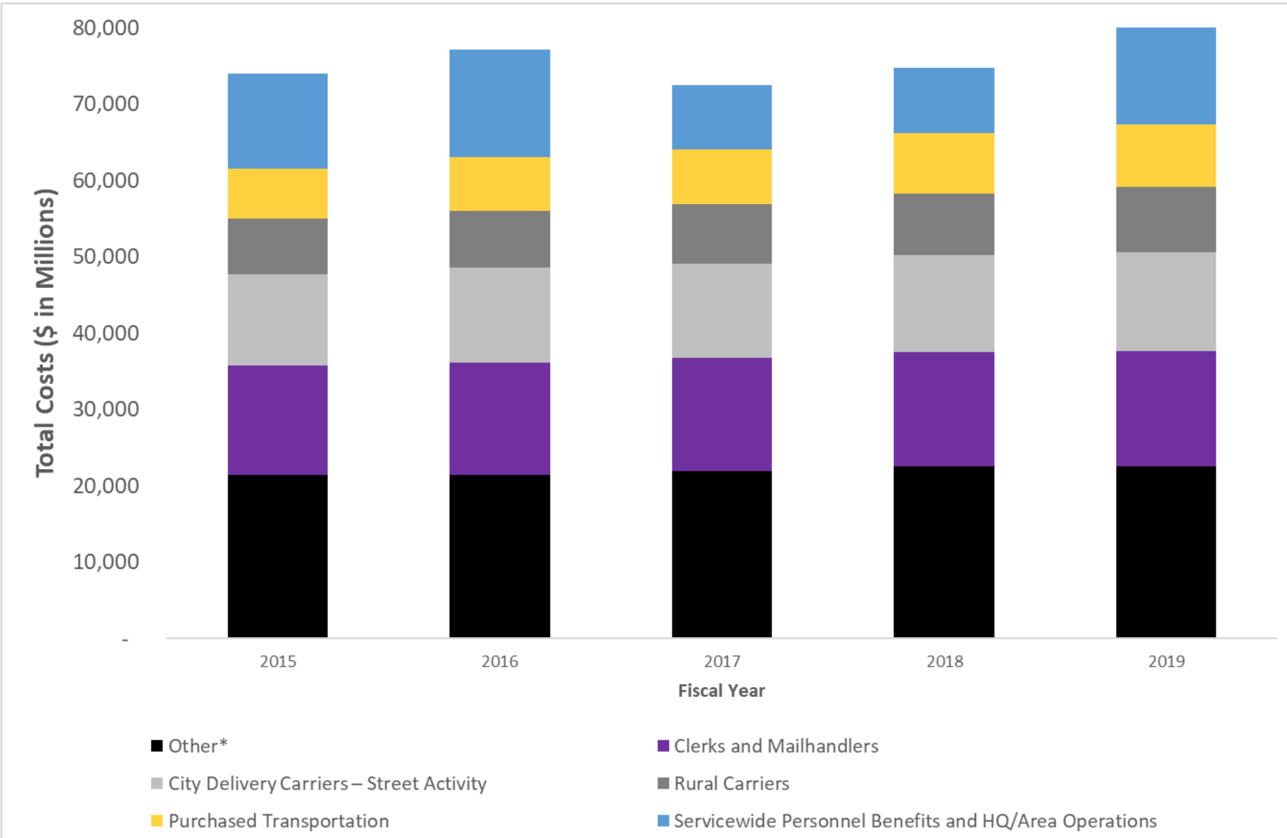
The Servicewide Personnel Benefits and HQ/Area Operations cost segment consists of costs for salaries, benefits, supplies, and other related costs for Headquarters, Field Service Units, the Security Force, and Area Offices, and corporate-wide personnel expenses that are not reported by employee category, such as costs for CSRS, FERS, RHB, and workers' compensation.[80] The largest increase in this cost segment in FY 2019 resulted from the change in Workers' Compensation Prior Year. This component has a 0 percent volume variability; all of its costs are categorized as institutional. Prior year workers' compensation costs are the residual difference between the accrued workers' compensation costs and the current year workers' compensation costs, arising from changes in discount rates and/or actuarial revaluation of past year injuries.[81] The impact of the changes in discount rates contributed to a $3.4 billion prior year variance in workers' compensation expense. Discount rates decreased from 3.1 percent to 1.9 percent in FY 2019, resulting in a $2.4 billion increase in workers' compensation expense. In FY 2018, the impact of an increase in discount rates contributed to a $1.1 billion decrease in workers' compensation expense.

Analysis of Cost Segments

The majority of the Postal Service's costs are concentrated in five cost segments: Clerks and Mailhandlers, City Delivery Carriers – Street Activity, Rural Carriers, Purchased Transportation, and Servicewide Personnel Benefits and HQ/Area Operations. *See* Figure IV-1.

[79] Postal Service FY 2019 Form 10-K at 17.
[80] Postal Service FY 2018 Summary Descriptions, folder "SummaryDescriptionsFY2018," file "CS18-18.docx," at 18-1.
[81] Postal Service FY 2018 Summary Descriptions, folder "SummaryDescriptionsFY2018," file "CS18-18.docx," at 18-17.

Figure IV-1
Share of Total Costs by Major Cost Segment, FY 2015–FY 2019



* Other comprises of cost segments for Postmasters, Supervisors and Technicians, City Delivery Carriers-Office Activity, Vehicle Service Drivers, Custodial and Maintenance Services, Motor Vehicle Services, Miscellaneous Local Operations, Building Occupancy, Supplies and Services, Research and Development, General Management Services, and Other Accrued Expenses (Servicewide).
Source: Postal Service CRA Report, FY 2015–FY 2019.

From FY 2015 to FY 2019, the rate of growth in total costs in these five cost segments (9.3 percent) outpaced the rate of growth in the Postal Service's total costs (8.3 percent).

Table IV-4 shows the share of costs that are institutional for each cost segment. For three out of the five cost segments identified in Figure IV-1, more than 60 percent of total costs are institutional. In the remaining two cost segments, the institutional cost share of total cost increased year over year. This is because institutional costs grew more than attributable costs during this timeframe. In general, year-to-year changes are due to methodological rule makings and cost characteristics of the individual cost components.

Table IV-4
Institutional Cost Share of Total Costs, FY 2015–FY 2019

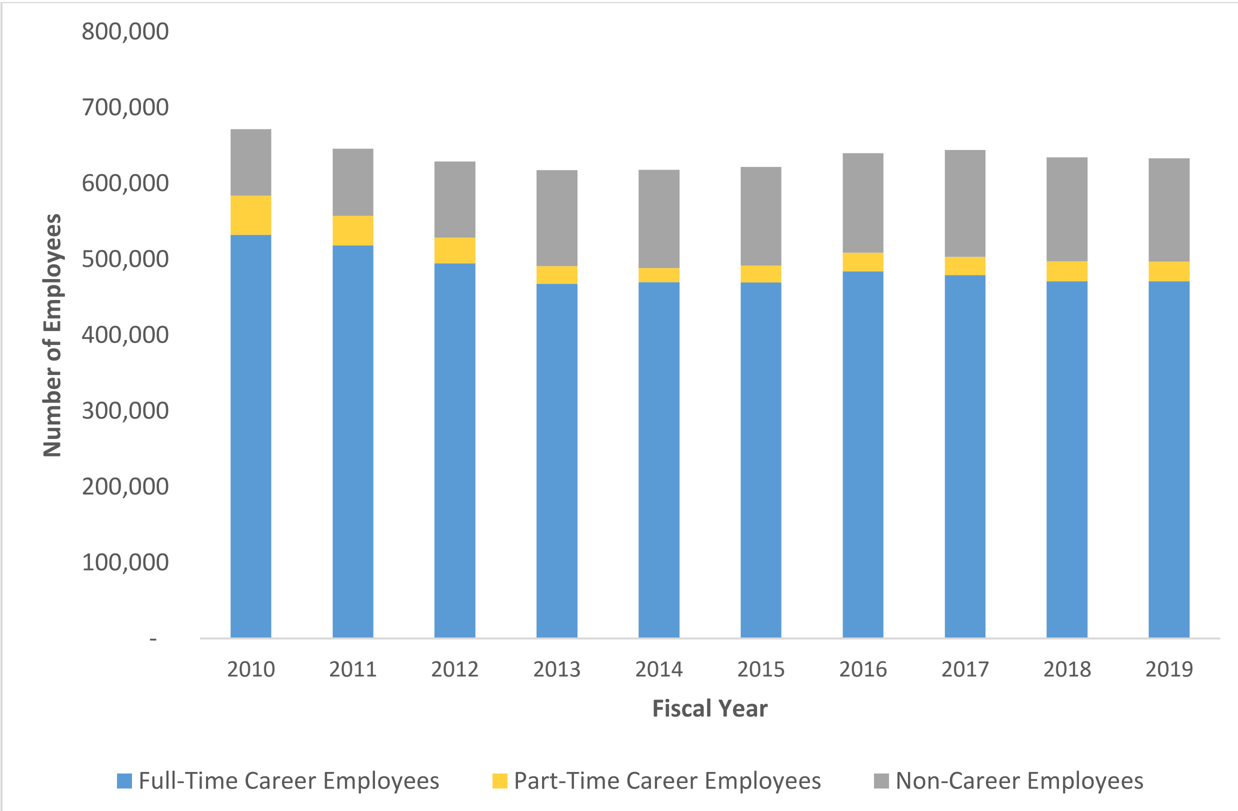
Cost Segments		Institutional Costs Share of Total Costs				
		FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
CS1	Postmasters	82.4%	82.4%	82.4%	82.4%	82.4%
CS2	Supervisors and Technicians	46.1%	45.9%	45.7%	45.9%	45.5%
CS3	**Clerks and Mailhandlers**	17.6%	17.9%	18.0%	18.2%	18.0%
CS6	City Delivery Carriers – Office Activity	15.9%	16.5%	16.2%	16.5%	16.6%
CS7	**City Delivery Carriers – Street Activity**	63.7%	63.7%	63.1%	62.3%	62.2%
CS8	Vehicle Service Drivers	39.6%	39.6%	39.6%	39.6%	39.6%
CS10	**Rural Carriers**	66.1%	65.7%	65.6%	64.9%	64.1%
CS11	Custodial and Maintenance Services	28.8%	28.9%	31.9%	31.9%	26.4%
CS12	Motor Vehicle Service	62.3%	62.3%	61.8%	61.0%	61.5%
CS13	Miscellaneous Local Operations	57.1%	55.5%	54.2%	59.2%	53.8%
CS14	**Purchased Transportation**	12.5%	13.3%	20.8%	20.4%	21.0%
CS15	Building Occupancy	29.6%	30.0%	29.3%	29.0%	29.1%
CS16	Supplies and Services	50.1%	52.1%	51.3%	50.8%	52.5%
CS17	Research and Development	99.9%	99.1%	99.9%	100.0%	100.0%
CS18	**Servicewide Personnel Benefits and HQ/Area Operations**	74.8%	79.7%	63.3%	64.1%	76.0%
CS19	General Management Systems	99.9%	99.9%	100.0%	99.9%	99.9%
CS20	Other Accrued Expenses (Servicewide)	23.6%	25.2%	27.9%	28.3%	30.2%

Source: Postal Service CRA Report, FY 2015–FY 2019.

Analysis of Employee Labor Cost

Employee labor costs, including compensation and benefits, are 70.3 percent of total Postal Service costs. There are three categories of Postal Service employees: full-time career employees, part-time career employees, and non-career employees. Full-time or part-time career employees typically receive full federal benefits, whereas non-career employees serve in temporary positions and do not receive full federal benefits. Over the past decade (FY 2010–FY 2019), the Postal Service has reduced its full-time and part-time workforce by approximately 87,000 employees and added approximately 48,000 non-career employees. *See* Figure IV-2.

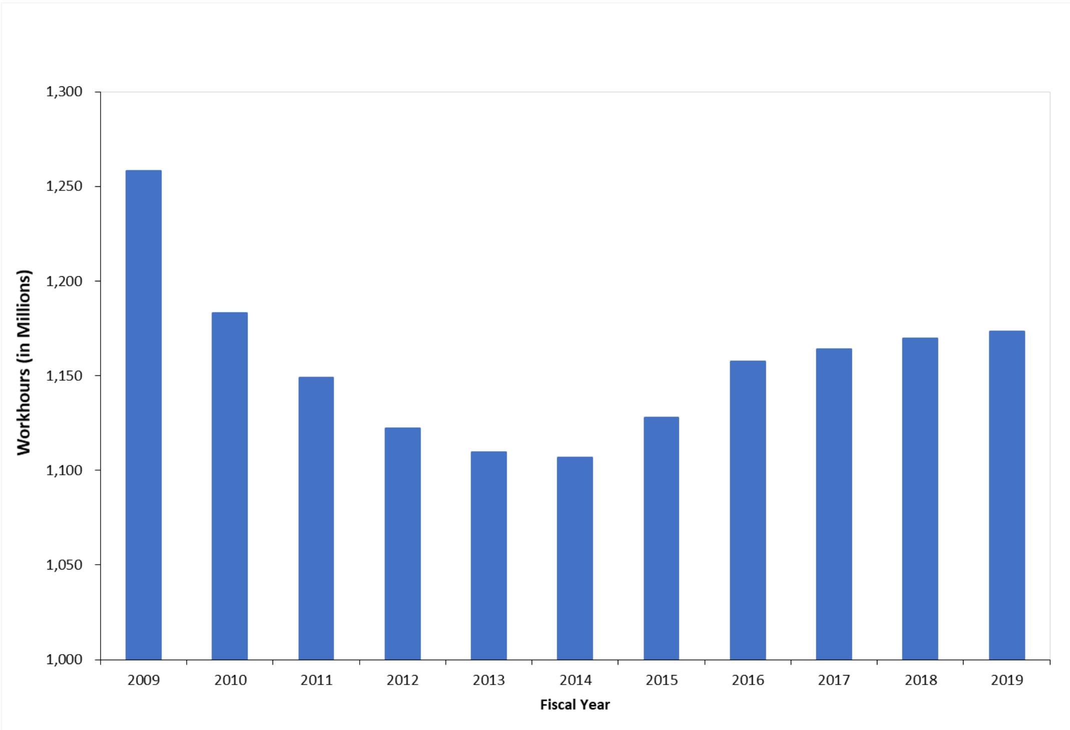
Figure IV-2
Breakdown of Workforce, FY 2010–FY 2019



Source: USPS Annual Tables, FY 2019 Total Factor Productivity, February 27, 2020, Excel file "Table Annual 2019 Public.xlsx," tab "Lab-13b" (Postal Service FY 2019 TFP).

From FY 2009 to FY 2014, the Postal Service aggressively reduced workhours each year. That trend changed in FY 2015, and workhours have, generally, been increasing each year since then. In FY 2015 and FY 2016, workhours increased 1.9 percent and 2.6 percent, respectively. Since the peak in FY 2016, workhours have been increasing at a slower pace. Figure IV-3 depicts annual workhours during the past 11 years.

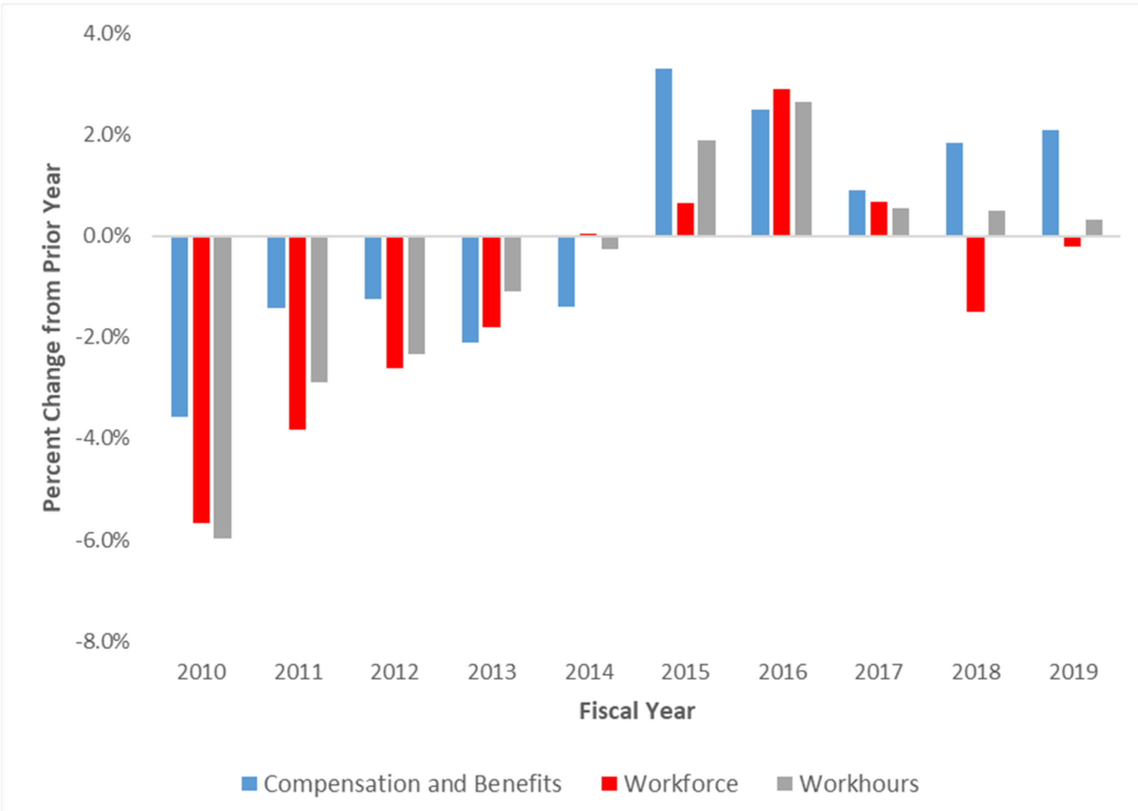
Figure IV-3
Total Workhours, FY 2009–FY 2019



Source: Postal Service FY 2019 TFP, tab "Lab-13b."

As illustrated in Figure IV-4, the reduction in the postal workforce and workhours from FY 2009 to FY 2014 generated approximately $2 billion in cost savings. The cost of compensation and benefits increased sharply in FY 2015 and has continued to grow since then. Although there was a reduction in workforce in FY 2018 and FY 2019, workhours and compensation and benefits costs continued to increase. Retirement expense in FY 2015 increased significantly (12.5 percent), primarily due to the increase in the FERS employer contribution rate from 11.9 percent to 13.2 percent of basic pay for most employees.

Figure IV-4
Percent Change from Prior Year in Compensation and Benefits, Workforce and Workhours, FY 2010–FY 2019



Source: Postal Service FY 2019 Form 10-K at 25; Postal Service FY 2016 Form 10-K at 20; Postal Service FY 2013 Form 10-K at 28; Postal Service FY 2019 TFP, tab "Lab-13b;" Postal Service September 2019 ORPES Report; Postal Service September 2018 ORPES Report; Postal Service September 2017 ORPES Report; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2016, October 6, 2016; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2015, September 24, 2015; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2014, September 26, 2014; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2013, September 27, 2013; United States Postal Service, On-Roll and Paid Employee Statistics Report, September and October 2012, November 28, 2012; United States Postal Service, On-Roll and Paid Employee Statistics Report, July, August, and September 2011, October 27, 2011; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2010, October 6, 2010.

Between FY 2010 and FY 2014, the Postal Service reduced its workforce, workhours, and compensation and benefits costs. Decreases in workhours and workforce during this period reflect declines in mail volume, delivery optimization initiatives, streamlining area and district offices, incentives for employees to retire or resign, and the slowing growth rate of new delivery points due to lower housing starts. Savings from the reduction in career employees during FY 2011 and FY 2012 were partially offset by higher retirement costs due to increases in the FERS contribution rate from 11.2 percent in FY 2010 to 11.7 percent in FY 2011 and higher health benefit premiums. Increases in the number of overtime hours of 8.4 percent in FY 2011 and 3.4 percent in FY 2012 also offset the savings.

The number of total employees remained essentially unchanged from FY 2013 to FY 2014 with a slight decrease (0.3 percent) in workhours.

Total workhours during FY 2015 increased by 1.9 percent, in part due to an increase in workhours for city delivery and customer service operations. The increase in workhours, a slight increase (0.6 percent) in career employees, and contractually obligated salary escalations during FY 2015 resulted in higher compensation and benefits costs.

The composition of the postal workforce is a significant factor in compensation and benefits costs. Between FY 2011 and FY 2013, the Postal Service reduced its career employees by 11.8 percent and increased its non-career employees by 42.7 percent. This lowered the hourly wage in FY 2013 and FY 2014 and, because the Postal Service does not cover health benefit premiums for non-career employees, the cost of benefits as well. Consequently, the Postal Service was able to decrease total compensation and benefits costs at a pace that exceeded the decrease in total workforce and workhours.

In FY 2016 and FY 2017, the number of total employees and total workhours increased. Compensation and benefits costs also increased during the same period due to contractually obligated salary escalations. The increase in compensation and benefits costs from additional workhours and contractually obligated salary escalations was partially offset by attrition of higher-paid employees, who were replaced by newly converted career employees and non-career employees earning lower wages. In FY 2016 and FY 2017, FERS normal costs increased by 5.5 percent and 1.1 percent, respectively, consistent with the increase in the FERS employer contribution rate. Average health benefit premiums also increased by 3.8 percent in FY 2016 and 4.4 percent in FY 2017.

In FY 2018 and FY 2019, the total number of employees decreased by 1.6 percent and 0.2 percent, respectively, reflecting normal attrition as the Postal Service aligns its workforce with declining mail volume. During the same period, total workhours increased slightly, influenced primarily by the growth in the number of delivery points and higher volume during the holiday seasons. Compensation and benefits costs increased by 1.8 percent and 2.1 percent, respectively, due to contractual wage adjustments and the increase in total workhours. In FY 2018 and FY 2019, average health benefit premiums increased by 4.0 percent and 1.2 percent, respectively.

Appendix A
FY 2019 Volume, Revenue, Incremental Cost, and Cost Coverage by Class, Current Classification (Products)

	Volume (000)	Revenue ($ 000)	Attributable (Incremental) 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	26,163	716,187	300,551	415,636	2,737.395	1,148.759	1,588.636	238.3%
Priority Mail	1,085,277	9,463,723	7,044,911	2,418,812	872.010	649.135	222.875	134.3%
Total Ground	2,997,116	7,270,790	3,845,619	3,425,171	242.593	128.311	114.282	189.1%
First-Class Package Service	1,398,204	4,466,212	3,013,875	1,452,337	319.425	215.553	103.872	148.2%
Competitive Domestic Services		910,535	483,212	427,324				188.4%
Competitive International Mail & Services	165,692	1,379,908	980,591	399,316	832.814	591.815	240.999	140.7%
Total Competitive Group Specific & Non-Product Inframarginal Costs			291,263					
Total Competitive Mail and Services	**5,672,452**	**24,207,356**	**15,960,022**	**8,247,334**	**426.753**	**281.360**	**145.393**	**151.7%**
MARKET DOMINANT MAIL								
First-Class Mail								
Single-Piece Letters and Cards	16,517,387	8,552,422	5,477,495	3,074,927	51.778	33.162	18.616	156.1%
Presort Letters and Cards	37,130,541	14,229,589	4,858,557	9,371,032	38.323	13.085	25.238	292.9%
Flats	1,295,348	1,652,268	1,515,961	136,308	127.554	117.031	10.523	109.0%
First-Class Non-Product Inframarginal Costs			237,601					
Total Domestic First-Class Mail	54,943,277	24,434,280	12,089,614	12,344,665	**44.472**	**22.004**	**22.468**	**202.1%**
MARKETING MAIL								
High Density & Saturation Letters	7,253,647	1,199,024	585,723	613,301	16.530	8.075	8.455	204.7%
High Density & Saturation Flats & Parcels	11,606,928	2,071,171	1,498,703	572,468	17.844	12.912	4.932	138.2%
Carrier Route	6,358,867	1,671,903	1,673,266	(1,363)	26.292	26.314	(0.021)	99.9%
Letters	45,966,176	9,734,623	5,124,154	4,610,469	21.178	11.148	10.030	190.0%
Flats	3,818,182	1,562,300	2,306,583	(744,283)	40.917	60.411	(19.493)	67.7%
Parcels	36,861	48,310	84,912	(36,602)	131.057	230.354	(99.297)	56.9%
Every Door Direct Mail - Retail	649,386	119,785	46,160	73,626	18.446	7.108	11.338	259.5%
Marketing Mail Non-Product Inframarginal Costs			478,441					
Total Marketing Mail	**75,690,047**	**16,407,117**	**11,797,942**	**4,609,175**	**21.677**	**15.587**	**6.090**	**139.1%**
Periodicals								
Within County	499,313	56,193	96,274	(40,081)	11.254	19.281	(8.027)	58.4%
Outside County	4,135,305	1,137,884	1,768,645	(630,760)	27.516	42.769	(15.253)	64.3%
Periodicals Non-Product Inframarginal Costs			612					
Total Periodicals	**4,634,618**	**1,194,077**	**1,865,530**	**(671,453)**	**25.764**	**40.252**	**(14.488)**	**64.0%**
Package Services								
Alaska Bypass Service	1,274	31,733	20,361	11,372	2,491.317	1,598.495	892.822	155.9%
Bound Printed Matter Flats	254,368	190,951	132,857	58,094	75.069	52.230	22.839	143.7%
Bound Printed Matter Parcels	285,933	314,731	296,679	18,052	110.072	103.758	6.313	106.1%
Media and Library Mail	80,122	284,005	397,042	(113,037)	354.466	495.547	(141.081)	71.5%
Package Services Non-Product Inframarginal Costs			831					
Total Package Services	**621,696**	**821,420**	**847,770**	**(26,350)**	**132.126**	**136.364**	**(4.238)**	**96.9%**
U.S. Postal Service Mail	284,579							
Free Mail	34,109		39,846	(39,846)		116.819		
Total Market Dominant Mail	**136,208,325**	**42,856,893**	**26,640,702**	**16,216,191**	**31.464**	**19.559**	**11.905**	**160.9%**
Market Dominant Services								
Ancillary Services								
Certified Mail		653,630	478,433	175,198				136.6%
Collect on Delivery		4,206	2,514	1,692				167.3%
Insurance		77,676	41,461	36,215				187.3%
Registered Mail		24,199	16,768	7,432				144.3%
Stamped Envelopes		12,184	10,604	1,580				114.9%
Stamped Cards		562	178	384				316.3%
Other Ancillary Services		389,692	247,261	142,431				157.6%
Money Orders		162,935	154,512	8,423				105.5%
Post Office Box Service		294,360	255,835	38,525				115.1%
Caller Service		89,354	21,110	68,245				423.3%
Other Special Services		42,678	15,359	27,318				277.9%
Market Dominant Services Non-Product Inframarginal Costs			20,105					
Total Market Dominant Domestic Services		**1,751,477**	**1,264,139**	**487,337**				
Outbound Single-Piece Mail International	126,052	184,473	126,598	57,875				
Inbound Single-Piece Mail International	563,066	843,248	800,142	43,105				
International Services		58,861	58,514	347				
Market Dominant International Non-Product Inframarginal Costs			1,228					
Market Dominant International Mail & Services	**689,118**	**1,086,582**	**986,483**	**100,099**				
Other Income		1,221,623		1,221,623				
Other International Mail Attributable			68,287	(68,287)				
Total Mail and Services	**142,569,895**	**71,123,931**	**44,919,634**	**26,204,297**	**49.887**	**31.507**	**18.380**	**158.3%**
Institutional Costs			35,199,404					
Appropriations: Revenue Forgone		30,052						
Investment Income		151,505						
Total Revenues		**71,305,488**						
Total Costs			**80,119,038**					
Net Income (Loss)		**(8,813,550)**						

Source: Library Reference PRC-LR-ACR2019/1.

Appendix B
Total Factor Productivity

Total factor productivity (TFP) is a measure of Postal Service productivity for any given year. TFP measures the change in the relationship between outputs (workload processed) and inputs (resources usage), over a period of time. Workload consists of weighted mail volume, miscellaneous output, and the expanding delivery network. Resources consist of labor, materials (including purchased transportation), and capital assets. TFP is calculated as the difference in workload growth and the growth of resources used.

TFP is the Postal Service's best measure of operational efficiency.[1] Generally, operational efficiency measures a firm's ability to processes more output or workload with the same level of inputs. TFP is calculated by dividing the output,[2] or workload of the Postal Service, by the input,[3] or resources used by the Postal Service. NWPC Report 1 at 1. Therefore, increases in TFP reflect increases in operational efficiency because the Postal Service was able to either process more mail volume using the same level of inputs or process less mail volume using proportionally less inputs. Order No. 4257 at 206. Conversely, TFP decreases when the Postal Service uses more inputs for the same amount of volume or workload, reflecting a decline in operational efficiency. *Id.*

Prior to FY 2000, the Postal Service's growth in workhours outpaced its workload, resulting in either reductions or small gains in TFP. From FY 2000 to FY 2007, the Postal Service reduced its labor force while its workload remained basically flat, resulting in improvements in productivity. The large drop in mail volume in FY 2008 and FY 2009 resulted in a decline in workload and a corresponding decline in productivity.

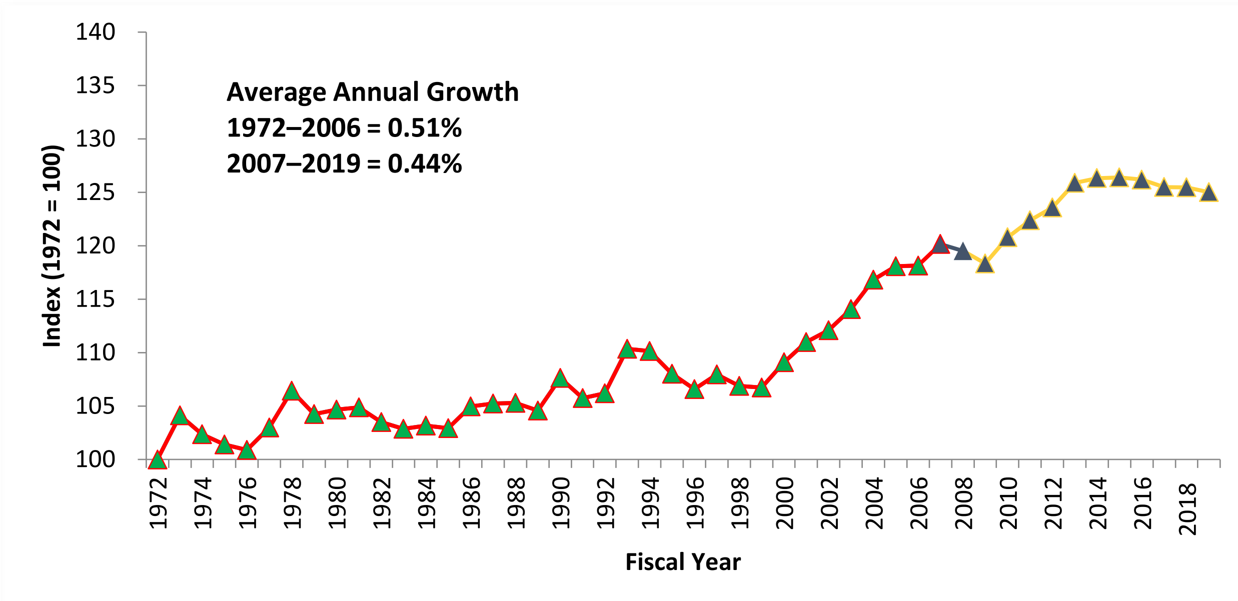
The last decade saw early TFP growth that leveled off in recent years. The productivity growth is partly caused by the reduction in workhours and the continued restrictions on capital investment, resulting in lower resource usage and a corresponding improvement in productivity. From FY 2011 to FY 2015, TFP improved each year as workhours decreased. Since FY 2016, average annual wages increased resulting in yearly increases in the postal inflation factor (a measure of the change in the cost of resources used) after a period of decline.

TFP decreased slightly, by 0.3 percent, in FY 2019, compared to a 0.1 percent decrease in FY 2018. Total workload declined by 1.1 percent in FY 2019, slightly more than the 0.8 percent decline in the usage of resources for the same period.

Figure B-1 shows the trend in TFP from FY 1972 through FY 2019.

[1] Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, December 1, 2017, at 206 (Order No. 4257).
[2] Postal Service outputs or workload is comprised of weighted mail volume, miscellaneous output, and possible deliveries. Northwest Postal Consulting for the Postal Regulatory Commission, Report 1, Adequacy of the Postal Service's TFP Model, March 27, 2017, at 1 (NWPC Report 1).
[3] Postal Service inputs are comprised of the price of labor, materials and capital. NWPC Report 1 at 1.

Figure B-1
Postal Service Total Factor Productivity, FY 1972–FY 2019



Source: Postal Service FY 2019 TFP, tab "Tfp-52."