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

Fiscal Year 2021

May 18, 2022

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Chapter I. Overview

Purpose of This Report

This report provides an in-depth analysis of the Postal Service's financial performance primarily using information reported in its FY 2021 Form 10-K measured against FY 2020 and its FY 2021 Integrated Financial Plan (Financial Plan).[1] Additionally, data filed with the FY 2021 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.

This chapter provides a summary of the Commission's findings.

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 2020 and FY 2021, as well as trend analyses that highlight changes in volume, revenue, and cost that have occurred over time.

Chapter 4 disaggregates broad categories of costs into segments categorized by function and includes a discussion of labor costs and workhours. The Commission also develops a contribution margin income statement that facilitates analysis of the relationships between revenue, attributable costs, institutional costs, and overall net income or loss. The Commission also presents an analysis of the impact of the COVID-19 pandemic on the revenue and compensation costs of the Postal Service in FY 2021.

[1] The Integrated Financial Plan is a Postal Service report that includes the operating plan, capital investment plan, and financing plan for the fiscal year. This document is required to be filed as a periodic report pursuant to the 39 C.F.R. § 3050. United States Postal Service, Integrated Financial Plan, Fiscal Year 2021, November 24, 2021.

The Covid-19 Pandemic Continues to Impact Postal Service Finances—Key Findings

During Fiscal Year (FY) 2021, the COVID-19 pandemic continued to have a significant impact on Postal Service volume, revenue, and expenses. The COVID-19 pandemic exacerbated market dominant volume declines as activity in many sectors of the economy remained below pre-pandemic levels, although package volumes increased due to continued growth in e-commerce. The volume changes impacted overall revenues and costs, while changes in workforce mix and hours in response to the pandemic impacted labor costs. The impacts of the pandemic on the Postal Service were greater in the first half of FY 2021, during which Market Dominant revenue decreased, and Competitive products revenue increased compared to the first half of FY 2020. In the second half of FY 2021, those trends reversed, with Market Dominant revenue increasing and Competitive products revenue decreasing compared to the second half of FY 2020.

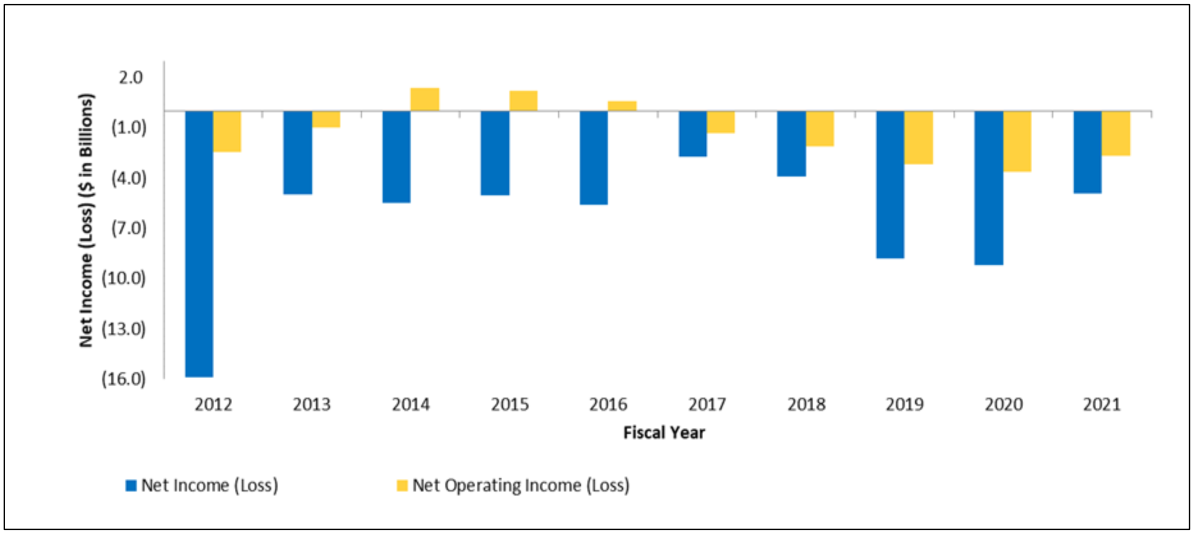
In FY 2021, the Postal Service recorded a net loss from operations of $2.7 billion,[2] a $0.9 billion improvement from the prior year. The decrease in the FY 2021 net operating loss is the result of higher revenues which were $3.0 billion higher than in FY 2020.

When Non-operating Expenses (NOEs) are included,[3] the net operating loss of $2.7 billion becomes a total net loss of $4.9 billion. This is an improvement of $4.2 billion compared to FY 2020. Figure I-1 shows net income (loss) and net operating income (loss) results for the period FY 2012 – FY 2021.

[2] United States Postal Service, 2021 Report on Form 10-K, November 13, 2020 (Postal Service FY 2021 Form 10-K). Net income or loss from operations is also referred to as net operating income (loss). The Commission's calculation of net operating income (loss) differs from the controllable net income (loss) reported in Postal Service Form 10-K by $303 million and negative $151 million for FY 2020 and FY 2021, 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 2021 Form 10-K at 22.

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

Figure I-1
Postal Service's Financial Condition Has Continued to Decline



Source: 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); United States Postal Service, 2019 Report on Form 10-K, November 14, 2019 (Postal Service FY 2019 Form 10-K); Postal Service FY 2020 Form 10-K; Postal Service FY 2021 Form 10-K (collectively, Postal Service Form 10-K, FY 2012–FY 2021).

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 had 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.[4]

These continuing losses have negatively affected the Postal Service's financial position, creating a substantial gap between the Postal Service's assets and liabilities. At the end of FY 2021, the Postal Service recorded total assets of $46.4 billion and total liabilities of $122.1 billion. In FY 2021, the Postal Service continued to accrue unpaid retiree expenses, which, at the end of FY 2021, totaled $57.0 billion. On April 6, 2022, President Biden signed the Postal Service Reform Act (PSRA), which removes the $57 billion liability for past due Retiree Health Benefits (RHB) obligations and eliminates the annual payments for the RHB normal costs and the Retiree Health Benefits Fund (RHBF) amortization. This will have significant effects on the Postal Service's financial position in FY 2022.

[4] 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.

Financial sustainability of the Postal Service is adversely impacted by insufficient current assets to cover current liabilities.

At the end of FY 2021:

- The Postal Service's total net loss was $4.9 billion.
    - The net deficit was $75.7 billion, consisting of an accumulated deficit of $88.8 billion offset by capital contributions of $13.1 billion. The net deficiency is $5 billion less than in FY 2020, primarily as the result of the $10 billion capital contribution in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.
- The Postal Service's cash and cash equivalents total, excluding restricted cash, was $23.9 billion, an increase of $9.6 billion.
    - Remaining available borrowing authority from the PAEA-mandated debt ceiling of $15 billion was $4 billion, an increase of $3 billion.
    - The cash ratio, which measures the amount of cash, cash equivalents, or short-term investments available to cover current liabilities, was 0.28, an increase of 0.09 compared to the prior year. The FY 2021 cash ratio was also higher than the 10-year average of 0.15.
- The Postal Service's operating revenue was $77 billion, which was $3.9 billion higher than the previous year.
    - Pandemic-induced e-commerce led to $3.6 billion or 11.8 percent more Competitive product revenue, but the growth slowed during the second half of the year.
    - In FY 2021, revenue from Competitive products exceeded First-Class Mail revenue.
    - Market Dominant revenue decreased by $97 million in FY 2021, a substantially smaller decrease than FY 2020, as the economy recovered and USPS Marketing Mail volume increased during the second half of the year.
- Net operating expenses stood at $79.6 billion, which were $3 billion greater in FY 2021 than the prior year, and $3.2 billion more than the Integrated Financial Plan.

  - Increased expenses for compensation (3.6%) and transportation (9.5%) were driven by pandemic-related increases in more labor-intensive package shipping, disruptions in air and highway transportation, and enhanced safety measures.

- Personnel-related expenses made up 75.7 percent of total expenses.

  - Overtime hours increased by 23 million compared to FY 2020, and total workhours increased by 1.4 percent, the highest rate in the past five years.

  - Total postal employees increased by a net of 9,000. Over the past decade (FY 2012–FY 2021), the Postal Service has reduced its full-time and part-time workforce by approximately 12,000 employees and added approximately 36,000 non-career employees.

Chapter II. Postal Service Financial Status

Introduction

The Commission evaluates the relationships of the essential components of the Postal Service's financial statements to analyze 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, provides a basis for comparing FY 2020 and FY 2021. The Commission also incorporates select key financial data from various relevant 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 actual 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 occur 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, miscellaneous item revenue, and government appropriations revenue.[5] Net operating expense is calculated as the total expenses minus accruals for certain unfunded retirement liabilities and the non-cash adjustments to the workers' compensation liability.[6] The unfunded retirement liabilities consist of three components: (1) amortization of unfunded liabilities for retiree health benefits in the RHBF, (2) pensions in the Civil Service Retirement System (CSRS), and (3) the Federal Employees Retirement System (FERS) in the Civil Service Retirement and Disability Fund (CSRDF).[7]

The Postal Accountability Enhancement Act (PAEA)[8] established the RHBF to fund the long-term retiree health benefits for postal employees, retirees, and their survivors. From FY 2007 through FY 2016, the PAEA required the Postal Service to make specified annual payments into the RHBF. The Postal Service defaulted on its annual payments from years FY 2012 through FY 2017, leaving a $33.9 billion unfunded balance in the RHBF. Beginning in FY 2017, these annual installment payments were replaced with annual amortization payments calculated by the Office of Personnel Management (OPM) for any remaining unfunded balance to liquidate the fund and ensure that retiree health benefits liabilities are fully funded by 2056. In addition, beginning in FY 2017, the Postal Service's share of healthcare premiums for retired employees has been paid from the RHBF. The Postal Service is also required to make annual contributions to the RHBF for the normal costs[9] of retiree health benefits. In FY 2021, the Postal Service did not make the normal cost or the

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[5] In FY 2021, $75.8 billion (98.4 percent) of total Postal Service revenue came from the sale of postage and mail services. Miscellaneous revenue includes adjustments and revenue for miscellaneous items. The Postal Service also received a small governmental appropriation for providing free mail for the blind and overseas voting and a few other programs.

[6] 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 2021. The Postal Service considers these expenses non-controllable.

[7] Career Postal Service employees participate in one of two federal pension programs; CSRS is a traditional defined-benefit program that is now closed to new entrants. The newer FERS generally covers employees hired since 1984. FERS has a smaller annuity than CSRS and is designed to work with Social Security and the Thrift Savings Plan (TSP), a 401(k) style program.

[8] Postal Accountability and Enhancement Act, Pub. L. 109-435, 120 Stat. 3198 (2006).

[9] Normal costs represent the present value of the estimated retiree health benefits attributable to active employees' current year of service. United States Postal Service, 2021 Report on Form 10-K, November 10, 2021, at 39 (Postal Service FY 2021 Form 10-K).

unfunded amortization payments, totaling $5.1 billion.[10] At the end of FY 2021, the Postal Service had a total unpaid balance of $57 billion in retiree health benefit liabilities. *Id.* at 15. The $57 billion includes the defaulted prefunding RHBF payments of $33.9 billion from FY 2012 through FY 2017, the defaulted RHBF amortization payments totaling $4.3 billion for years FY 2017 through FY 2021 and defaulted payments for retiree health benefits normal costs totaling $18.8 billion for years FY 2017 through FY 2021.

The enactment of the Postal Service Reform Act (PSRA) in April 2022 resulted in significant changes to the Postal Service's retirement obligations. The PSRA removes the $57 billion liability for past due retiree health benefits obligations and eliminates the annual payments for the retiree health benefits normal costs and the RHBF amortization. In addition, the PSRA requires OPM to establish the Postal Service Health Benefits Program within the existing Federal Employees Health Benefits Program (FEHB), under which OPM may contract with carriers to offer health benefit plans for Postal Service employees and retirees. It also requires future retirees to enroll in Medicare.[11] These changes will affect both the Postal Service's operating results and balance sheet beginning in FY 2022.

The Postal Service is also required to make annual amortization payments for unfunded FERS and CSRS liabilities. The PAEA suspended the Postal Service's contributions for CSRS until after FY 2016. In June 2017, OPM revalued the CSRS liability at $26.9 billion and assessed annual installment payments in order to liquidate the unfunded liability by FY 2043. In FY 2021, the Postal Service did not pay its annual installment of $1.9 billion. Postal Service FY 2021 Form 10-K at 67. As of September 30, 2021, the Postal Service had a total of $8.5 billion in unpaid CSRS liabilities for years FY 2017 through FY 2021. *Id.* at 15.

FERS is a defined benefit plan that, until FY 2013, had assets that exceeded its liabilities. Since FY 2013, liabilities have grown faster than assets, requiring the Postal Service to make annual amortization payments. OPM calculates these payments annually to liquidate the unfunded liability over a 30-year period on a rolling basis. In FY 2021, the Postal Service did not make the FERS amortization payment of $1.4 billion. Since FY 2013, the Postal Service has accumulated total unpaid FERS liabilities of $6.2 billion. *Id.*

Disaggregating the expenses in the Income Statement highlights the Postal Service's income with and without these statutorily required payments and the non-cash adjustments to the workers' compensation liability. Table II-1 illustrates the Commission's disaggregated version of the Income Statements.

[10] RHB normal costs are $4.2 billion and the amortization of the RHBF unfunded liability is $0.9 billion. *See* Postal Service FY 2021 Form 10-K at 80.

[11] Postal Service Reform Act of 2022, April 6, 2022.

Table II-1
Analysis of Postal Service Income Statements, FY 2020 and FY 2021 ($ in Millions)

	FY 2020	FY 2021	$ Change	FY 2021 Plan	$ Change from Plan
Net Operating Revenue	**$ 73,133**	**$ 77,041**	**$ 3,908**	**$ 70,858**	**$ 6,183**
Operating Expense as Reported by the Postal Service	82,187	81,844	(343)	80,429	1,415
Less: Amortization of RHB Unfunded Liability	(810)	(907)	(97)	(900)	(7)
Amortization of CSRS Unfunded Liability	(1,817)	(1,858)	(41)	(1,343)	(515)
Amortization of FERS Unfunded Liability	(1,343)	(1,401)	(58)	(1,817)	416
Non-Cash Change to Workers' Compensation Liability	(1,605)	1,925	3,530	0	1,925
Net Operating Expense	**$ 76,612**	**$ 79,603**	**$ 2,991**	**$ 76,369**	**$ 3,234**
Interest Income	92	28	(64)	32	(4)
Interest Expense	214	155	(59)	168	(13)
Net Income (Loss) from Operations	**$ (3,601)**	**$ (2,689)**	**$ 912**	**$ (5,647)**	**$ 2,958**
Amortization of RHBF Unfunded Liability	810	907	97	900	7
Amortization of CSRS Unfunded Liability	1,817	1,858	41	1,343	515
Amortization of FERS Unfunded Liability	1,343	1,401	58	1,817	(416)
Non-Cash Change to Workers' Compensation Liability	1,605	(1,925)	(3,530)	0	(1,925)
Net Loss	**$ (9,176)**	**$ (4,930)**	**$ 4,246**	**$ (9,707)**	**$ 4,777**

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. ACR2021, Library Reference USPS-FY21-5, December 29, 2021; Docket No. ACR2020, Library Reference USPS-FY20-5, December 29, 2020; FY 2021 Plan data from USPS Preliminary Financial Information (unaudited), September 2021, November 10, 2020 (November 13, 2021, Preliminary Financial Information), PDF file "2021.11.10 September FY2021 Monthly Financial Report to the PRC.pdf."

Net operating loss occurs when the costs of running a business are not covered by revenue. Sustained net operating losses can indicate deterioration of the business. The Postal Service's FY 2021 net operating loss is $0.9 billion less than the FY 2020 net operating loss, representing an increase in profitability.[12]

The Postal Service's FY 2021 net operating loss is $0.9 billion less than the 2020 net operating loss, representing an increase in profitability.

Operating revenue increased by approximately $3.9 billion compared to FY 2020. The increase in revenue was driven by rate and volume increases in

[12] The Commission's calculation of net operating income (loss) differs from the controllable net income (loss) reported in Postal Service FY 2021 Form 10-K by $303 million and negative $151 million for FY 2020 and FY 2021, 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 2021 Form 10-K at 22.

Competitive products. Volume growth in USPS Marketing Mail also resulted in significant revenue increases. USPS Marketing Mail volume increased as a result of election mail associated with the 2020 general election and the continued economic recovery during the second half of the year. *Id* at 21. Competitive products volume increased due to pandemic-related surges in e-commerce as well as record holiday volume. *Id.*

Net operating expenses were approximately $3 billion greater in FY 2021 than the prior year, primarily driven by increases in compensation and transportation. The increase was largely caused by the pandemic-related increases in more labor-intensive package shipping, enhanced safety measures, rising fuel costs, and an increase in miles driven resulting from transportation disruptions related to air travel restrictions and limited commercial flight availability. *Id.* at 20, 21.

When adding the adjustments back in, the net operating loss of $2.7 billion becomes a total net loss of $4.9 billion.[13] This total net loss is a $4.2 billion improvement when compared to FY 2020. As shown in Table II-1, the slight improvement in the non-operating expenses results from a favorable adjustment to the non-cash portion of the workers' compensation expense, more than offsetting a slight increase in retirement expenses.[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 disaggregates revenue by class and product. Table II-2 compares FY 2021 with FY 2020 and FY 2019 revenue by class.[15]

[13] For analysis purposes, if the $4.2 billion RHB normal costs is excluded from total operating expenses the result is an operating profit of $1.5 billion. Furthermore, if the $0.9 billion in RHBF amortization is excluded, total net income increases to $0.2 billion.

[14] Workers' compensation is administered by the U.S. Department of Labor and its calculation reflects the impacts of changes in discount rates as well as actuarial revaluation of new cases and revaluation of existing ones. The decrease in the FY 2021 non-cash portion of workers' compensation expense was driven by a significant increase in discount rates in FY 2021 compared to FY 2020. *Id.* at 42.

[15] FY 2019 is included for comparison to pre-pandemic revenue amounts.

Table II-2
Revenue by Market Dominant Class,[16] FY 2019, FY 2020, and FY 2021 ($ in Millions)

	FY 2020	FY 2021	$ Change FY 2021 over FY 2020	% Change FY 2021 over FY 2020	FY 2019	$ Change FY 2021 over FY 2019	% Change FY 2021 over FY 2019
First-Class Mail	$ 24,203	$ 23,526	$ (677)	(2.8%)	$ 25,462	$ (1,936)	(7.6%)
USPS Marketing Mail	13,959	14,645	686	4.9%	16,407	$ (1,762)	(10.7%)
Periodicals	1,024	942	(82)	(8.0%)	1,194	$ (252)	(21.1%)
Package Services	832	835	3	0.3%	821	$ 14	1.7%
Ancillary and Special Services	1,713	1,686	(27)	(1.6%)	1,810	$ (124)	(6.9%)
Subtotal Market Dominant Mail and Services Revenue	**$ 41,731**	**$ 41,634**	**$ (97)**	**(0.2%)**	**$ 45,694**	**$ (4,060)**	**(8.9%)**
Other	779	1,102	323	41.5%	1,299	(197)	(15.2%)
Total Market Dominant Mail and Services Revenue	**$ 42,509**	**$ 42,736**	**$ 226**	**0.5%**	**$ 46,993**	**$ (4,257)**	**(9.1%)**

Decrease in revenue is denoted by ().
Numbers may not add across due to rounding.
Source: Library Reference PRC-LR-ACR2021-1, March 29, 2022; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1, March 29, 2021; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1, March 25, 2020.

Market Dominant mail and services revenue[17] declined by 0.2 percent from the prior year and 8.9 percent from FY 2019. Revenue declined in all classes of mail with the exception of Marketing Mail and Package Services.

Table II-2 compares FY 2021 with the prior year and includes an additional comparison with FY 2019, which is the last fiscal year prior to pandemic-related impacts on mail volume and revenue. As shown in Table II-2, First-Class Mail revenue declines were offset by USPS Marketing Mail revenue increases when compared to FY 2020. When compared to FY 2019, the largest contributing factor to the overall decline in Market Dominant revenue was revenue loss in First-Class Mail and USPS Marketing Mail.

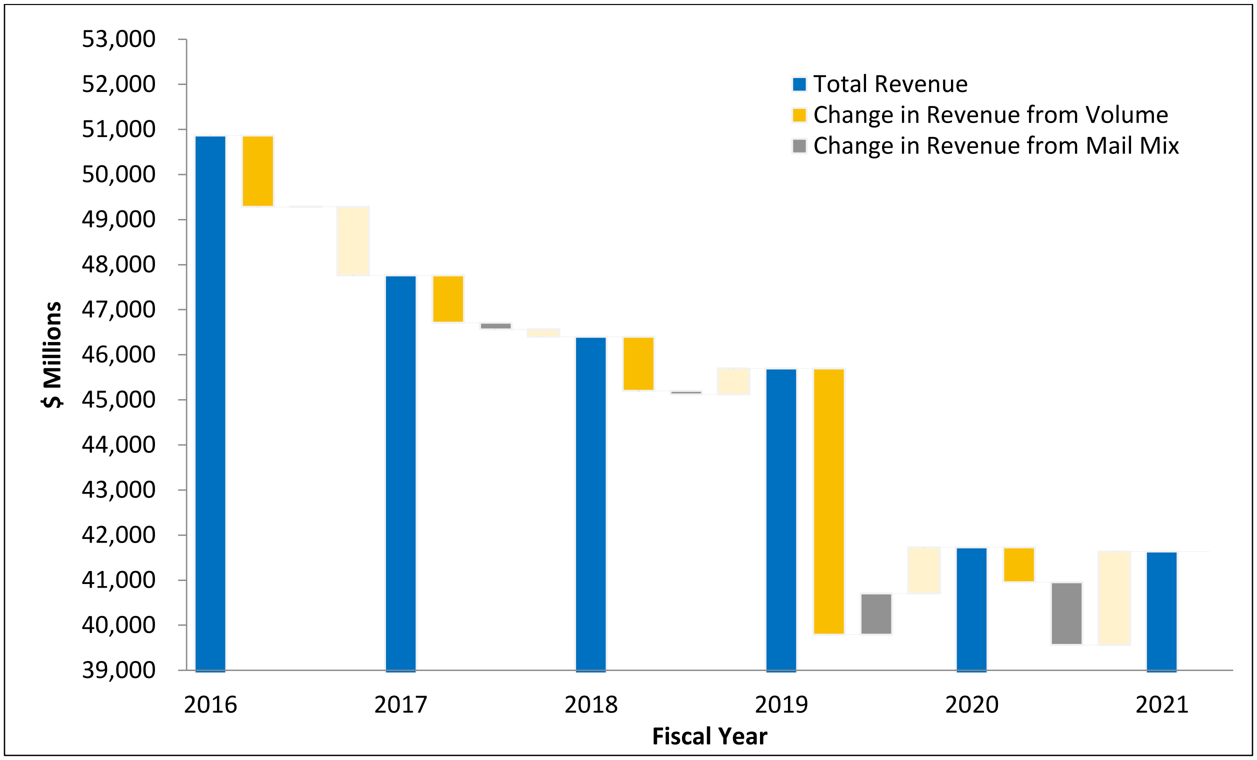
[16] Other Market Dominant revenue includes appropriations, miscellaneous item revenue, and revenue foregone.

[17] This excludes Other Market Dominant mail revenue.

The volume impact was particularly dramatic in FY 2020 but stabilized in FY 2021 as the economy continued to recover, and USPS Marketing Mail volume increased during the second half of the year.

Changes in revenue per piece resulting from rate increases, volume changes, and migration between classes, products, and rate categories (known as mail mix fluctuations) affect total revenue. Figure II-1 isolates the change in Market Dominant revenue due to mail volume changes, mail mix, and average revenue per piece for each year since FY 2016. For overall Market Dominant products, despite having a higher impact than in previous years, increases in revenue per piece were not enough to offset volume decline and mail mix fluctuations. Additional rate authority authorized by the Commission under the revised system was only in effect for about 1 month of FY 2021. The volume impact was particularly dramatic in FY 2020 but stabilized in FY 2021 as the economy continued to recover, and USPS Marketing Mail volume increased during the second half of the year.

Figure II-1
Change in Market Dominant Revenue Due to Changes in Mail Volume, Mail Mix, and Average Revenue per Piece, FY 2016-FY 2021 ($ in Millions)



Source: PRC derived from 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, 2018; Docket No. ACR2019, Library Reference USPS-FY19-42, December 27, 2019; Docket No. ACR2020, Library Reference USPS-FY20-43, December 29, 2020; Library Reference USPS-FY20-43, December 29, 2021 (collectively, Postal Service RPW Report, FY 2016–FY 2021).

Competitive Product Revenue Compared to Prior Year

Total revenue from Competitive products increased by $3.6 billion or 11.7percent compared to FY 2020, as the result of volume increases in all products. When compared to pre-pandemic FY 2019, Competitive products revenue has increased by 41.4 percent. Competitive products volume began to increase during the pandemic as online shopping increased. That growth slowed during the second half of FY 2021. Table II-3 compares revenue for Competitive products between FY 2021, FY 2020, and FY 2019.

Competitive products volume began to increase during the pandemic as e-commerce increased. That growth slowed during the second half of FY 2021.

Table II-3
Competitive Product Revenue, FY 2019, FY 2020, and FY 2021 ($ in Millions)

	FY 2020	FY 2021	$ Change FY 2021 over FY 2020	% Change FY 2021 over FY 2020	FY 2019	$ Change FY 2021 over FY 2019	% Change FY 2021 over FY 2019
Priority Mail	$ 11,529	$ 13,212	$ 1,683	14.6%	$ 9,464	$ 3,748	39.6%
Total Ground	9,195	9,709	513	5.6%	7,271	2,438	33.5%
First-Class Package Service	6,228	7,388	1,161	18.6%	4,466	2,922	65.4%
Priority Mail Express	697	820	123	17.7%	716	104	14.5%
International	1,959	1,966	7	0.3%	1,380	586	42.4%
Ancillary and Special Services	1,004	1,139	135	13.5%	911	228	25.1%
Subtotal Competitive Products Mail and Services Revenue	**$ 30,611**	**$ 34,233**	**$ 3,622**	**11.8%**	**$ 24,207**	**$ 10,025**	**41.4%**
Other Revenue	142	129	(13)	(8.8%)	142	(13)	(9.1%)
Total Competitive Products Mail and Services Revenue	**$ 30,752**	**$ 34,362**	**$ 3,609**	**11.7%**	**$ 24,349**	**$ 10,012**	**41.1%**

Decrease in revenue denoted by ().
Numbers may not add across due to rounding.
Source: Library Reference PRC-LR-ACR2021-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2019, Library Reference USPS-FY19-42.

Expense Analysis as Compared to Prior Year

As noted earlier, for purposes of understanding the Postal Service's financial position, the Commission differentiates between operating and total expenses. As shown in Table II-4, in FY 2021, total expenses decreased by $0.3 billion (0.4 percent), while operating expenses increased by approximately $3 billion (3.9 percent). The increase in operating expenses was due to increases in personnel ($2.1 billion) and transportation ($0.8 billion) expenses. A decline in the non-cash change to workers' compensation liability ($3.5 billion) more than offset increases in retirement amortization expenses ($0.2 billion).

Table II-4
Total Expenses, FY 2020 and FY 2021 ($ in Millions)

	FY 2020	FY 2021	$ Change	% Change	% of Total Expenses FY 2020	% of Total Expenses FY 2021
Compensation & Benefits Expenses:						
Salaries and Benefits	$52,411	$54,039	$ 1,628	3.1%	63.8%	66.0%
Workers' Compensation - Cash Outlays	1,298	1,345	47	3.6%	1.6%	1.6%
Normal Costs of Retiree Health Benefits	3,850	4,203	353	9.2%	4.7%	5.1%
Other Personnel Related	123	163	40	32.5%	0.1%	0.2%
Subtotal Personnel Expenses Excluding Systemwide Personnel Expenses	**$57,682**	**$59,750**	**$ 2,068**	**3.6%**	**70.2%**	**73.0%**
Transportation	8,814	9,652	838	9.5%	10.7%	11.8%
Other Expenses	10,116	10,201	85	0.8%	12.3%	12.5%
Total Operating Expenses	**$76,612**	**$79,603**	**$ 2,991**	**3.9%**	**93.2%**	**97.3%**
Systemwide Personnel Expenses:						
Non-Cash Change to Workers' Compensation Liability	1,605	(1,925)	(3,530)	NMF	2.0%	(2.4%)
Amortization of RHB Unfunded Liability	810	907	97	12.0%	1.0%	1.1%
Amortization of FERS Unfunded Liability	1,343	1,401	58	4.3%	1.6%	1.7%
Amortization of CSRS Unfunded Liability	1,817	1,858	41	2.3%	2.2%	2.3%
Total Expenses	**$82,187**	**$81,844**	**$ (343)**	**(0.4%)**	**100.0%**	**100.0%**

Decrease in expenses is denoted by (). NM denotes not meaningful.
Numbers may not add across due to rounding.
Source: USPS Preliminary Financial Information (unaudited), September 2021, November 10, 2021 (November 10, 2020, Preliminary Financial Information), file "2021.11.10 September FY2021 Monthly Financial Report to the PRC.pdf."

Total operating personnel expenses for FY 2021 increased by $2.1 billion from FY 2020, and a majority of that increase resulted from increases in compensation.

PERSONNEL EXPENSES

The majority of Postal Service expenses are personnel-related. In FY 2021, operating personnel expenses which exclude the non-cash adjustment to workers' compensation and amortization costs of unfunded retirement liabilities, made up 75.1 percent of operating expenses;[18] when these expenses are included, Postal Service labor costs are 75.7 percent of total expenses.

Table II-5 shows that total operating personnel expenses for FY 2021 increased by $2.1 billion from FY 2020, and a majority of that

[18] Operating personnel expenses ($59.8 billion) expressed as a percentage of total operating expenses ($79.6 billion) from Table II-4.

increase resulted from increases in compensation.[19] When systemwide personnel expenses were included, total personnel expenses declined by $1.3 billion. The non-cash net decrease in the workers' compensation liability[20] more than offset the increases in non-operating retirement expenses and operating personnel expenses.

Table II-5

Breakdown of Total Personnel Expenses, FY 2020 and FY 2021 ($ in Millions)

	FY 2020	FY 2021	$ Change	% Change
Total Compensation	$ 39,754	$ 40,837	$ 1,083	2.7%
Retirement	7,254	7,739	485	6.7%
Health Benefits-Current Employees	5,188	5,248	60	1.2%
Workers' Compensation - Cash Outlays	1,298	1,345	47	3.6%
Normal Costs of Retiree Health Benefits	3,850	4,203	353	9.2%
Other Compensation	338	378	40	11.8%
Total Personnel Operating Expenses	**$ 57,682**	**$ 59,750**	**$ 2,068**	**3.6%**
Non-Cash Change to Workers' Compensation Liability	1,605	(1,925)	(3,530)	NMF
Amortization of RHB Unfunded Liability	810	907	97	12.0%
Amortization of FERS Unfunded Liability	1,343	1,401	58	4.3%
Amortization of CSRS Unfunded Liability	1,817	1,858	41	2.3%
Total Personnel Expenses	**$ 63,257**	**$ 61,991**	**$ (1,266)**	**(2.0%)**

Decrease in expenses is denoted by (). NMF denotes not meaningful figures.
Numbers may not add across due to rounding.
Source: PRC derived from Postal Service National Trial Balance September 2021, November 5, 2021; Postal Service National Trial Balance September 2020, November 13, 2020.

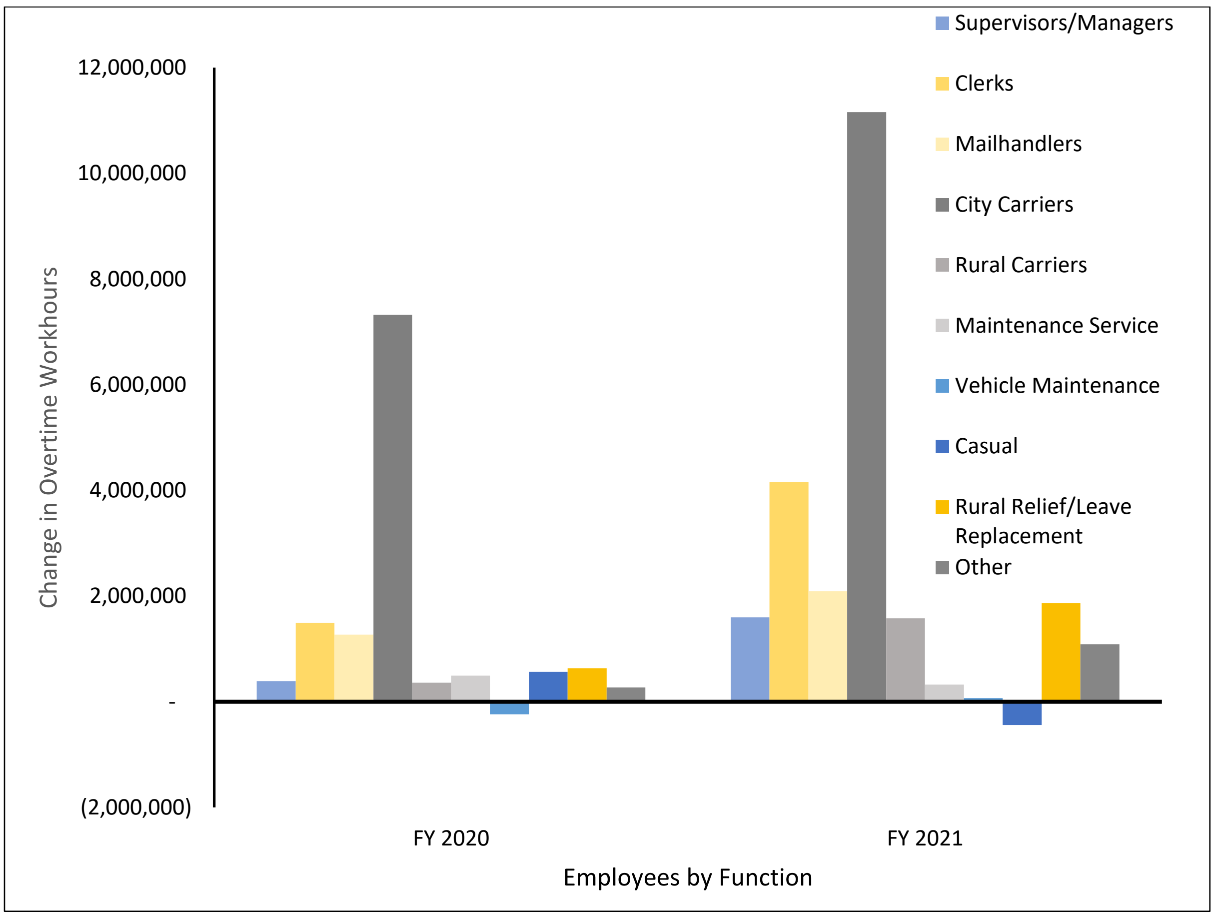
Total compensation is comprised of salaries for employees (full-time career, part-time career, and non-career), overtime and leave pay, and performance or arbitration awards. There are several cost drivers for compensation, including contractual pay increases, inflation used to calculate semi-annual Cost of Living Allowances (COLAs), the number of overtime workhours, and the composition of the workforce. The total compensation in FY 2021 increased by approximately $1.1 billion compared to FY 2020 primarily due to increased workhours, contractual wage increases, and pandemic-related costs affecting personnel such as sanitization, social distancing in Postal facilities, and pandemic-related procedure training. These increases were partially offset by reimbursements of pandemic-related sick leave under the American Rescue Plan Act of 2021, which was not available in FY 2020. Postal Service FY 2021 Form 10-K at 30.

[19] Beginning in FY 2022, the Postal Service is no longer required to pay the normal costs of retiree health benefits ($4.2 billion in FY 2021).

[20] Workers' compensation expense consists of cash payments, miscellaneous expenses, and the net increase (decrease) in the workers' compensation liability.

Figure II-2 illustrates the change in overtime workhours by craft. Overtime hours increased for all crafts with the exception of headquarters-field, maintenance service, and casual. According to the Postal Service, total overtime hours increased by approximately 23 million hours, offset by a decrease in straight-time hours of 7 million. *Id.* at 31. Clerks, city carriers, and mailhandlers account for approximately 74 percent of the total increase in overtime workhours. According to the Postal Service, the increases in overtime workhours resulted in part from an increase of 1.8 million delivery points during FY 2021 and increases in shipping and packages volume. *Id*.

Figure II-2
Change in Overtime Workhours, FY 2020 and FY 2021[21] (in Millions)



Source: PRC derived from National Payroll Hours Summary Report, Pay Period 20, 2021, September 2021, October 1, 2021; National Payroll Hours Summary Report, Pay Period 20, 2020, October 7, 2020.

[21] "Other" includes Postmasters, Professional and Administrative, Vehicle Operators, and Headquarters.

The Postal Service's workforce is comprised of career (full-time and part-time) and non-career employees, including Postal Support Employees (PSE), City Carrier Assistants (CCA), Mailhandler Assistants (MHA), and Other Non-Career Employees. Table II-6 shows the number of employees by type for FY 2019-FY 2021.

Table II-6
Postal Service Employee Complement, FY 2019–FY 2021

	FY 2020	FY 2021	Change FY 2021 over FY 2020	FY 2019	Change FY 2020 over FY 2019
Career Employees	495,941	516,636	20,695	496,934	(993)
Postal Support Employees (PSE)	25,778	31,346	5,568	26,251	(473)
City Carrier Assistants (CCA)	38,079	37,652	(427)	42,121	(4,042)
Mailhandler Assistants (MHA)	12,927	11,064	(1,863)	6,369	6,558
Other Non-Career	71,308	56,469	(14,839)	61,433	9,875
Total On-Roll Employees	**644,033**	**653,167**	**9,134**	**633,108**	**10,925**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: United States Postal Service, On-Roll and Paid Employee Statistics (Postal Service ORPES), PP 20-2021, September 29, 2021; Postal Service ORPES, PP 20-2020, October 25, 2020; Postal Service ORPES, PP20-2019, October 25, 2019.

In FY 2021, the Postal Service's total workforce increased by approximately 9,000 employees as a result of an increase in the career workforce of approximately 20,000 positions and an increase of approximately 5,000 in PSEs, offset by a decrease of over 17,000 non-career positions. According to the Postal Service, the increase in the career workforce reflected the need to address the pandemic-related surge in shipping and packages volume and employee conversions from the non-career positions. Postal Service FY 2021 Form 10-K at 30. The decline in non-career workforce positions resulted from normal attrition to align the workforce with declining mail volume. *Id.*

In January 2022, the Postal Service reached a tentative agreement with the National Rural Letter Carriers Association (NRLCA),[22] which covers a 3-year period from May 2021 to May 2024. The tentative contract covers 132,000 rural letter carriers and includes a 1.3 percent general wage increase as well as retroactive COLA's for July 2021 and January 2022.[23]

[22] *Id.* at 75.

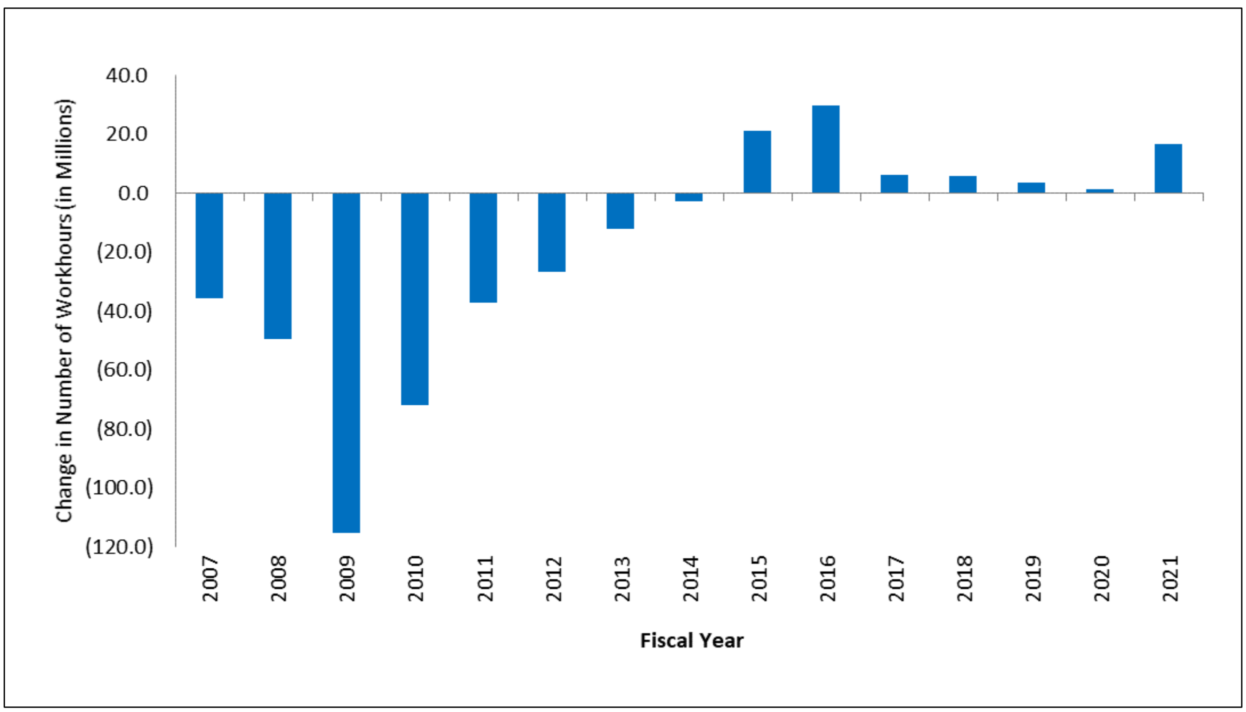
[23] NRLCA USPS 2021-2024 Tentative Agreement Highlights, available at *https://www.ncrlca.org/wp-content/uploads/NRLCA-USPS-2021-2024-Tentative-Agreement-Highlights.pdf*.

In December 2021, the Postal Service reached a tentative agreement with the American Postal Workers Union, AFL-CIO (APWU), which will expire in September 2024. The tentative contract covers over 200,000 Postal employees and includes general wage increases and a retroactive COLA for November 2021. The tentative contract will also convert PSEs to career status depending on the size of their respective post offices.[24]

In January 2020, the Postal Service reached an agreement with the National Postal Mail Handlers Union, AFL-CIO (NPMHU), on a new 3-year agreement which union membership ratified on April 7, 2020. The contract includes modest wage increases, a reduction in health insurance premiums, increased flexibility to use mail handler assistants, and the elimination of non-career casual employees. The contract will expire on September 20, 2022. Postal Service FY 2021 Form 10-K at 75.

Total workhours increased by approximately 16.5 million during FY 2021.[25] Figure II-3 illustrates the change in total workhours since FY 2007.

Figure II-3
Change in Total Workhours, FY 2007–FY 2021



Source: Postal Service Form 10-K, FY 2007–FY 2021.

[24] APWU Summary of the 2021-2024 Tentative Collective Bargaining Agreement, December 11, 2021, available at *https://apwu.org/tasummary*.

[25] United States Postal Service, 2020 Report on Form 10-K, November 12, 2020, at 31 (Postal Service FY 2020 Form 10-K).

An analysis of workhours by function shows that in FY 2021, workhours increased in Mail Processing (7.7 percent), Rural Delivery (2.6 percent), City Delivery (0.06 percent), Vehicle Maintenance (0.8 percent), and Other (0.3 percent) categories.[26] Workhours declined in Customer Service (1.6 percent) and Plant & Equipment (3.6 percent), as shown in Table II-7.

Table II-7
Workhours by Function (Thousands of Workhours), FY 2019–FY 2021

	FY 2020	FY 2021	% Change FY 2021 over FY 2020	FY 2019	% Change FY 2020 over FY 2019
Mail Processing	193,286	208,232	7.7%	194,905	(0.8%)
Customer Service	167,676	165,041	(1.6%)	168,992	(0.8%)
Delivery Service:					
City Delivery	425,728	425,962	0.06%	425,894	(0.0%)
Rural Delivery	217,396	223,040	2.6%	211,505	2.8%
Maintenance:					
Plant & Equipment	61,540	59,310	(3.6%)	62,525	(1.6%)
Vehicle	31,058	31,296	0.8%	30,822	0.8%
Other	77,642	77,889	0.3%	78,566	(1.2%)
Total Workhours	**1,174,326**	**1,190,769**	**1.4%**	**1,173,208**	**0.1%**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Library Reference USPS-FY21-7, December 29, 2021; Docket No. ACR2020, Library Reference USPS-FY20-7, December 29, 2020; Docket No. ACR2019, Library Reference USPS-FY19-7, December 27, 2019.

The Postal Service defines productive hourly wage rates as the labor costs per work hour by cost segment/craft.[27] This metric reflects the effect of wage levels, the composition of workers, overtime, pay premiums, and leave usage on hourly labor costs. Table II-8 shows the productive hourly wage rates.[28] The productive hourly wage rate for mailhandlers decreased 2.3 percent compared to the prior year. The productive hourly wage rate for all other categories increased compared to the prior year.

[26] The "Other" category represents Operations Support, Finance, Human Resources, Administration, Training, and Rehabilitation workhours.

[27] Library Reference USPS-FY21-17, December 29, 2021, PDF file "USPS-FY21-17.pdf," at 1.

[28] 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.

Table II-8
Productive Hourly Wage Rates ($ per Workhour), FY 2019–FY 2021

	FY 2020	FY 2021	% Change FY 2021 over FY 2020	FY 2019	% Change FY 2020 over FY 2019
Supervisors & Technicians	$ 54.17	$ 55.65	2.7%	$ 52.78	2.6%
Clerks	42.69	43.13	1.0%	40.61	5.1%
Mailhandlers	41.80	40.84	(2.3%)	41.45	0.8%
City Delivery Carriers	43.17	45.22	4.8%	42.34	1.9%
Vehicle Drivers	47.52	49.08	3.3%	45.41	4.6%
Rural Carriers	38.25	39.01	2.0%	38.17	0.2%
Building Services	45.80	47.58	3.9%	42.96	6.6%
Operating Equipment	58.41	60.00	2.7%	54.36	7.4%
Building Equipment	53.65	55.07	2.6%	55.32	(3.0%)
Motor Vehicle Service	52.78	54.75	3.7%	50.66	4.2%
Headquarters	68.81	79.74	15.9%	71.36	(3.6%)

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Library Reference USPS-FY21-7, December 29, 2021; Docket No. ACR2020, Library Reference USPS-FY20-7; Docket No. ACR2019, Library Reference USPS-FY19-7, December 27, 2019.

In FY 2021, the non-cash component of long-term workers' compensation expenses decreased by $3.5 billion compared to the prior year.

Workers' compensation expenses declined by $3.5 billion in FY 2021. Workers' compensation expenses consist of a cash payment and a non-cash change in long-term workers' compensation liability. The cash payment is paid to the U.S. Department of Labor for the current year's cost of medical and compensation benefits and an administrative fee. The non-cash change in long-term workers' compensation expenses 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 2021, the non-cash component of long-term workers' compensation expenses decreased by $3.5 billion compared to the prior year. Table II-9 disaggregates components factoring into the workers' compensation expense for the past 2 years.

Table II-9

Components of Workers' Compensation Expense, FY 2020 and FY 2021 ($ in Millions)

	FY 2020	FY 2021	$ Change	% Change
Medical and Compensation Claims Payments	$ 1,216	$ 1,255	$ 39	3.2%
Administrative Fee	82	90	8	9.8%
Cash Outlays	**$ 1,298**	**$ 1,345**	**$ 47**	**3.6%**
(Decrease) Increase in Long Term Workers' Compensation Obligation	1,605	(1,925)	(3,530)	NMF
Workers' Compensation Expense	**$ 2,903**	**$ (580)**	**$ (3,483)**	**NMF**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
NMF = Not Meaningful Figure
Source: Postal Service FY 2021 Form 10-K at 42.

NON-PERSONNEL EXPENSES

Transportation is by far the biggest non-personnel Postal Service expense. It accounts for 10.8 percent of total expenses. Table II-10 shows transportation expenses by category.

Table II-10

Transportation Expenses by Category, FY 2020 and FY 2021 ($ in Millions)

	FY 2020	FY 2021	$ Change	% Change
Highway Transportation	$ 4,753	$ 5,427	$ 674	14.2%
Air Transportation	3,461	3,613	152	4.4%
International Transportation	555	563	8	1.4%
Other Transportation	45	49	4	8.9%
Total Transportation	**$ 8,814**	**$ 9,652**	**$ 838**	**9.5%**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service FY 2021 Form 10-K at 43.

Highway transportation increased by 14.2 percent compared to last year, resulting from an increase in miles driven as travel restrictions limited commercial air carrier availability during the first half of the year.

Total transportation expenses increased by 9.5 percent from FY 2020. Highway transportation increased by 14.2 percent compared to last year, resulting from an increase in miles driven as travel restrictions limited commercial air carrier availability during the first half of the year. *Id.* Air transportation expenses increased by 4.4 percent compared to last year resulting from the pandemic-related package volume increases, travel restrictions that limited the availability of commercial flights, and, during the second half of the year, increases in jet fuel rates. *Id.*

Table II-11 shows all other non-personnel-related expenses increased by $85 million in FY 2021. Declines in supplies and services, depreciation, and rural carrier equipment maintenance partially offset increases in rent and utilities, vehicle maintenance, delivery vehicle fuel, information technology, and other expenses. The $143 million decline in supplies and services was largely the result of reduced PPE and other pandemic-related costs compared to the prior year, at the height of the pandemic. Postal Service FY 2021 Form 10-K at 44. Miscellaneous other expenses consist mainly of travel, training, repairs, and contingency accounts.

Table II-11

Other Non-Personnel Expenses, FY 2020 and FY 2021 ($ in Millions)

	FY 2020	FY 2021	$ Change	% Change
Supplies and Services	$ 3,088	$ 2,945	$ (143)	(4.6%)
Depreciation and Amortization	1,706	1,668	(38)	(2.2%)
Rent and Utilities	1,757	1,790	33	1.9%
Vehicle Maintenance Services	618	633	15	2.4%
Delivery Vehicle Fuel	432	526	94	21.8%
Information Technology and Communications	946	987	41	4.3%
Rural Carrier Equipment Maintenance	586	563	(23)	(3.9%)
Miscellaneous Other	983	1,089	106	10.8%
Total Other Non-Personnel Expenses	**$ 10,116**	**$ 10,201**	**$ 85**	**0.8%**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service FY 2021 Form 10-K at 44.

Comparison of Postal Service Actual Results to Operating Plan

Each year the Postal Service develops an integrated financial plan that includes forecasts of volume, revenue, and expenses for the following year. This section compares the Postal Service's forecasts with actual results. The Postal Service's FY 2021 Operating Plan, as outlined in its 2021 Integrated Financial Plan (IFP), projected a net loss of $9.7 billion in FY 2021.[29] The actual total net loss of $4.9 billion was $4.8 billion less than the Postal Service estimated. Total revenue was $6.2 billion more than planned. Total operating expenses were $3.2 billion more than planned with net retirement accruals slightly over budget by

[29] United States Postal Service, Integrated Financial Plan, Fiscal Year 2021, November 24, 2020, at 1 (Postal Service FY 2021 IFP); USPS Preliminary Financial Information (unaudited), September 2021, November 10, 2021 (Postal Service September 2021 PFI Report).

$0.1 billion. Table II-12 compares actual FY 2021 results with the estimated results in the Operating Plan.

Table II-12
Actual and Operating Plan Income Statements, FY 2021 ($ in Billions)

	FY 2021 Actual	FY 2021 Operating Plan	$ Change
Total Revenue	$ 77.1	$ 70.9	$ 6.2
Total Operating Expense	79.8	76.5	3.2
Net Operating Income/(Loss)	**$ (2.7)**	**$ (5.6)**	**$ 3.0**
Non-Cash Change to Workers' Compensation	(1.9)		(1.9)
RHBF Unfunded Liability Amortization	0.9	0.9	0.0
FERS Unfunded Liability Amortization	1.4	1.3	0.1
CSRS Unfunded Liability Amortization	1.9	1.8	0.0
Total Net Income/(Loss)	**$ (4.9)**	**$ (9.7)**	**$ 4.8**

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 2021 PFI Report, PDF file "2021.11.10 September FY2021 Monthly Financial Report to the PRC.pdf;" Postal Service FY 2021 IFP.

As seen in Table II-13, total revenue from Market Dominant mail was $2.9 billion more than expected, while total revenue from Competitive mail was $3.2 billion greater than anticipated. First-Class and Marketing Mail revenues were more than projected, the result of higher than anticipated volume as the economy continued to recover.

Table II-13

Actual and Operating Plan Revenue by Categories Shown in IFP,[30] FY 2021 ($ in Billions)[31]

	FY 2021 Actual	FY 2021 Operating Plan	$ Change
First-Class Mail	$ 23.3	$ 22.8	$ 0.5
Periodicals	0.9	0.9	0.0
USPS Marketing Mail	14.6	12.0	2.6
Other	3.6	3.8	(0.2)
Competitive and Other Parcels	32.4	29.2	3.2
International	2.2	2.2	0.0
Total Mail Revenue	**$ 77.0**	**$ 70.9**	**$ 6.1**

Decrease in revenue is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service September 2021 PFI Report, PDF file "2021.11.10 September FY2021 Monthly Financial Report to the PRC.pdf;" Postal Service FY 2021 IFP.

Total volume was more than expected, primarily due to higher-than-expected volume in USPS Marketing Mail and First-Class Mail. Table II-14 compares volumes for FY 2021 with the volume projected in the Operating Plan.

Table II-14

Actual and Operating Plan Volume by Categories Shown in IFP,[32] FY 2021 (in Billions)

	FY 2021 Actual	FY 2021 Operating Plan	$ Change
First-Class Mail	$ 50.7	$ 49.6	$ 1.1
Periodicals	3.7	3.6	0.1
USPS Marketing Mail	66.2	54.7	11.5
Other	0.8	0.4	0.4
Competitive and Other Parcels	7.0	7.2	(0.2)
International	0.4	0.5	(0.1)
Total Mail Volume	**$ 128.9**	**$ 116.0**	**$ 12.9**

Decrease is denoted by ().
Numbers may not add due to rounding.
Source: Postal Service September 2021 PFI Report at 2; Postal Service FY 2021 IFP at 3

[30] The Postal Service FY 2021 IFP isolates volume from International and Parcels from the other categories. *See* Postal Service FY 2021 IFP at 3.

[31] Total mail revenue excludes investment income.

[32] The Postal Service FY 2021 IFP isolates revenue and volume from International and Parcels from the other categories. *See* Postal Service FY 2021 IFP at 3.

Total expenses were $1.4 billion more than anticipated, the result of higher than expected operating expenses. Total operating expenses were $3.2 billion more than expected; compensation and benefits ($2.2 billion), transportation ($0.9 billion), and rent and utilities ($0.2 billion) were all higher than planned. Supplies and services were $0.1 billion less than anticipated. Excluding the non-cash workers' compensation adjustment,[33] non-operating expenses were $0.1 billion higher than anticipated resulting from lower rates used in OPM's actuarial calculation for salary and cost of living index estimated increases in the unfunded FERS and CSRS annual installment payments. Postal Service FY 2021 Form 10-K at 36.

Total non-personnel expenses were $1 billion more than projected from the result of higher than anticipated transportation and other expenses.

Table II-15

Actual and Operating Plan Expenses, FY 2021 ($ in Billions)

	FY 2021 Actual	FY 2021 Operating Plan	$ Change
Compensation & Benefits	$ 59.8	$ 57.5	$ 2.2
Transportation	9.7	8.7	0.9
Supplies & Services	2.9	3.1	(0.1)
Depreciation and Amortization	1.7	1.7	0.0
Rent/Utilities/Other	5.6	5.4	0.2
Total Operating Expenses	**$ 79.6**	**$ 76.4**	**$ 3.2**
Workers' Compensation Adj.	(1.9)	0.0	(1.9)
RHB Unfunded Amortization	0.9	0.9	0.0
FERS Unfunded Amortization	1.4	1.3	0.1
CSRS Unfunded Amortization	1.9	1.8	0.0
Total Expenses	**$ 81.8**	**$ 80.4**	**$ 1.4**

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service September 2021 PFI Report at 3; Postal Service FY 2021 IFP at 1.

Financial Ratio Analysis

Financial ratios assist in interpreting accounting information. The Commission calculated key financial ratios to facilitate its analysis of the Postal Service's financial performance between FY 2006 and FY 2021. These ratios provide a concise and systematic way to organize financial data into meaningful information. The historic accounting information

[33] The Postal Service excludes the non-cash adjustment to workers' compensation from plan because it is dependent on actuarial assumptions, interest rates, and other factors outside of Postal Service management's control. *See* Postal Service FY 2021 IFP at 1.

used in ratio analysis is not adjusted for inflation in order to maintain consistency with Generally Accepted Accounting Principles (GAAP) and comparability over time and also because some postal expenses, such as labor, retirement, and workers' compensation, are impacted by cost indexes other than inflation.

OPERATING RATIO

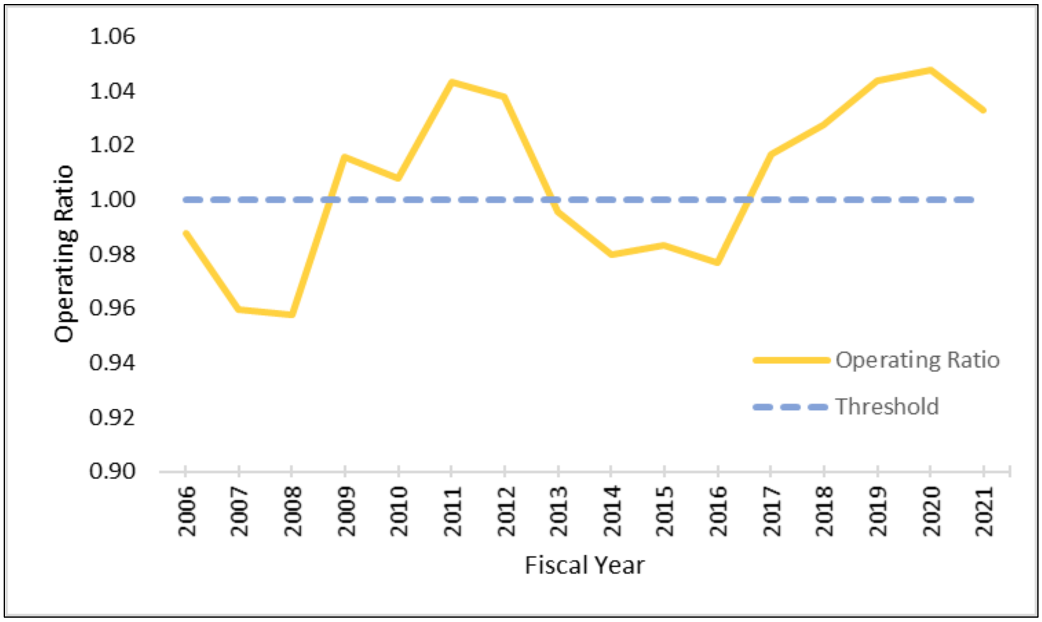
The operating ratio measures how well an organization can control operating expenses while generating revenue. The Commission measures this by comparing the Postal Service's total operating expenses to its total operating revenue. An operating ratio greater than 1.0 indicates a net operating loss, and a ratio less than 1.0 indicates a net operating profit.[34] In the period reflected in Figure II-4, the Postal Service had a net operating profit in FY 2006 through FY 2008 and FY 2014 through FY 2016. An increasing operating ratio indicates a deterioration in the Postal Service's ability to reduce its operating expenses while generating revenue. As seen in Figure II-4, although the Postal Service's operating ratio has fluctuated annually, it has trended upward since FY 2016; the average growth in operating expense has increased at a higher rate than the growth in revenue over this period. In FY 2020, operating revenue and operating expenses were the highest in more than a decade. Notably, for FY 2021, operating revenue grew at a higher rate than operating expenses resulting in the first decline in operating loss since FY 2016.[35]

Notably, for FY 2021, operating revenue grew at a higher rate than operating expenses resulting in the first decline in operating loss since FY 2016.

[34] The Commission calculates the operating ratio by dividing total operating expenses by total operating revenue.

[35] Beginning in FY 2022, the Postal Service is no longer required to pay RHB normal costs which are included in total operating expenses. If the FY 2021 RHB normal cost expense of $4.2 billion is excluded from total operating expenses, the operating ratio would fall to 0.98, indicating a net operating profit for the first time since FY 2016.

Figure II-4
Operating Ratio Trend FY 2006–FY 2021

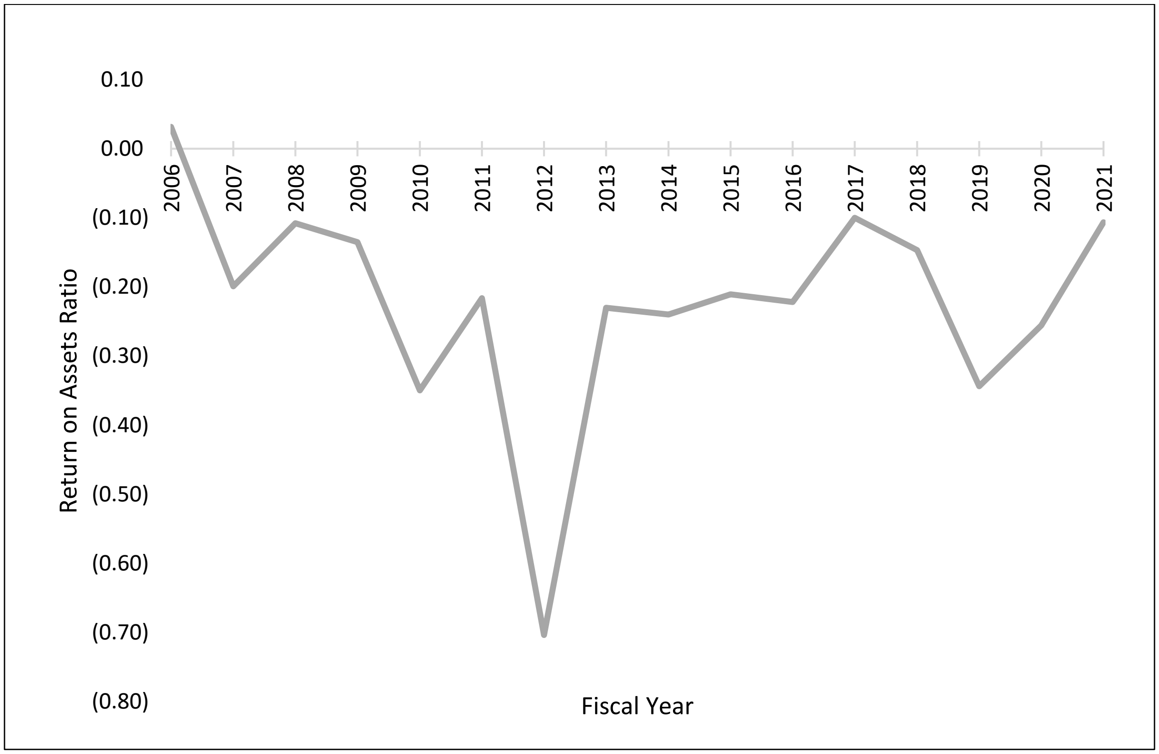


Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2021.

RETURN ON ASSETS

The return on assets ratio is a measure of how efficiently an organization uses its assets to generate profits. It compares total assets to net income (loss) for each year. A negative return on assets indicates net losses and/or low capital investment. Figure II-5 shows the Postal Service's return on assets since FY 2006.

Figure II-5
Return on Assets Trend FY 2006–FY 2021



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2021.

The Postal Service's total assets are cash and cash equivalents, receivables; and property, plant, and equipment. At the end of FY 2021, the Postal Service had a negative return on assets ratio of 0.11, an improvement compared to the prior year's ratio of negative 0.26. This resulted from a larger increase in total assets driven by an increase in cash from the receipt of the $10 billion CARES Act funding and the deferral of $0.5 billion in payments for Social Security benefits and leave reimbursements. Postal Service FY 2021 Form 10-K at 45.

FY 2006 was the last year that 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 percentage change in year-to-year net losses was greater than the percentage change in year-to-year total assets, resulting in increasingly negative ratios. During this period, the Postal Service began using available debt to invest in capital and fund its operations. From FY 2006 through FY 2011, the Postal Service used $13 billion of its $15 billion allowable debt.[36] The sharp decline in FY 2012 was largely the result of

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

two retiree health benefits 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[37] 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 RHB and a decrease in non-cash workers' compensation expenses 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 GAAP. The analysis compares two points in time, September 30, 2021 (FY 2021) and September 30, 2020 (FY 2020). Table II-16 compares certain categories in the Postal Service's asset and liability structure for FY 2021 with FY 2020.

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

Table II-16
Structure of Assets and Liabilities, FY 2020 and FY 2021 ($ in Millions)

				% of Total Assets	
Assets	**FY 2020**	**FY 2021**	**$ Change**	**FY 2020**	**FY 2021**
Cash and Cash Equivalents (includes Restricted Cash)	$ 14,712	$ 24,307	$ 9,595	41.0%	52.4%
Receivables	1,359	1,412	53	3.8%	3.0%
Supplies and Prepayments	224	189	(35)	0.6%	0.4%
Total Current Assets	16,295	25,908	9,613	45.4%	55.8%
Noncurrent Assets	19,609	20,497	888	54.6%	44.2%
Total Assets	**$ 35,904**	**$ 46,405**	**$ 10,501**	**100.0%**	**100.0%**
				% of Total Liabilities	
Liabilities	**FY 2020**	**FY 2021**	**$ Change**	**FY 2020**	**FY 2021**
Retiree Benefits	$ 51,865	$ 56,975	5,110	44.5%	46.7%
Short-Term Debt	3,000	1,000	(2,000)	2.6%	0.8%
Deferred Revenue-Prepaid Postage	2,489	2,623	134	2.1%	2.1%
Other Current Liabilities	21,821	26,731	4,910	18.7%	21.9%
Total Current Liabilities	79,175	87,329	8,154	67.9%	71.5%
Workers' Compensation Costs, Noncurrent	18,754	16,849	(1,905)	16.1%	13.8%
Long-Term Debt	11,000	10,000	(1,000)	9.4%	8.2%
Other Noncurrent Liabilities	7,683	7,907	224	6.6%	6.5%
Total Noncurrent Liabilities	37,437	34,756	(2,681)	32.1%	28.5%
Total Liabilities	**$ 116,612**	**$ 122,085**	**$ 5,473**	**100.0%**	**100.0%**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service FY 2021 Form 10-K at 57.

At the end of FY 2021, total assets increased by $10.5 billion compared to the prior period, driven by increases in cash.

At the end of FY 2021, total assets increased by $10.5 billion compared to the prior period, driven by increases in cash. Current assets are the sum of cash and cash equivalents, receivables and supplies, and prepayments, easily converted to cash for financing operations. Noncurrent assets, mainly buildings and equipment (capital assets), are more difficult to convert to cash in the short term.

At the end of FY 2021, the Postal Service had increased its cash balance by $9.6 billion compared to FY 2020, resulting from the receipt of $10 billion in CARES Act funding throughout the year and the deferral of approximately $0.5 billion in payments for the Postal Service's share of Social Security benefits.[38]

Liabilities at the end of FY 2021 totaled $122.1 billion, 71.5 percent of which were current liabilities. Current liabilities are obligations that will come due within 1 year, while noncurrent liabilities are long-term financial obligations. Current liabilities consist largely of missed payments for statutory RHB prefunding and amortization of unfunded RHB liabilities, and defaulted payments for amortization of unfunded CSRS and FERS liabilities. The Postal Service continued to accrue unpaid retirement expenses, which totaled approximately $57 billion at the end of FY 2021. This includes accruals for FY 2012 through FY 2016, when the Postal Service could not pay down the liability along with the normal cost accruals for FY 2017 through FY 2021, and amortization payments on the RHB unfunded liability.[39] This obligation is 65.2 percent of current liabilities. Additionally, at the end of FY 2021, the Postal Service had $2 billion less in short-term debt compared to FY 2020. Long-term liabilities consist mainly of workers' compensation liability ($16.8 billion) and the total net debt owed to the Federal Financing Bank ($10 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 2021, the Postal Service recorded a $75.7 billion net deficit consisting of an accumulated deficit of $88.8 billion offset by capital contributions of $13.1 billion. The accumulated deficit is the result of multiple years of net losses, beginning in FY 2007. The $13.1 in capital contributions consists of a beginning balance of $3.1 billion[40] and the $10 billion in funds the Postal Service received in FY 2021 as part of the Consolidated Appropriations Act, 2021. The net deficiency of $75.7 billion is $5 billion less than FY 2020; the result of the $10 billion in the CARES Act capital contribution and the FY 2021 net loss of $4.9 billion.

Figure II-6 shows the mix of the Postal Service's asset and liability structure as of September 30, 2021. The shortage of current assets (55.8 percent of total assets) to cover current liabilities (71.5 percent of total liabilities) adversely affects the Postal Service's

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[38] Under the CARES Act, payment for the employer share of Social Security benefits through December 31, 2020, are deferred until December 31, 2021 and December 31, 2022. Postal Service FY 2021 Form 10-K at 32.

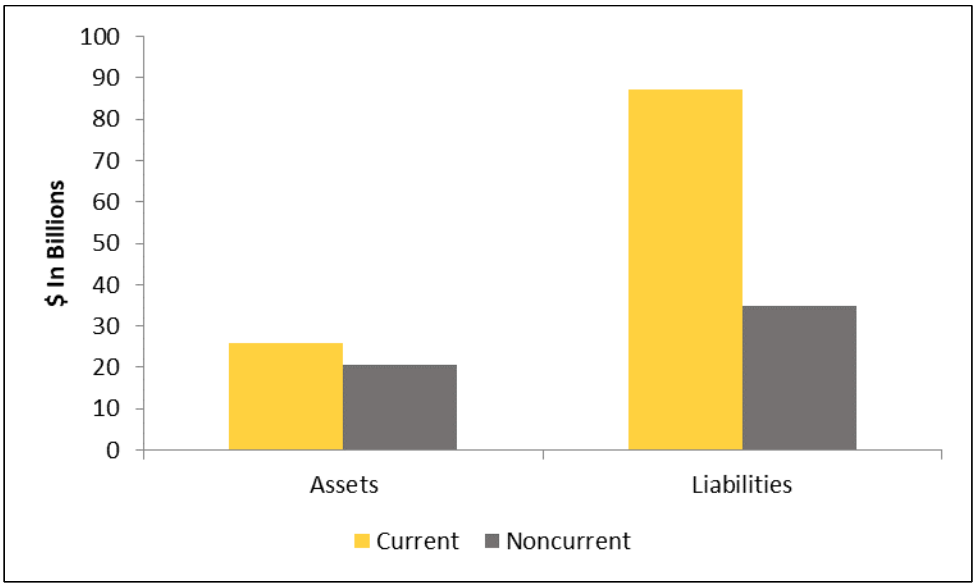
[39] In March 2022, the Postal Service Reform Act eliminated the Postal Service's unpaid RHB balance of approximately $57 billion.

[40] Total capital contributions of the U.S. government were $3.1 billion as of September 30, 2014, consisting of the beginning transfer of assets from the former Post Office Department (POD) ($1.7 billion), cash contributions between 1972 and 1982 ($1.3 billion), and the contribution of approximately 6,500 fuel efficient vehicles during FY 2009 and FY 2010 ($53 and $49 million), respectively.

financial condition. In FY 2021, the Postal Service did not have a sufficient amount of current assets to pay for current liabilities, including the congressionally mandated retirement health benefit payments that the Postal Service accumulated in years FY 2012 through FY 2017. Beginning in FY 2022, the $57 billion RHB liability will be removed from the Postal Service's balance sheet and should improve its ability to use current assets to pay for current liabilities. Non-current assets comprise 44.2 percent of total assets, while non-current liabilities only comprise 28.5 percent of total liabilities.

Figure II-6

Comparison of Postal Service's FY 2021 Current and Noncurrent Assets and Liabilities



Source: PRC derived from Postal Service FY 2021 Form 10-K at 57.

Working capital is the difference between current assets and current liabilities. Negative working capital indicates an excess of current liabilities over current assets. In FY 2021, the Postal Service's working capital was negative $61.4 billion.

In December 2020, the Consolidated Appropriations Act, 2021 amended provisions of the CARES Act[41] , converting the $10 billion available to borrow from the U.S. Treasury into a capital contribution with terms and conditions to be agreed upon by the Postal Service and the U.S. Treasury.[42] The Postal Service has received and reported the entire capital contribution of $10 billion on its balance sheet, increasing its balances in cash and capital

[41] Pub. L. 116-136, the Coronavirus Aid, Relief, and Economic Act (the CARES Act), March 27, 2020.

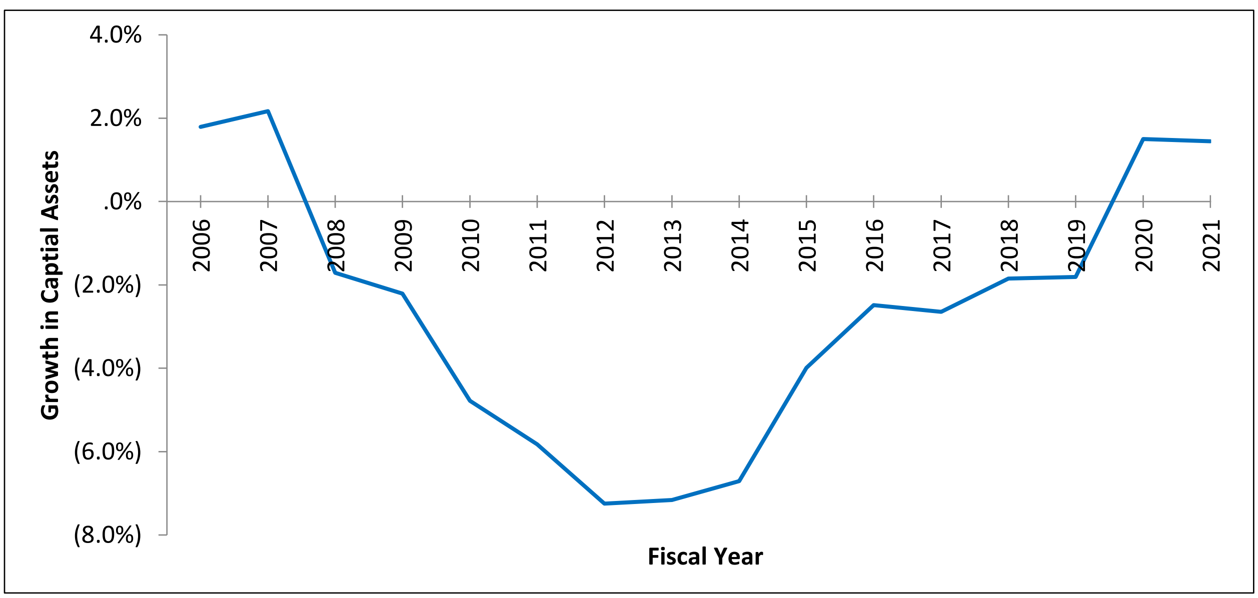
[42] In January 2021, the Postal Service and the U.S. Treasury agreed to the terms and conditions, as amended by the Consolidated Appropriations Act, 2021 that allow the Postal Service to request up to $10 billion in funding from the U.S. Treasury for COVID-19 related expenses that will not need to be repaid. Postal Service Quarter 1, 2021 Form 10-Q, February 9, 2021, at 9.

contributions. Postal Service FY 2021 Form 10-K at 45. During FY 2021, total assets increased by $10.5 billion, primarily due to a cash increase of $9.5 billion. The increase in cash resulted from the issuance of CARES Act funding, deferral of employer contributions of social security, nonpayment of retiree benefits amortization and normal cost, and increased revenue from USPS Marketing Mail and shipping packages volume. Total liabilities increased by a net of $5.5 billion mainly due to personnel-related liabilities, such as the accrual of the unpaid retirement expenses for FY 2021.

Assets

Postal Service capital investments have not kept pace with depreciation and amortization since 2008. Aging capital assets and the continued restrictions on capital investment resulted in a depreciation expense in excess of investments from FY 2008 to FY 2019; fixed assets declined by $9.2 billion over that period. The Postal Service reduced its capital expenditures from an annual average of approximately $1.5 billion in FY 2009 through FY 2011 to an annual average of approximately $850 million in FY 2012 through FY 2015, a reduction of approximately 43 percent. From FY 2015 through FY 2019, capital expenditures to upgrade facilities, equipment, and the vehicle fleet increased to an annual average of approximately $1.4 billion.

Figure II-7
Percent Change in Capital Assets, FY 2010–FY 2021



Source: PRC derived from Postal Service Form 10-K, FY 2010–FY 2021.

FY 2021 was the second year since FY 2007 that the Postal Service recorded positive growth in capital assets. The Postal Service recorded a 1.4 percent growth in capital, compared to the 1.5 percent in FY 2020. The Postal Service purchased $1.9 billion in property and equipment, offset by the total property, plant, and equipment depreciation of $1.7 billion.

FY 2021 was the second year since FY 2007 that the Postal Service recorded positive growth in capital assets.

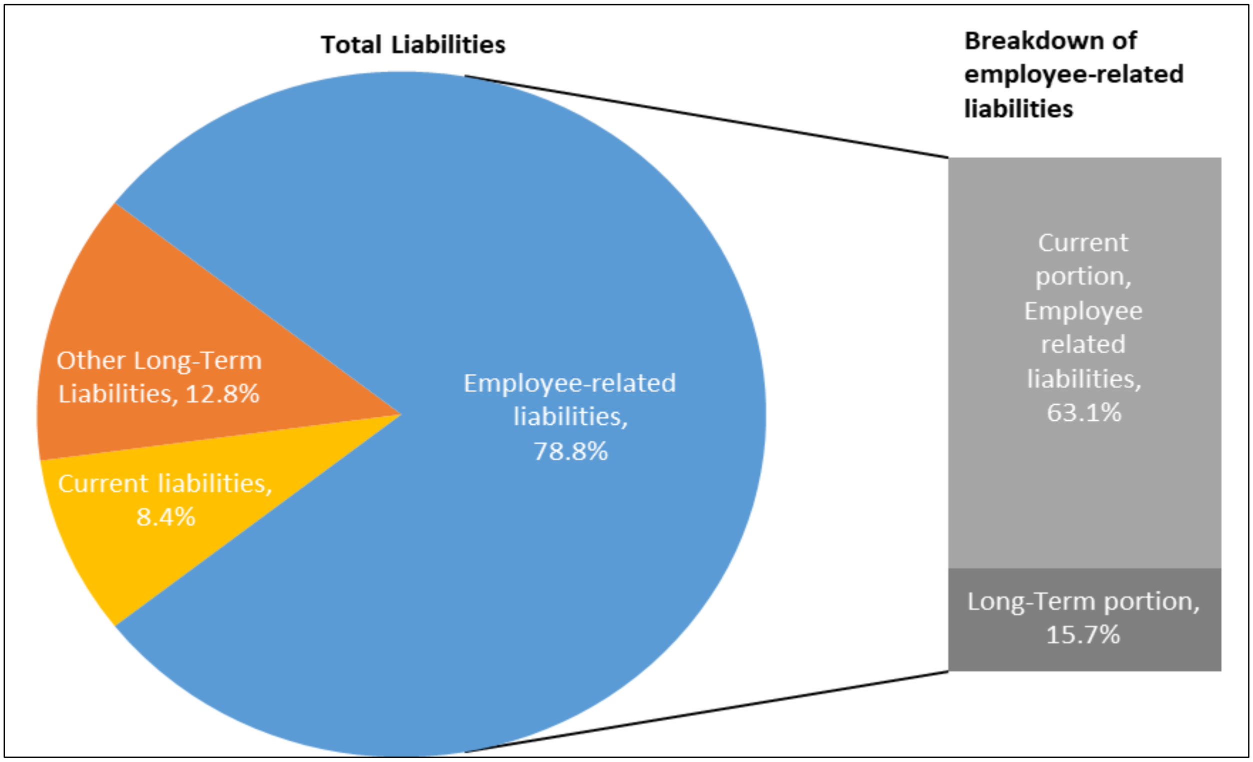
The Postal Service continues to limit its capital expenditures to necessary safety, customer support, and high-return investments. Postal Service FY 2020 Form 10-K at 45. During FY 2021, the Postal Service purchased 15,000 new vehicles at an approximate cost of $0.5 billion. *Id.* at 46. According to the Postal Service, its delivery fleet includes approximately 137,000 vehicles that are at least 20 years old and require significant maintenance. *Id.*

LIABILITIES

In FY 2021, total liabilities increased by $5.5 billion, largely due to higher balances in compensations and retirement-related liabilities and partially offset by a decrease in short-term debt.

The long-term portion of workers' compensation decreased by $1.9 billion in FY 2021. This 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, 2021.

Figure II-8
Postal Service Liabilities Structure, September 30, 2021



Source: PRC derived from Postal Service FY 2020 Form 10-K at 57.

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 CSRDF and the RHBF. *See* 5 U.S.C. § 8909a. The CSRDF provides pension benefits to retired and disabled Federal employees, including Postal Service employees covered by CSRS and FERS. *Id.* § 8348.

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, 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 to further assess the current and historical financial stability of the Postal Service. Table II-17 summarizes the key balance sheet ratios used in this analysis.

Table II-17
Postal Service Balance Sheet Ratios FY 2020 and FY 2021

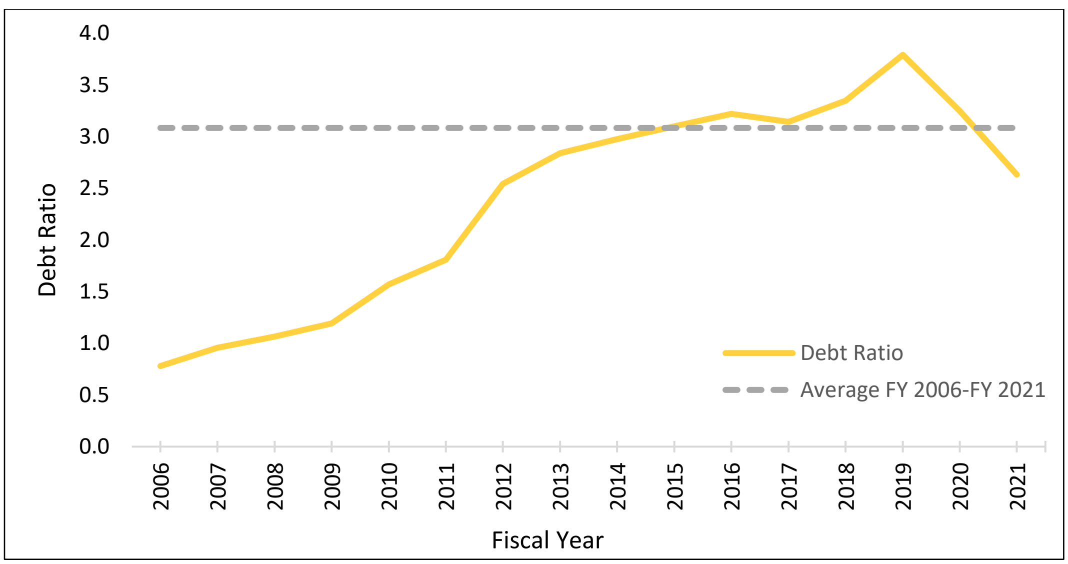
	FY 2020	FY 2021	Change
Debt Ratio	3.25	2.63	(0.62)
Current Ratio	0.21	0.30	0.09
Cash Ratio	0.19	0.28	0.09

Source: PRC derived from Postal Service FY 2021 Form 10-K.

DEBT RATIO

Debt ratio is the percentage of total liabilities an entity has on its balance sheet to its total assets. The higher the ratio, the greater the risk that the entity's debt level may impede its ability to respond to challenges and opportunities effectively. Figure II-9 reflects the Postal Service's debt ratio trend since FY 2007.

Figure II-9
Debt Ratio, FY 2007–FY 2021



Source: PRC derived from Postal Service Form 10-K, FY 2007–FY 2021.

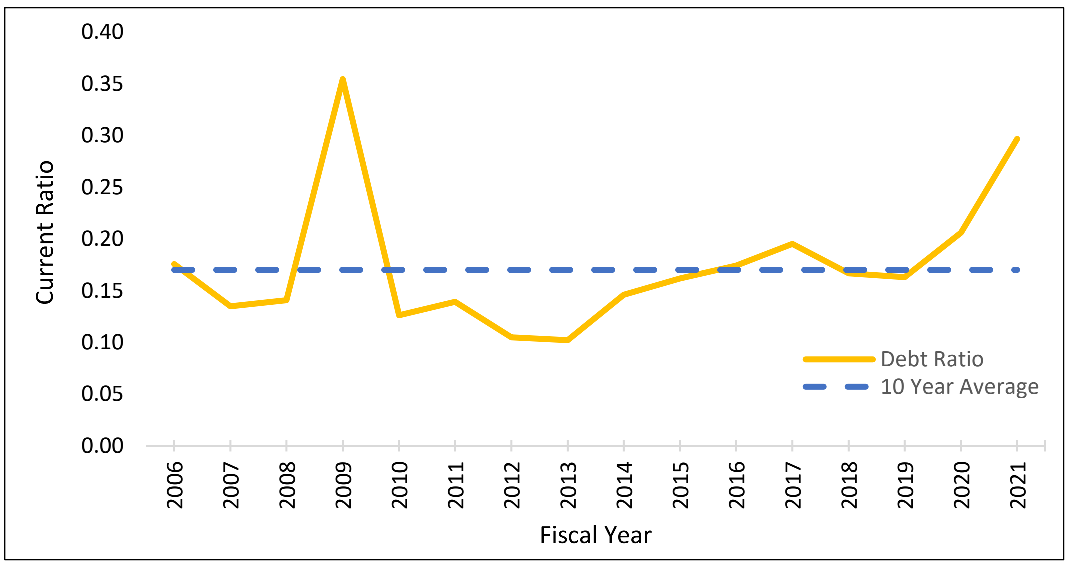
The ratio is generally a conservative measurement because the liabilities are carried at estimated amounts of expected cash outflows. At the same time, some assets may be understated because no adjustments have been made to restate for fair value. For example, land or a fully depreciated building or 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 2021, the debt ratio decreased to 2.63 from the 3.25 debt ratio for FY 2020. The decrease is the result of the higher growth of total assets resulting from the additional $10 billion in CARES Act funding and comparatively slower growth in total liabilities. The Postal Service's FY 2021 debt ratio was lower than the average 10-year debt ratio of 3.08. This ratio is indicative of the Postal Service's insufficient resources to invest in capital and pay down its liabilities.[43]

CURRENT RATIO

The current ratio indicates the degree to which current assets meet current liabilities. The higher the current ratio, the more likely an entity can pay its current liabilities because it has a larger proportion of current assets relative to its current liabilities. Figure II-10 highlights the fluctuations in the current ratio since FY 2006.

Figure II-10
Current Ratio, FY 2006–FY 2021



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2021.

At the end of FY 2021, the Postal Service had a current ratio of 0.30, an increase of 0.09 from the end of FY 2020. This is higher than the Postal Service's 10-year average of 0.17.

The increase in the ratio resulted from a smaller increase in current liabilities compared to current assets. Current liabilities increased by $8.2 billion (10.3 percent) due to higher retirement liabilities. Current assets increased by $9.6 billion (59 percent) compared to the

[43] In FY 2022, the $57 billion in RHB liabilities will be removed from the balance sheet. For analysis purposes, if $57 billion is excluded from FY 2021 total liabilities, the result is an improvement in the debt ratio to 1.40; the lowest since FY 2011.

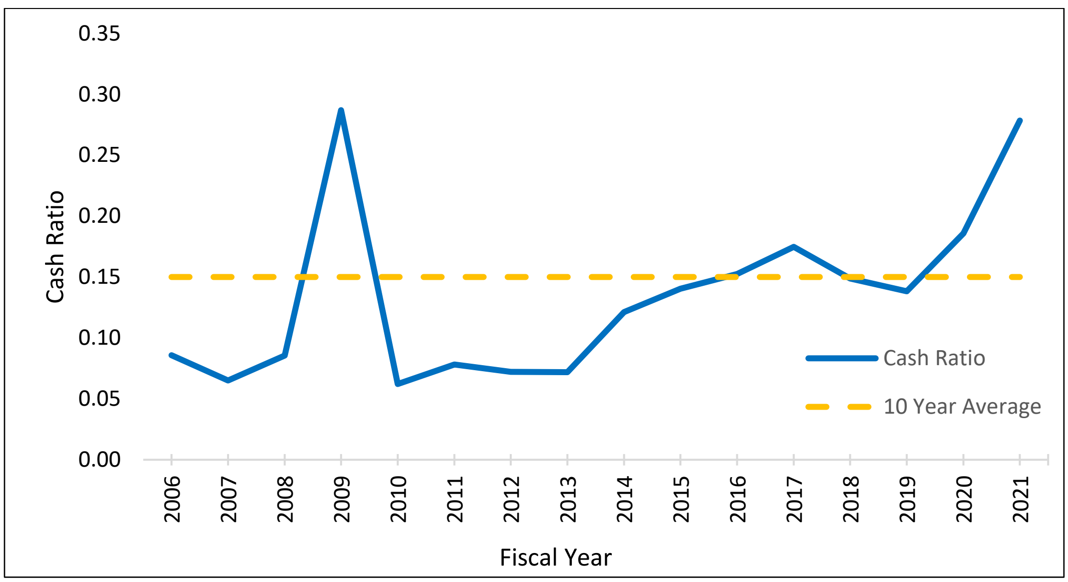
end of FY 2020 as a result of an increase in cash. The increase in cash is the result of $10 billion in CARES Act funding that the Postal Service received as reimbursement for operating expenses.[44]

The reduction of statutory prefunding payments in FY 2009 resulted in a higher current ratio. A combination of increasing current liabilities and increasing cash has helped keep the current ratio relatively flat. It has increased in the last 2 years resulting from larger increases in cash than in current liabilities.

CASH RATIO

The cash ratio compares total liquid assets to its current liabilities. The ratio measures 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 2021.

Figure II-11
Cash Ratio, FY 2006–FY 2021



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2021.

The Postal Service had a cash ratio of 0.28 at the end of FY 2021. This is an increase compared to the prior year's cash ratio of 0.19. The FY 2021 cash ratio is also higher than the 10-year average of 0.15. This increase is the result of a $9.5 billion increase in cash

The FY 2021 cash ratio is also higher than the 10-year average of 0.15.

[44] If the $57 billion in RHB accrued liabilities is excluded, the result is an increase in the current ratio to 0.85. The elimination of this liability significantly impacts the Postal Service's ability to cover current obligations using current assets.

compared to FY 2020. 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 2019, the Postal Service's cash balance gradually increased along with its current liabilities.

Analysis of Statements of Cash Flows

At the end of FY 2021, the Postal Service's total cash and cash equivalents, excluding $0.4 billion in restricted cash, were $23.9 billion. Cash and cash equivalents excluding restricted cash were $9.6 billion higher than at the end of FY 2020. At the end of FY 2021, the Postal Service had $4 billion in available borrowing authority remaining from the PAEA-mandated debt ceiling of $15 billion. Table II-18 compares the Postal Service's cash flows from FY 2013 to FY 2021.

As of September 30, 2021, the Postal Service had $4 billion in remaining borrowing capacity.

Table II-18

Postal Service Statements of Cash Flows, FY 2013–FY 2021 ($ in Millions)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Net Income/(Loss)	$ (4,977)	$ (5,508)	$ (5,060)	$ (5,591)	$ (2,742)	$ (3,913)	$ (8,813)	$ (9,176)	$ (4,930)
Non-Cash Items and Other Cash Flows	5,911	8,822	7,939	8,327	6,565	6,680	11,278	13,545	9,414
Cash Flows From Investing Activities:	0	0	0	0	0	0	0	0	0
Decrease (Increase) in Restricted Cash	(79)	66	13	(20)	(38)	16	(91)	12	(95)
Purchase of Property and Equipment	(667)	(781)	(1,222)	(1,428)	(1,344)	(1,409)	(1,419)	(1,810)	(1,872)
Proceeds From Sale of Property and Equipment	158	129	120	206	58	32	27	32	14
Net Cash Used in Investing Activities	(588)	(586)	(1,089)	(1,242)	(1,324)	(1,361)	(1,483)	(1,766)	(1,953)
Cash Flows From Financing Activities:	0	0	0	0	0	0	0	0	0
Increase (Decrease) in Debt	0	0	0	0	0	(1,800)	1,800	3,000	(3,000)
Payments for Capital Leases	(59)	(58)	(62)	(51)	(63)	(58)	(48)	(40)	(31)
Net Change in Revolving Credit Line	0	0	0	0	0	0	(4,000)	0	0
U.S. Government Appropriations - Expensed	(48)	(90)	0	0	0	0	0	0	
Contributions of the U.S. Government	-	-	0	0	0	0	0	0	10,000
Net Cash (Used) Provided by Financing Activities	(107)	(148)	(62)	(51)	(63)	(1,858)	(2,248)	2,960	6,969
Net Increase/(Decrease) in Cash	803	2,580	1,728	1,443	2,436	(452)	(1,266)	5,563	9,500
Cash Balance Beginning of Year	1,283	2,326	4,906	6,634	8,077	10,513	10,061	8,795	14,358
Cash Balance End of Year	**$ 2,086**	**$ 4,906**	**$ 6,634**	**$ 8,077**	**$ 10,513**	**$ 10,061**	**$ 8,795**	**$ 14,358**	**$ 23,858**
Debt Outstanding	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 13,200	$ 11,000	$ 14,000	$ 11,000

Numbers may not add across due to rounding.
Source: PRC derived from Postal Service Form 10-K, FY 2013–FY 2021.

Table II-19 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. As of September 30, 2021, the Postal Service had $4 billion in remaining borrowing capacity but is limited to a $3 billion annual borrowing cap. Postal Service FY 2021 Form 10-K at 64.

The Postal Service's liquidity position improved by approximately $2.5 billion, or almost 10 percent, from FY 2020. With an average daily cash requirement of $214 million, the Postal Service had approximately 112 days of operating cash at the end of FY 2021;[45] an increase of 42 days from the end of FY 2020. Much of this increase is a result of the CARES Act, which converted the $10 billion available to borrow from the U.S. Treasury into a capital contribution, increasing the Postal Service's balances in cash and capital contributions.

The Postal Service's cash position is at its highest since FY 2007. Much of the growth in cash reserves during that time is the result of limited investment in capital infrastructure and equipment, nonpayment of retirement expenses, and the CARES Act funding of $10 billion. *Id.* at 45 and 49. Notwithstanding the elimination of defaulted RHB payments by the PSRA, the Postal Service remains liable to OPM for past due amounts for CSRS and FERS totaling $14.6 billion, more than half of total liquidity. The Postal Service's independent auditor included an "Emphasis of a Matter" paragraph in the FY 2021 financial statements indicating the Postal Service will not be able to meet all of its financial obligations through September 30, 2022. *Id.* at 55 and 89.

Operating revenue and available borrowing capacity are the only sources of income available to cover daily operating expenses and capital asset investment. The Postal Service estimates it will make approximately $2.5 billion of capital investment outlays in 2022. Additionally, for FY 2023 through FY 2026, the Postal Service projects capital investment outlays totaling $17.9 billion. *Id.* at 49. In March 2022, the Postal Service paid $3 billion for vehicles under the Next Generation Delivery Vehicle contract.[46]

[45] The Commission calculated the days of operating cash in FY 2021 by dividing the Postal Service's total expenses minus depreciation expenses, accruals for certain unfunded retirement liabilities and the non-cash adjustments to the workers' compensation liability, by the number of operating days (365 days) to derive the average daily cash requirement; and then dividing the average daily cash requirement by the unrestricted balance of cash and cash equivalents.

[46] USPS Places Order for 50,000 Next Generation Delivery Vehicles; 10,019 To Be Electric - Newsroom - About.usps.com

Table II-19
Total Postal Service Liquidity (in $ Millions)
End of FY 2020 Compared to FY 2021

	FY 2020	FY 2021
Cash and Cash Equivalents	$ 14,358	$ 23,858
Current Portion of Debt	3,000	1,000
Long-Term Debt	11,000	10,000
Total Debt	**$ 14,000**	**$ 11,000**
Statutory Debt Limit	15,000	15,000
Available Debt	1,000	4,000
CARES Act Borrowing Authority	10,000	-
Total Liquidity (Cash + Available Debt)	**$ 25,358**	**$ 27,858**

Source: Postal Service FY 2021 Form 10-K at 57, 65.

Cash Flow Ratio Analysis

Cash flow ratios are applied in the Commission's analysis to illustrate the Postal Service's financial solvency. 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.

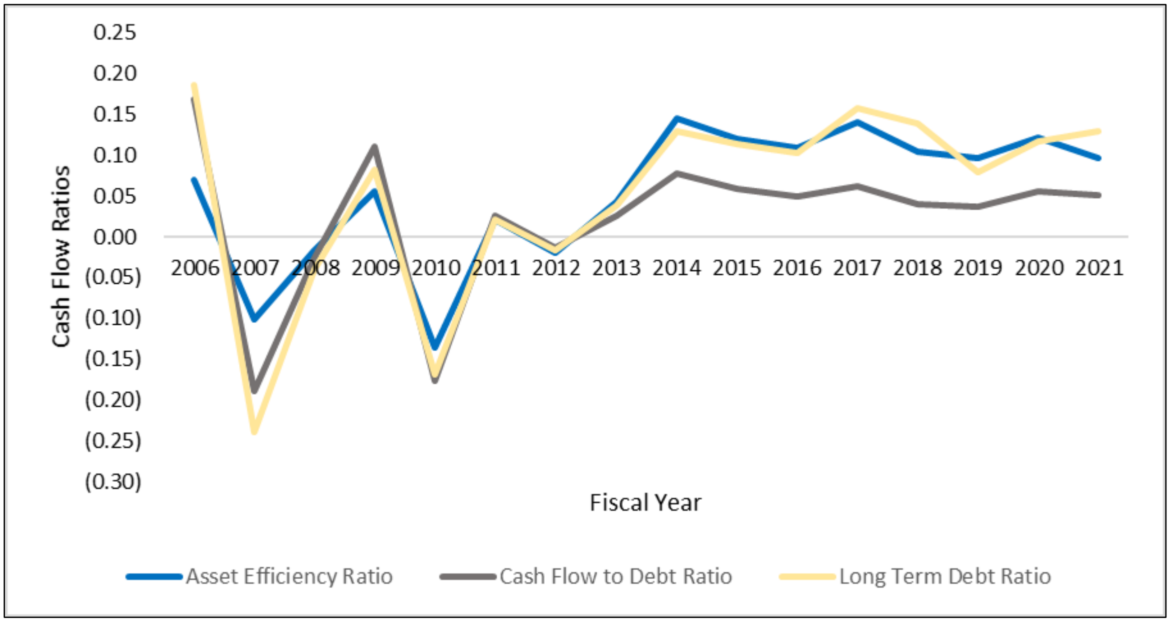
Table II-20
Cash Flow Ratios, FY 2020 and FY 2021

	FY 2020	FY 2021	Change
Asset Efficiency Ratio	0.12	0.10	(0.03)
Cash Flow to Debt Ratio	0.06	0.05	(0.00)
Long Term Debt Ratio	0.12	0.13	0.01

Source: PRC derived from Postal Service FY 2021 Form 10-K.

Figure II-12 shows all three ratios and their trends since FY 2006.

Figure II-12
Cash Flow Ratio Trend Analysis FY 2006–FY 2021



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2021.

The asset efficiency ratio compares operating cash flows to total assets. It measures how efficiently an entity uses its assets to generate cash. At the end of FY 2021, the Postal Service had an asset efficiency ratio of 0.10, which is slightly lower than the prior year. The FY 2021 asset efficiency ratio is equal to the historical 10-year average of 0.10; cash flow from operations increased slightly while total assets increased significantly, resulting from the receipt of $10 billion in U.S. Government funding. From FY 2006 to FY 2011, the ratio was quite volatile. The ratio gradually ticked up from FY 2012 through FY 2014 as a result of the Postal Service defaulting on RHB liabilities 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 0.05 at the end of FY 2021, which is a decrease of 0.01 from the prior year and slightly higher than the historical 10-year average. The operating cash flow ratio measures an entity's ability to generate cash that can be used to cover current debt. In FY 2021, both cash flow from operations and current liabilities increased compared to FY 2019. 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 RHB payment, which increased cash from operations and increased current liabilities. Since FY 2012, the Postal Service has been unable to pay down its unfunded retirement liabilities, 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 expenses and non-current portions of debt owed to the Federal Financing Bank. At the end of FY 2021, the Postal Service had a long-term debt ratio of 0.13, a slight increase of 0.01 from the end of FY 2020. Although cash increased, the Postal Service remains unable to generate sufficient cash to pay 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 and notes methodological changes implemented in FY 2021, with significant cost impacts. 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 compare volume, revenue, and cost between FY 2020 and FY 2021;[47] 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 product costs include volume-variable costs,[48] which, in the aggregate, increase as volume increases and decrease as volume decreases; product-specific costs, which are costs caused by a specific product but do not vary with volume; and inframarginal costs developed as part of the estimation of each product's incremental costs.[49] Attributable costs for classes and Competitive products collectively also include group-specific costs, which are costs caused by a group of products in combination rather than by an individual product, and inframarginal costs developed as part of the estimation of incremental costs for classes and

[47] FY 2020 volume, revenue, and cost data that are not depicted in tables in this section can be found in the corresponding section of the FY 2020 Financial Report.

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

[49] 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).

Competitive products collectively. Attributable costs are equal to incremental costs, which reflect the total marginal costs of the volume in a class, a product, or Competitive products collectively.[50]

Attributable cost is distributed to products using distribution keys that reflect the underlying cost driver.[51] These costs are piggybacked to include the indirect costs of each activity.

Institutional cost cannot be attributed to a specific product or service, a class, or Competitive products collectively and is equal to total accrued 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, class, or competitive product collectively. 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.

Methodological Changes

In FY 2021, no methodological changes shifted significant costs between products. The Commission did approve changes to transportation variabilities to account for operational changes that were implemented since the previous econometric estimates of variabilities were developed. That methodological change increased transportation costs attributed to both Market Dominant products and Competitive products.[52]

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 2020 and FY 2021.

[50] 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.

[51] 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.

[52] *See* Docket No. RM2021-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), October 6, 2021 (Order No. 5999). It is also the subject of Docket Nos. RM2017-1 and RM2022-2.

Table III-1
Market Dominant Volume, Revenue, and Cost, FY 2020 and FY 2021

	FY 2020	FY 2021	% Change
Volume (Millions)	122,054	121,640	(0.3%)
Revenue ($ Millions)	41,731	41,634	(0.2%)
Attributable Cost ($ Millions)	26,922	27,258	1.2%
Contribution to Institutional Cost ($ Millions)	14,809	14,376	(2.9%)

Negative values are denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Total Market Dominant revenue decreased by 0.2 percent in FY 2021.

Market Dominant volume and revenue have been on the decline for years as customers moved from traditional paper communication and correspondence to electronic alternatives. Postal Service FY 2021 Form 10-K at 23. Although the COVID-19 pandemic exacerbated the Market Dominant volume loss, mail volumes began to recover in the second half of FY 2021. Total Market Dominant revenue decreased by 0.2 percent in FY 2021 due to the decrease in Market Dominant volume. On a unit basis, revenue remained unchanged from FY 2020 at $0.34 per piece.

Despite the decrease in volume, the attributable cost for Market Dominant products increased by 1.2 percent from FY 2020. However, the average unit attributable cost remained the same as in FY 2020, at $0.22 per piece.

Total Market Dominant contribution to institutional cost decreased by $432 million, or 2.9 percent, in FY 2021, as Market Dominant volume decreased by 414 million pieces, or 0.3 percent.

Market Dominant products accounted for 94.4 percent of total mail volume, a drop of 0.1 percentage points from FY 2020. Revenue from these products as a percentage of total revenue from mail and services decreased from 57.1 percent to 54.1 percent. Market Dominant attributable cost as a percentage of total attributable cost decreased from 58.0 percent in FY 2020 to 56.4 percent in FY 2021.

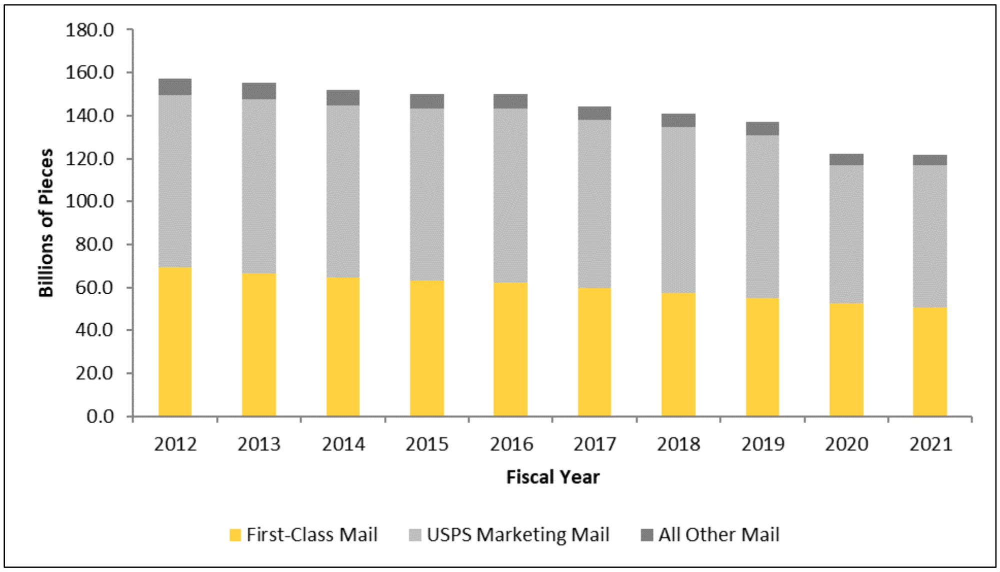
The Postal Service continued to lose money from products that do not cover their attributable costs. In FY 2021, it lost $1.9 billion, compared to $1.8 billion in FY 2020.

Several Market Dominant products failed to generate sufficient revenue to cover attributable costs, resulting in negative contributions for these products. The total negative contribution to institutional costs from these products amounted to $1.9 billion in FY 2021; in FY 2020, the negative contribution from these products was $1.8 billion. Nine domestic mail products and services failed to cover their attributable cost: First-Class Mail Flats ($16.7 million), USPS Marketing Mail Flats ($817.2 million), USPS Marketing Carrier Route ($77.4 million), USPS Marketing Mail Parcels ($20.4 million), Periodicals Outside County ($766.5 million), Periodicals In-County ($59.4 million), Package Services Bound Printed Matter Parcels ($14.8 million) Package Services Media Mail/Library Mail ($74.3 million), and Money Orders ($19.2 million). Inbound Letter Post, a product that was non-compensatory in FY 2020 and for many years before then, covered its cost in FY 2021.

Market Dominant Volume Trends

Figure III-1 shows the total volume of Market Dominant products over the last 10 years. Over the last decade, volume for Market Dominant products declined by 44.8 billion pieces.

Figure III-1
Market Dominant Volume, FY 2012–FY 2021



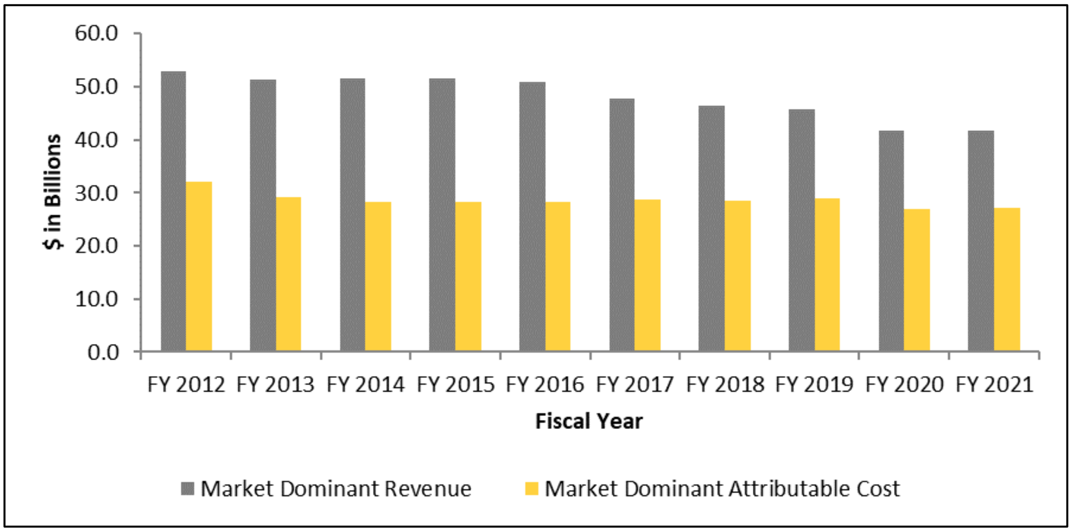
Source: Docket No. ACR2012, Library Reference USPS-FY12-1, December 28, 2012; Docket No. ACR2013, Library Reference USPS-FY13-1, December 27, 2013; Docket No. ACR2014, Library Reference USPS-FY14-1, December 29, 2014; Docket No. ACR2015, Library Reference USPS-FY15-1, December 29, 2015; Docket No. ACR2016, 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; Docket No. ACR2019, Library Reference USPS-FY19-1, December 27, 2019; Docket No. ACR2020, Library Reference USPS-FY20-1, December 29, 2020; Library Reference USPS-FY21-1, December 29, 2021, (collectively, Postal Service CRA Report, FY 2012–FY 2021).

In FY 2021, First-Class Mail and USPS Marketing Mail accounted for 96.1 percent of the total Market Dominant volume. First-Class Mail volume has declined every year over the last decade, resulting in a loss of 23.0 billion pieces. This represents a 27.1 percent loss in volume over that time period. USPS Marketing Mail volume has also declined considerably over the last decade. The loss in USPS Marketing Mail volume in FY 2021 was smaller than in previous years. Nonetheless, USPS Marketing Mail accounts for 41.2 percent of the 18.5 billion pieces of Market Dominant volume lost over the last 10 years.

Market Dominant Revenue and Cost Trends

Total Market Dominant revenue and attributable cost have also declined over the past decade. Figure III-2 compares annual revenue and attributable cost from FY 2012 to FY 2021. Over that period, total revenue declined by 23.8 percent, while total attributable cost declined by 18.8 percent. First-Class Mail and USPS Marketing Mail continue to provide the majority of the Postal Service's operating revenue "despite long-term trends away from traditional paper communication and correspondence to electronic media." Postal Service FY 2021 Form 10-K at 23.

Figure III-2
Market Dominant Revenue and Attributable Cost, FY 2012–FY 2021



Source: Docket No. ACD2012, Annual Compliance Determination, May 7, 2013 (FY 2012 ACD); Docket No. ACD2013, Annual Compliance Determination, March 27,2014(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; Docket No. ACR2019, Library Reference USPS-FY19-1, December 27, 2019; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1, March 29, 2021; Library Reference USPS-FY21-1, (collectively, Postal Service CRA Report, FY 2012–FY 2021).

Competitive Products and Services

The COVID-19 pandemic caused substantial growth in Competitive product volume in FY 2020. However, as the U.S. economy began to recover, particularly in the second half of FY 2021, the impact of the COVID-19 pandemic on Competitive product volume lessened. Competitive product volume grew slightly compared to FY 2020 and represents a higher share of total volume compared to pre-pandemic levels. Postal Service FY 2021 Form 10-K at 23. Revenue for Competitive products also increased in FY 2021. Table III-2 compares the total volume, revenue, and cost of these products and services between FY 2020 and FY 2021.

As the U.S. economy began to recover, particularly in the second half of FY 2021, the impact of the COVID-19 pandemic on Competitive product volume lessened.

Table III-2

Competitive Volume, Revenue, and Cost, FY 2020 and FY 2021

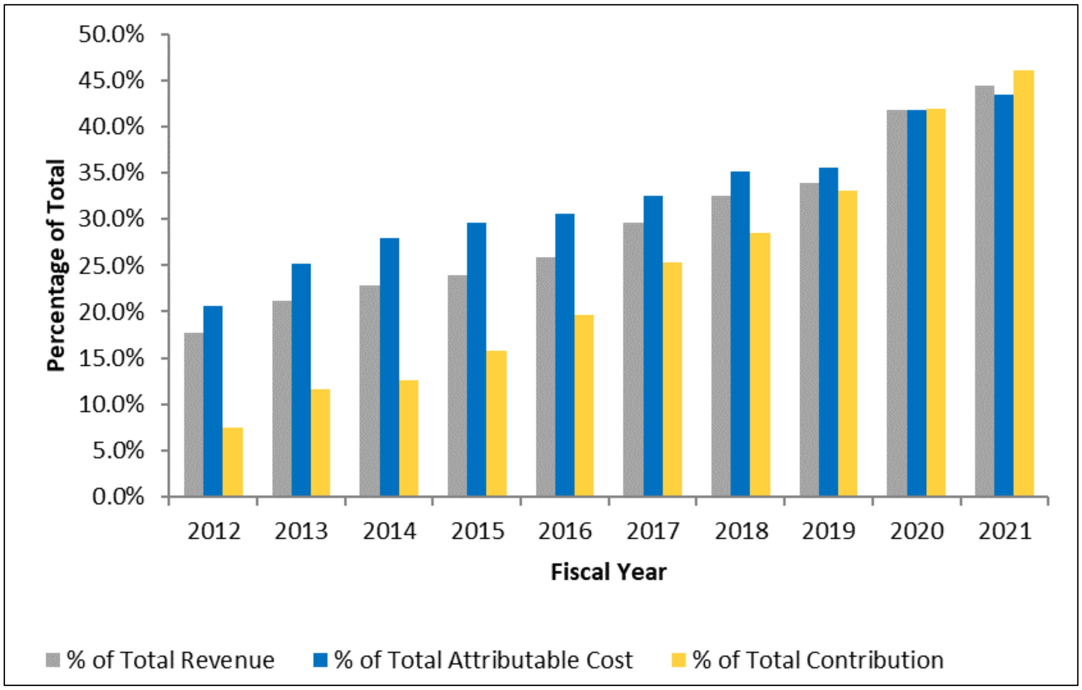
	FY 2020	FY 2021	% Change
Volume (Millions)	7,130	7,256	1.8%
Revenue ($ Millions)	30,611	34,233	11.8%
Attributable Cost ($ Millions)	19,426	21,040	8.3%
Contribution to Institutional Cost ($ Millions)	11,185	13,193	18.0%

Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1, March 29, 2022.

Volume for Competitive products grew 1.8 percent in FY 2021 compared with 25.7 percent in FY 2020. In FY 2021, both revenue and unit revenue increased. Revenue increased by 11.8 percent, or $3.6 billion, while unit revenue increased by 9.9 percent. Attributable cost increased by 8.3 percent in FY 2021; on a unit basis, it increased by 6.4 percent. Contribution to institutional cost also increased, both in the aggregate and on a unit basis. In FY 2021, contribution to institutional cost increased by 18.0 percent and by 15.9 percent on a unit basis.

As shown in Figure III-3, the Competitive products' share of total Postal Service revenue and attributable cost has more than doubled since FY 2012. Competitive products' share of contribution to institutional cost has also steadily increased from just 7.5 percent in FY 2012 to 46.1 percent in FY 2021.

Figure III-3
Competitive Products' Percent Share of Total Postal Service Revenue, Cost, and Contribution to Institutional Cost, FY 2012–FY 2021

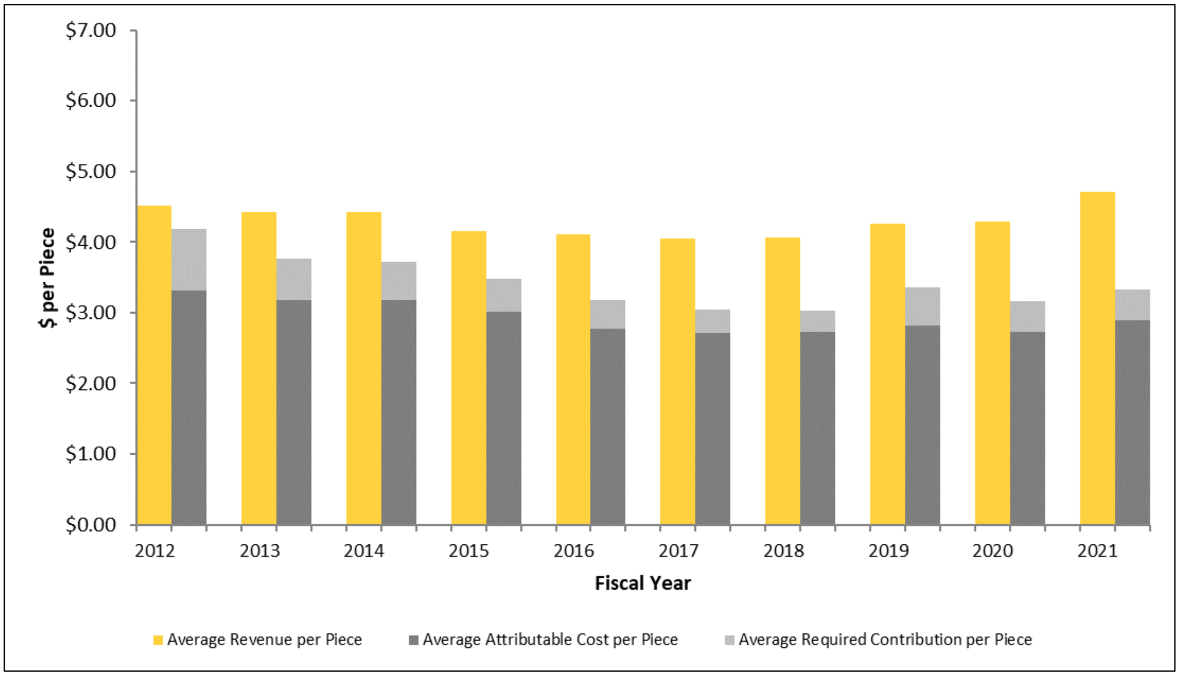


Source: Docket No. ACR2012, Library Reference USPS-FY12-1; Docket No. ACR2013, Library Reference USPS-FY13-1; Docket No. ACR2014, Library Reference USPS-FY14-1; Docket No. ACR2015, Library Reference USPS-FY15-1; Docket No. ACR2016, Library Reference USPS-FY16-1; Docket No. ACR2017, Library Reference USPS-FY17-1; Docket No. ACR2018, Library Reference USPS-FY18-1; Docket No. ACR2019, Library Reference USPS-FY19-1; Library Reference USPS-FY20-1; Library Reference USPS-FY21-1, (collectively, Postal Service CRA Report, FY 2012–FY 2021).

Figure III-4 illustrates the changes in average unit revenue and cost from FY 2012 to FY 2021. Competitive products are required to collectively cover their required contribution to institutional costs.[53] Figure III-4 shows the minimum required contribution as an average cents per piece. Since FY 2012, average unit revenue for Competitive products and services exceeded the combined average unit attributable cost and required contribution per piece.

[53] *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. The Commission issued Order No. 6043 with respect to this issue, which left the formula prescribed in Order No. 4963 in place. *See* Docket Nos. RM2017-1 and RM2022-2, Supplemental Notice of Proposed Rulemaking and Order Initiating the Third Review of the Institutional Cost Contribution Requirement for Competitive Products, November 18, 2021 (Order No. 6043).

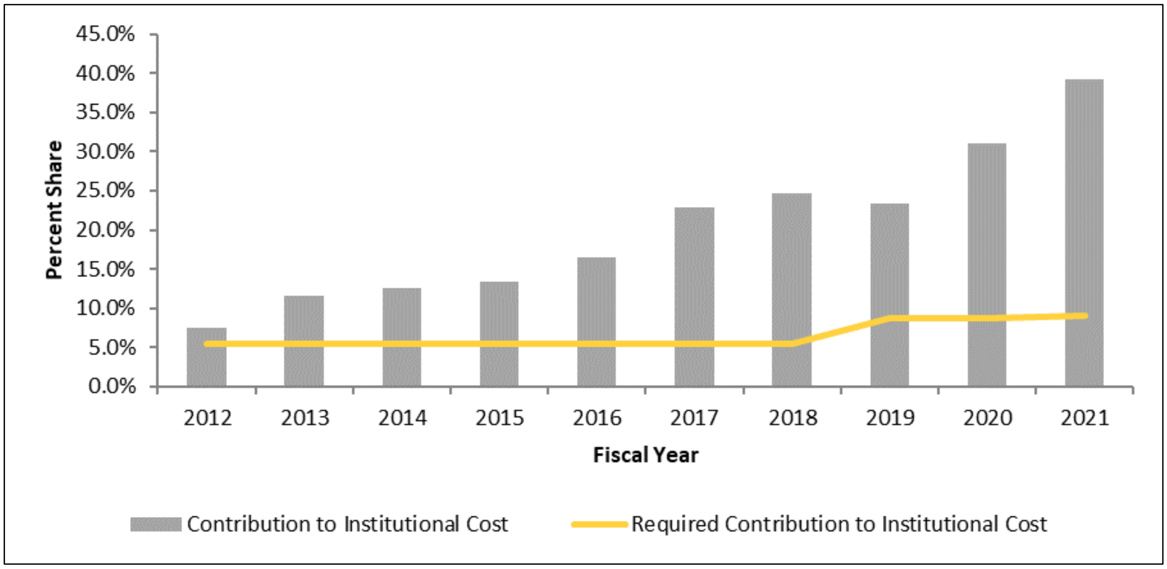
Figure III-4
Competitive Average Unit Revenue and Cost, FY 2012–FY 2021



Source: Postal Service CRA Report, FY 2012–FY 2021.

Through FY 2021, total contribution to institutional cost from Competitive products continued to exceed the required contribution to institutional cost. *See* Order No. 4963. As shown in Figure III-5, the contribution from Competitive products has increased significantly in recent years. The increases in FY 2020 and FY 2021 were particularly large compared with previous years. Previous large increases in the share of institutional cost contributed by Competitive products resulted primarily from Market Dominant products transferred to the Competitive product list.

Figure III-5
Competitive Contribution to Institutional Cost, FY 2012–FY 2021



Source: Docket No. ACD2011, Annual Compliance Determination, March 28, 2012 (FY 2011 ACD); FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Market Dominant Volume, Revenue, and Cost Trends by Class

First-Class Mail

There are five products 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."[54]

FIRST-CLASS MAIL LETTERS COMPARED WITH FY 2020

Table III-3 summarizes the FY 2021 change in total volume and revenue for First-Class Mail letters. First-Class Mail letters volume continued to decline considerably in FY 2021, after moderate declines in the years preceding the COVID-19 pandemic. For single-piece letters, the rate of decline was 8.2 percent in FY 2021 and 7.9 percent in FY 2020, compared to less

[54] "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).

than 6 percent in each of the prior 7 years. Presorted letters volume decreased 2.4 percent in FY 2021, compared to 3.0 percent in FY 2020.

Total revenue for First-Class Mail letters decreased by 2.5 percent in FY 2021 due to volume loss. Unit revenue increased slightly from 44 cents per piece in FY 2020 to 45 cents in FY 2021. The sharp decline in single-piece letters volume resulted in a 6.8 percent decrease in total revenue for single-piece letters. In contrast, revenue for presorted letters increased by 0.2 percent.

Table III-3

First-Class Mail Letters Volume and Revenue, FY 2020 and FY 2021

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
Single-Piece	14,696	13,484	(1,211)	(8.2%)	8,020	7,471	(549)	(6.8%)
Presorted	34,167	33,344	(822)	(2.4%)	13,488	13,510	21	0.2%
Total Letters	**48,863**	**46,829**	**(2,034)**	**(4.2%)**	**21,508**	**20,980**	**(528)**	**(2.5%)**

Negative values denoted by ().

Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-4 summarizes the FY 2021 change in total attributable cost for First-Class Mail letters. Total attributable cost for First-Class Mail letters increased by $165 million in FY 2021 due to a sizable increase in the attributable cost of single-piece letters. The attributable cost of single-piece letters increased 2.8 percent despite a decrease in volume. Attributable cost for single-piece letters increased 12.0 percent on a unit basis, primarily due to a large increase in the cost of transporting mail. Inconsistent commercial flight availability forced the Postal Service to use more expensive alternative modes of transportation, including charter flights and highway contract routes. Postal Service FY 2021 Form 10-K at 11.

Table III-4
First-Class Mail Letters Attributable Cost and Average Unit Attributable Cost, FY 2020 and FY 2021

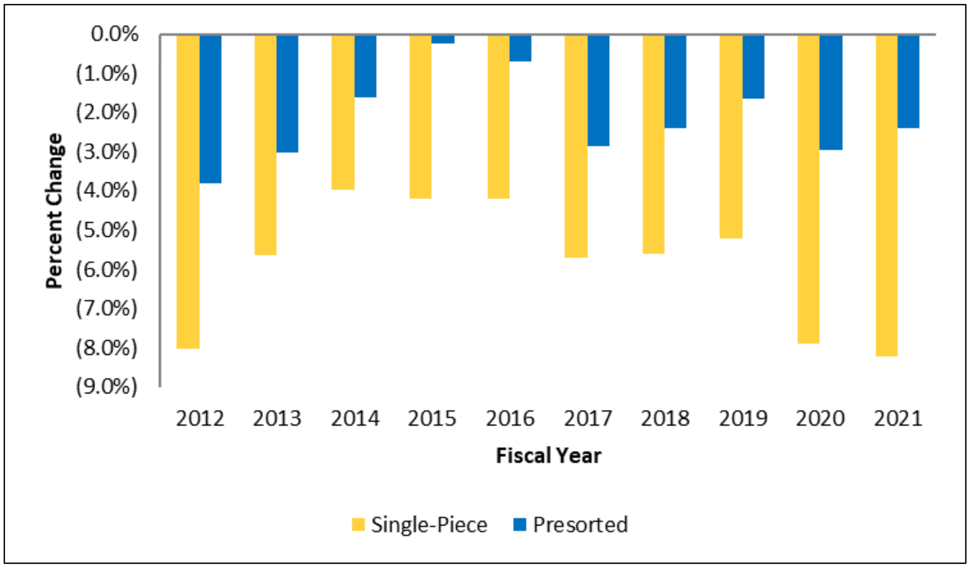
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	Percent Change	(Cents per Piece)		Increase or Decrease	Percent Change
	FY 2020	FY 2021			FY 2020	FY 2021		
Single-Piece	4,826	4,960	134	2.8%	32.8	36.8	3.9	12.0%
Presorted	4,781	4,812	31	0.7%	14.0	14.4	0.4	3.1%
Total Letters	**9,607**	**9,772**	**165**	**1.7%**	**19.7**	**20.9**	**1.2**	**6.1%**

Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

TRENDS IN FIRST-CLASS MAIL LETTERS

Although customer "migration toward electronic communication and transaction alternatives" has been eroding the volume of First-Class Mail letters for some time, the COVID-19 pandemic accelerated the loss. Postal Service FY 2020 Form 10-K at 12. Figure III-6 illustrates the rate of decline in volume for First-Class Mail letters. In FY 2020 and FY 2021, the rate of decline for Single-Piece letters was higher than in the previous 7 years. Over the last decade, the volume of First-Class Mail presorted letters has decreased every year. The rate of decline in volume for First-Class Mail presorted letters decreased from 3.0 percent in FY 2020 to 2.3 percent in FY 2021 but remains higher than in FY 2019, before the disruption caused by the COVID-19 pandemic.

Figure III-6
First-Class Mail Letters Percent Change in Volume, FY 2012–FY 2021

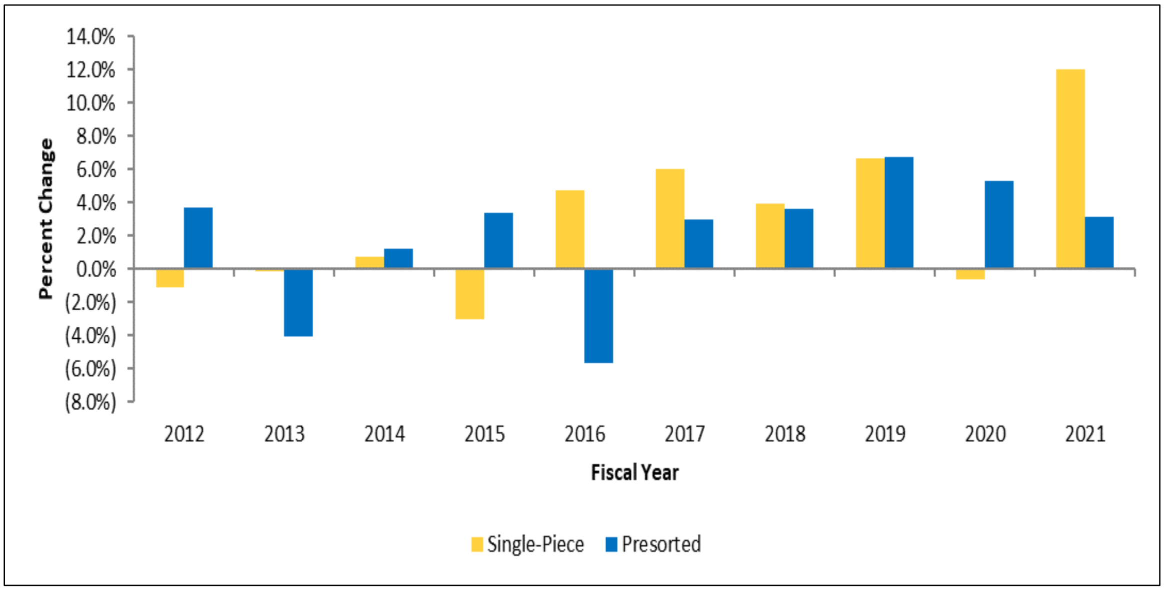


Source: Docket No. ACR2012, Library Reference USPS-FY12-42, December 28, 2012; Docket No. ACR2013, Library Reference USPS-FY13-42, December 27, 2013; Postal Service RPW Report, FY 2012–FY 2021 (collectively, Postal Service RPW Report, FY 2012–FY 2021).

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 increased substantially in FY 2021, primarily due to an increase in transportation costs.

The average unit attributable cost for First-Class Mail presorted letters increased for the fifth year in a row. However, the rate of increase in FY 2021 was more moderate than in the previous 3 years.

Figure III-7
First-Class Mail Letters Percent Change in Average Unit Attributable Cost, FY 2012–FY 2021



Source: FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-5 compares the average unit attributable cost for presorted letters by cost segment for FY 2020 and FY 2021. The unit attributable costs presented include all of the indirect cost that is piggybacked on the direct cost.[55] Of all the cost segments, transportation increased the most substantially in FY 2021, with unit transportation costs increasing by 16.6 percent. The increase is in large part due to an increase in highway transportation costs resulting from an increase in miles driven and higher average diesel fuel rates. Postal Service FY 2021 Form 10-K at 21. The average unit attributable cost for the city carrier street and rural carrier cost segments also increased in FY 2021, 2.6 percent and 5.3 percent, respectively. The mail processing unit cost for presorted letters decreased slightly in FY 2021. However, carrier in-office cost, which represents a mail processing activity because it is largely comprised of time spent sorting mail for delivery, increased by 7.4 percent in FY 2021.

[55] In addition to the direct costs, there are other "indirect" costs associated with the direct cost component or cost segment. Some examples of these indirect costs are Cost Segment 3 Administrative Clerks, Cost Segment 12 Vehicle Service Costs, Cost Segment 15 Rents and Fuel and Utilities, and Cost Segment 18 Service-wide Labor Costs (such as, workers' compensation, etc.). These "indirect" costs are referred to as "piggybacked" costs. 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 2020 and FY 2021

	Attributable Cost (Cents per Piece)		% Change
	FY 2020	FY 2021	
Mail Processing	5.99	5.90	-1.6%
City Carrier In-Office	1.60	1.72	7.4%
City Carrrier Street	3.06	3.14	2.6%
Rural Carriers	1.08	1.13	5.3%
Transportation	1.60	1.87	16.6%
All Other	0.66	0.67	1.3%

Source: Docket No. ACR2020, Library Reference USPS-FY20-43; Docket No. ACR2021, Library Reference USPS-FY21-43, December 29, 2021.

FIRST-CLASS MAIL FLATS COMPARED WITH FY 2020

Table III-6 shows the total volume and revenue for First-Class Mail Flats. The volume of First-Class Mail single-piece flats declined 8.8 percent in FY 2021 compared to an 8.3 percent decline in FY 2020. The volume of First-Class Mail presorted flats increased in FY 2021, 6.0 percent, compared to a decrease of 5.3 percent in FY 2020.

Total revenue for First-Class Mail Flats also declined in FY 2021, albeit minimally. It decreased by 0.3 percent compared to 6.3 percent in FY 2020 and 13.7 percent in FY 2019. On a unit basis, revenue increased for both First-Class Mail single-piece flats (3.7 percent) and First-Class Mail presorted flats (4.8 percent).

Table III-6
First-Class Mail Flats Volume and Revenue, FY 2020 and FY 2021

	Mail Volume (Millions)				Mail Revenue ($ in Millions)			
	FY 2020	FY 2021	Increase or Decrease	% Change	FY 2020	FY 2021	Increase or Decrease	% Change
Single-Piece	679	619	(60)	(8.8%)	1,064	1,006	(58)	(5.4%)
Presorted	525	557	31	6.0%	484	537	54	11.1%
Total Flats	**1,205**	**1,176**	**(28)**	**(2.4%)**	**1,548**	**1,544**	**(4)**	**(0.3%)**

Negative values denoted by ().
Numbers may not add due to rounding.
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-7 summarizes the FY 2021 change in attributable cost. Attributable costs for First-Class Mail Flats increased both in the aggregate and on a unit basis, but less dramatically than in FY 2020. In FY 2021, attributable costs for First-Class Mail Flats increased 1.0 percent, and unit attributable costs increased 3.5 percent, compared to 2.1 percent and 9.2 percent, respectively, in FY 2020. The average unit attributable cost for First-Class Mail single-piece flats and First-Class Mail presorted flats increased by 6.4 percent and 3.4 percent, respectively.

Table III-7
First-Class Mail Flats Attributable Cost and Average Unit Attributable Cost, FY 2020 and FY 2021

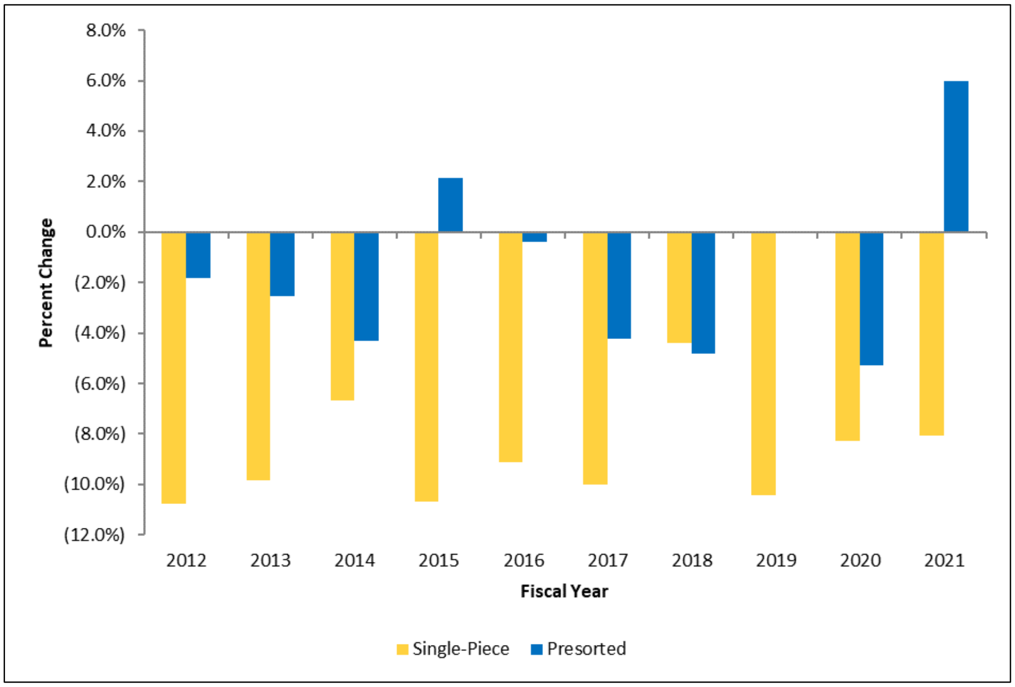
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
Single-Piece	1,052	1,020	(32)	(3.0%)	154.8	164.7	9.9	6.4%
Presorted	490	537	47	9.6%	93.3	96.4	3.2	3.4%
Total Flats	**1,545**	**1,560**	**16**	**1.0%**	**128.2**	**132.6**	**4.4**	**3.5%**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

TRENDS IN FIRST-CLASS MAIL FLATS

The volume of First-Class Mail Flats has been declining for a number of years. Figure III-8 compares the percent change in the volume of First-Class Mail Flats from FY 2012 to FY 2021. Over the past decade, the volume of First-Class Mail Flats decreased by 42.6 percent. The volume of single-piece flats continued its downward trend in FY 2021, and although both presorted flats and single-piece flats lost volume over the past decade, most of the volume loss for First-Class Mail Flats occurred in First-Class Mail single-piece flats. Over that period, the volume of single-piece flats decreased 56.0 percent, compared to a 13.3 percent volume decrease for presorted flats. As Figure III-8 shows, the 6.0 percent volume increase for First-Class Mail presorted flats in FY 2021 represents one of just two annual increases of First-Class Mail presorted flats over the 10-year period.

Figure III-8
Percent Change in First-Class Mail Flats Volume, FY 2012–FY 2021

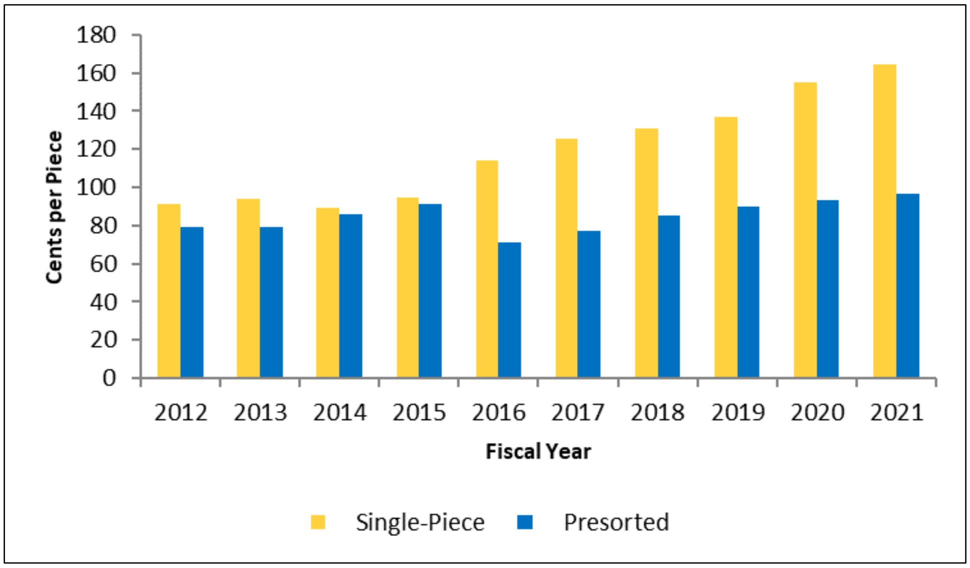


Source: Postal Service RPW Report, FY 2012–FY 2021.

Figure III-9 compares the average unit attributable cost for First-Class Mail single-piece and presorted flats since FY 2012. The average unit attributable cost for First-Class Mail single-piece flats and presorted flats has steadily increased since FY 2016.[56] However, the average unit attributable cost for First-Class Mail single-piece flats has increased more rapidly than for First-Class Mail presorted flats, 44.1 percent, and 35.7 percent, respectively.

[56] In FY 2016, the Postal Service corrected an In-Office Cost System coding error that shifted costs from First-Class Mail presorted flats to First-Class Mail single-piece flats. This resulted in an atypically large change in average unit attributable costs for both categories that year.

Figure III-9
First-Class Mail Flats Average Unit Attributable Cost, FY 2012–FY 2021



Source: FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-8 compares the average unit attributable cost by cost segment of First-Class Mail single-piece and presorted flats for FY 2020 and FY 2021. With the exception of the city carrier street segment for single-piece flats, costs increased in every segment depicted in the table. The average unit attributable cost for First-Class Mail single-piece flats exceeded the average unit attributable cost for First-Class Mail presorted flats for all cost segments except rural carrier and city carrier in-office. Additionally, the difference between the unit attributable cost for First-Class Mail single-piece flats and First-Class Mail presorted flats increased from FY 2020 for three of the segments depicted, with the difference in the transportation segment increasing the most substantially by 50.3 percent.

Table III-8
First-Class Mail Flats Average Unit Attributable Cost by Segment, FY 2020 and FY 2021

	FY 2020			FY 2021		
	Cents per Piece			Cents per Piece		
	Single-Piece	Presort	Diff.	Single-Piece	Presort	Diff.
Mail Processing	87.1	51.6	35.5	93.4	53.8	39.6
City Carrier In-Office	16.7	15.1	1.6	14.6	15.3	(0.7)
City Carrrier Street	8.3	4.8	3.5	8.8	4.9	3.9
Rural Carriers	4.1	4.4	(0.3)	4.9	5.0	(0.1)
Transportation	25.5	14.5	11.0	31.3	14.7	16.5
All Other	13.1	2.9	10.2	12.4	2.3	10.1
Total	**154.8**	**93.3**	**61.5**	**165.3**	**96.0**	**69.3**

Negative values denoted by ().
Source: Postal Service Cost Segment and Component Reports, FY 2020 and FY 2021 (Postal Service CSC Report, FY 2020 and FY 2021)

OTHER FIRST-CLASS MAIL COMPARED WITH FY 2020

Table III-9 shows the volume and revenue for "all other" First-Class Mail. The volume of Outbound Single-Piece First-Class Mail International and Cards increased in FY 2021, while the volume of Inbound Letter Post decreased due to the transfer of Inbound Letter Post small packets and bulky letters from the Market Dominant product list to the Competitive Product list.[57] There were no Inbound International NSAs in effect in FY 2021.

Similar to volume, revenue increased for Outbound Single-Piece First-Class Mail International and Cards compared with FY 2020, while Inbound Letter Post revenue decreased considerably.

Table III-9
All Other First-Class Mail Volume and Revenue, FY 2020 and FY 2021

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
Total Cards	2,566	2,714	148	5.8%	728	791	63	8.6%
Outbound Single-Piece First-Class Mail International	97	105	8	8.0%	145	167	23	15.7%
Inbound Letter Post	219	82	(137)	(62.7%)	223	60	(162)	(72.9%)
Total Other First-Class Mail	**2,883**	**2,900**	**18**	**0.6%**	**1,147**	**1,018**	**(128)**	**(11.2%)**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

[57] Docket Nos. MC2019-17 and CP2019-155, Order Granting Postal Service's Motion and Approving Prices for Inbound Letter Post Small Packets and Bulky Letters, December 19, 2019, at 2 (Order No. 5372).

Table III-10 presents the changes in total attributable cost and average unit attributable cost for "all other" First-Class Mail between FY 2020 and FY 2021. In FY 2021, in the aggregate and on a unit basis, attributable costs decreased for Cards, Inbound Letter Post, and Outbound Single-Piece First-Class Mail International. The large decrease in the unit attributable cost of Inbound Letter Post is due to the transfer of the relatively high-cost small packets and bulky letters out of Inbound Letter Post, leaving only the lower cost letter-shaped and flat-shaped pieces in the category.

Table III-10
Other First-Class Mail Attributable Cost and Average Unit Attributable Cost, FY 2020 and FY 2021

	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
Total Cards	384	377	(6)	(1.6%)	14.9	13.9	(1.0)	(7.0%)
Outbound Single-Piece First-Class Mail International	113	109	(3)	(2.9%)	116.4	104.6	(11.8)	(10.1%)
Inbound Letter Post	267	49	(218)	(81.5%)	122.0	60.4	(61.6)	(50.5%)
Total Other First-Class Mail	**774**	**536**	**(238)**	**(30.8%)**	**26.9**	**18.5**	**(8.4)**	**(31.2%)**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

USPS Marketing Mail

Seven products comprise USPS Marketing Mail: 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.

Although USPS Marketing Mail volume and revenue declined at the onset of the pandemic, as the economy began to recover, USPS Marketing Mail volumes and revenues rebounded somewhat but remained below pre-pandemic levels.

USPS MARKETING MAIL LETTERS COMPARED WITH FY 2020

Table III-11 summarizes the FY 2021 change in volume and revenue of letter-shaped USPS Marketing Mail. Both volume and revenue increased for letter-shaped USPS Marketing Mail. Although USPS Marketing Mail volume and revenue declined at the onset of the pandemic, as the economy began to recover, USPS Marketing Mail volumes and revenues rebounded somewhat but remained below pre-pandemic levels. Postal Service FY 2021 Form

10-K at 25. Price increases in FY 2021[58] and the increase in volume for USPS Marketing Mail Letters resulted in higher revenue in FY 2021 than in FY 2020.

Table III-11
USPS Marketing Mail Letters Volume and Revenue, FY 2020 and FY 2021

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
Letters	38,408	41,222	2,814	7.3%	8,156	8,986	830	10.2%
High Density and Saturation Letters	6,533	6,532	(1)	(0.0%)	1,103	1,129	26	2.3%
Total Letters	**44,940**	**47,753**	**2,813**	**6.3%**	**9,260**	**10,115**	**855**	**9.2%**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-12 summarizes the FY 2021 change in attributable cost for USPS Marketing Mail letters. Overall, attributable cost increased 7.8 percent for USPS Marketing Mail letters in FY 2021. On a unit basis, attributable cost for both Letters, and High Density and Saturation Letters increased in FY 2021 by 0.7 percent and 5.8 percent, respectively. Since High Density and Saturation Letters is a relatively low-volume product compared with USPS Marketing Mail Letters, the average unit increase (1.5 percent) is closer to the increase in the unit attributable cost of USPS Marketing Mail Letters.

Table III-12
USPS Marketing Mail Letters Attributable Cost and Average Unit Attributable Cost, FY 2020 and FY 2021

	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
Letters	4,759	5,143	384	8.1%	12.4	12.5	0.1	0.7%
High Density and Saturation Letters	585	619	34	5.8%	9.0	9.5	0.5	5.8%
Total Letters	**5,344**	**5,762**	**418**	**7.8%**	**11.9**	**12.1**	**0.2**	**1.5%**

Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

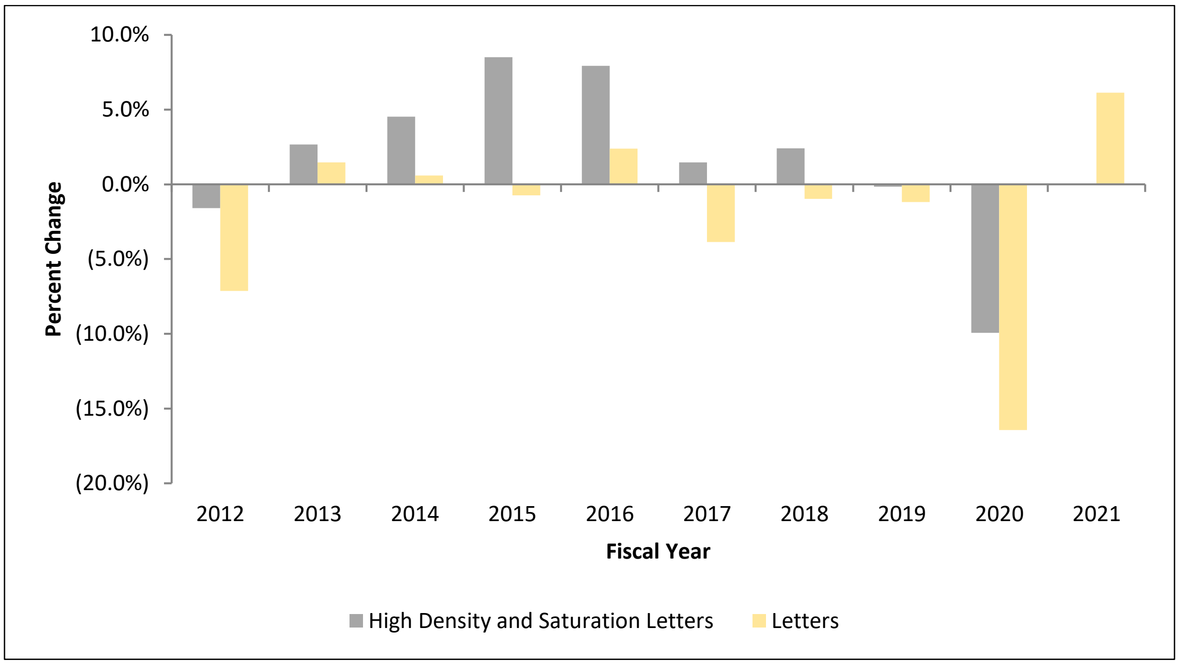
TRENDS IN USPS MARKETING MAIL LETTERS

As shown in Figure III-10, after several years of moderate volume changes, the COVID-19 pandemic precipitated comparatively large swings in volume in FY 2020 and FY 2021.

[58] *See* Docket No. R2021-2, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services and Special Services Products and Related Mail Classification Changes, July 19, 2021 (Order No. 5937); Docket No. R2021-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November, 18, 2020 (Order No. 5757).

There was no change in volume for High Density and Saturation Letters, although volume decreased over the previous 2 years. Annual changes in USPS Marketing Mail Letters volume have been relatively small in recent years, with FY 2020 and FY 2021 being extraordinary exceptions. The decrease in volume in FY 2020 resulted in the lowest USPS Marketing Mail Letters volume in a decade. In FY 2021, volume rebounded significantly but remained far below pre-pandemic levels.

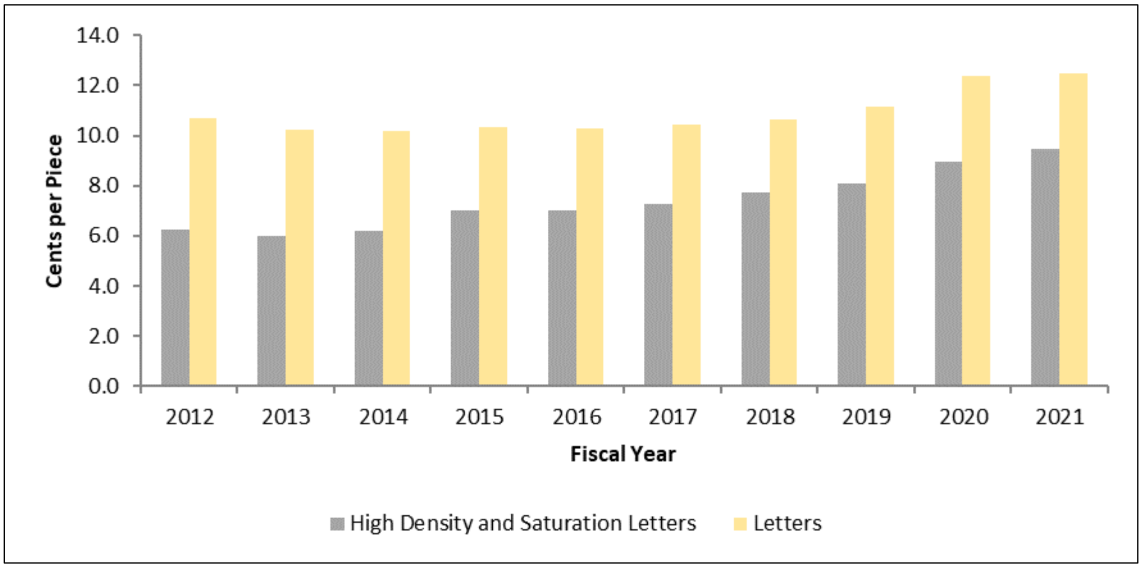
Figure III-10
Percent Change in USPS Marketing Mail Letters Volume, FY 2012–FY 2021



Source: FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Figure III-11 shows the average unit attributable cost for USPS Marketing Mail letters since FY 2012. Average unit attributable cost for High Density and Saturation Letters and USPS Marketing Mail Letters has been on an upward trend in recent years. The average unit attributable cost for USPS Marketing Mail Letters has increased for the last 5 years, while the average unit cost of High Density and Saturation Letters has increased since FY 2014. Even so, the FY 2021 increase in average unit attributable cost for both products was more moderate than in FY 2020.

Figure III-11
USPS Marketing Mail Letters Average Unit Attributable Cost, FY 2012–FY 2021



Source: FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

USPS MARKETING MAIL FLATS COMPARED WITH FY 2020

Table III-13 summarizes the FY 2021 changes in volume and revenue for flat-shaped USPS Marketing Mail.[59] Volume for all flat-shaped USPS Marketing Mail except EDDM-R declined in FY 2021, although more modestly than in FY 2020. Volume for USPS Marketing Mail Flats and High Density and Saturation Flats/Parcels each decreased by more than 300 million pieces in FY 2021, representing a 10.3 percent and 4.1 percent decrease in volume, respectively. Carrier Route volume remained nearly unchanged, decreasing a mere 0.1 percent. Volume for EDDM-R increased 2.3 percent in FY 2021.

Revenue for flat-shaped USPS Marketing Mail declined 3.2 percent in FY 2021. The products with the largest volume decreases in FY 2021 also had the largest decreases in revenue. USPS Marketing Mail Flats and High Density and Saturation Flats/Parcels experienced the largest drops in revenue (7.7 percent and 4.1 percent, respectively). EDDM-R and Carrier Route revenues increased in FY 2021, but with a combined increase of just $29 million.

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

Table III-13

USPS Marketing Mail Flat Volume and Revenue, FY 2020 and FY 2021

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
High Density and Saturation Flats/Parcels	10,427	9,994	(432)	(4.1%)	1,867	1,790	(76)	(4.1%)
Carrier Route	5,048	5,042	(6)	(0.1%)	1,341	1,364	24	1.8%
Flats	3,199	2,869	(330)	(10.3%)	1,344	1,241	(103)	(7.7%)
Every Door Direct Mail – Retail	530	542	12	2.3%	99	104	5	5.5%
Total	**19,203**	**18,447**	**(756)**	**(3.9%)**	**4,650**	**4,500**	**(150)**	**(3.2%)**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-14 summarizes the FY 2021 change in attributable cost for USPS Marketing Mail flats. Total attributable cost for flat-shaped USPS Marketing Mail decreased 0.5 percent in FY 2021 due to the loss of flat-shaped USPS Marketing Mail volume. On a unit basis, attributable cost increased for all flat-shaped USPS Marketing Mail products in FY 2021.

Table III-14

USPS Marketing Mail Flats Attributable Cost and Average Unit Attributable Cost, FY 2020 and FY 2021

	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
High Density and Saturation Flats/Parcels	1,437	1,427	(10)	(0.7%)	13.8	14.3	0.5	3.6%
Carrier Route	1,394	1,442	47	3.4%	27.6	28.6	1.0	3.5%
Flats	2,124	2,058	(66)	(3.1%)	66.4	71.7	5.3	8.0%
Every Door Direct Mail – Retail	38	42	4	9.5%	7.2	7.8	0.5	7.1%
Total	**4,993**	**4,969**	**(24)**	**(0.5%)**	**26.0**	**26.9**	**0.9**	**3.6%**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

TRENDS IN USPS MARKETING MAIL FLATS

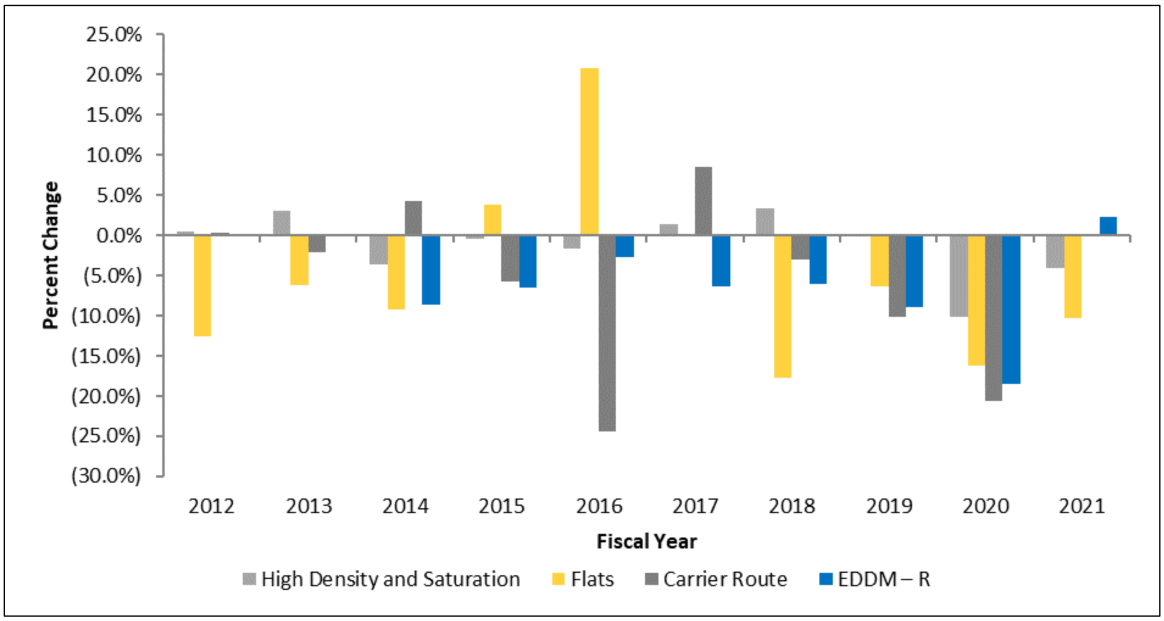
Flat-shaped USPS Marketing Mail has lost nearly a third of its volume over the last decade. As shown in Figure III-12, volume changes have been more substantial in recent years.[60] For High Density and Saturation Flats/Parcels, USPS

In FY 2021, EDDM-R volume increased for the first time since becoming a permanent product.

[60] 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.

Marketing Mail, and Carrier Route, the decline in volume in FY 2021 comes after an even larger decline in FY 2020. The volume for Flats decreased for the fourth time in a row. Although volume for all flat-shaped USPS Marketing Mail has been on a downward trend for years, in FY 2021, EDDM-R volume increased for the first time since becoming a permanent product.

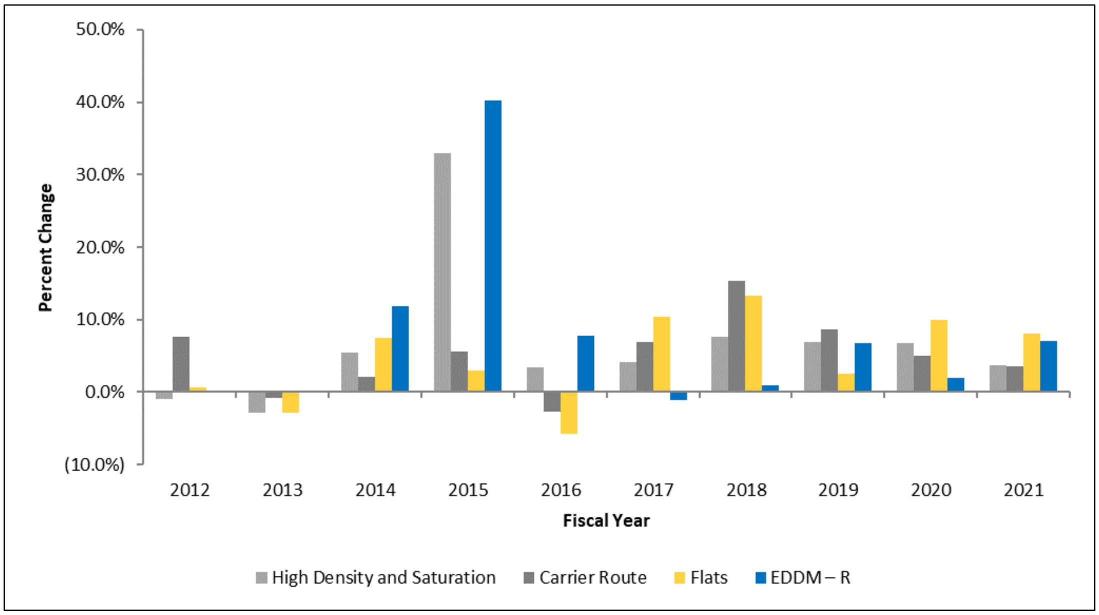
Figure III-12
USPS Marketing Mail Flats Percent Change in Volume, FY 2012–FY 2021



Source: FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

The average unit attributable cost of each flat-shaped USPS Marketing Mail product has increased significantly over the last decade. Figure III-13 illustrates the annual changes in average unit attributable cost. Over the last decade, the average unit attributable cost increased nearly every year for flat-shaped USPS Marketing Mail products. The FY 2021 increases were similar to previous increases for flat-shaped USPS Marketing Mail products.

Figure III-13
USPS Marketing Mail Flats Percent Change in Average Unit Attributable Cost, FY 2012–FY 2021



Source: FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-15 compares the change in the average unit attributable cost between FY 2020 and FY 2021 by cost segment. Rural carrier unit costs and city carrier street unit costs increased for all USPS Marketing Mail flats products, with the exception of USPS Marketing Mail Flats city carrier street unit costs. The cost of mail processing activities, including city carrier in-office, increased for Carrier Route and EDDM-R.[61] Conversely, it decreased for USPS Marketing Mail Flats and High Density and Saturation Flats/Parcels.

[61] EDDM-R is a low volume category, and consequently susceptible to larger fluctuations in unit cost.

Table III-15
Change in USPS Marketing Mail Flats Average Unit Attributable Cost by Cost Segment, FY 2020 and FY 2021

	High Density and Saturation	Carrier Route	Flats	EDDM-R
Mail Processing				
FY 2020	1.6708	7.8054	38.0007	0.1747
FY 2021	1.6121	8.0865	35.9230	0.4732
% Change	**(3.5%)**	**3.6%**	**(5.5%)**	**170.8%**
City Carrier In-Office				
FY 2020	1.8684	7.7470	11.4994	1.8286
FY 2021	1.8374	8.0181	11.1650	1.9175
% Change	**(1.7%)**	**3.5%**	**(2.9%)**	**4.9%**
City Carrier Street				
FY 2020	4.8093	5.3949	5.0062	4.1820
FY 2021	4.8420	5.4673	4.9402	4.4419
% Change	**0.7%**	**1.3%**	**(1.3%)**	**6.2%**
Rural Carriers				
FY 2020	4.5930	4.9502	4.7320	0.6713
FY 2021	4.7375	5.3395	5.1660	0.7031
% Change	**3.1%**	**7.9%**	**9.2%**	**4.7%**

Source: PRC derived from Docket No. ACR2020, Library Reference USPS-FY20-24, December 29, 2020; Library Reference USPS-FY21-24, December 29, 2021.

Periodicals

Two products comprise the Periodicals class: 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 2020

In FY 2021, Outside County volume decreased 8.6 percent. Total revenue for Periodicals declined 7.8 percent in FY 2021.

Table III-16 summarizes the FY 2021 changes in volume and revenue for Periodicals. In FY 2021, the volume of Periodicals declined by 327 million pieces, or 8.2 percent, with most of the decrease occurring in Outside County publications. In FY 2021, Outside County volume decreased 8.6 percent. Total revenue for Periodicals declined 7.8 percent in FY 2021. 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 2020 and FY 2021

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
In-County	469	447	(22)	(4.7%)	51	49	(2)	(4.5%)
Outside County	3,537	3,232	(305)	(8.6%)	973	895	(78)	(8.0%)
Total	**4,006**	**3,679**	**(327)**	**(8.2%)**	**1,024**	**944**	**(80)**	**(7.8%)**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-17 compares total attributable cost and average unit attributable cost for Periodicals for FY 2020 and FY 2021. The total attributable cost of Periodicals decreased by $29 million, or 1.6 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 2021.

Table III-17
Periodicals Attributable Cost and Average Unit Attributable Cost, FY 2020 and FY 2021

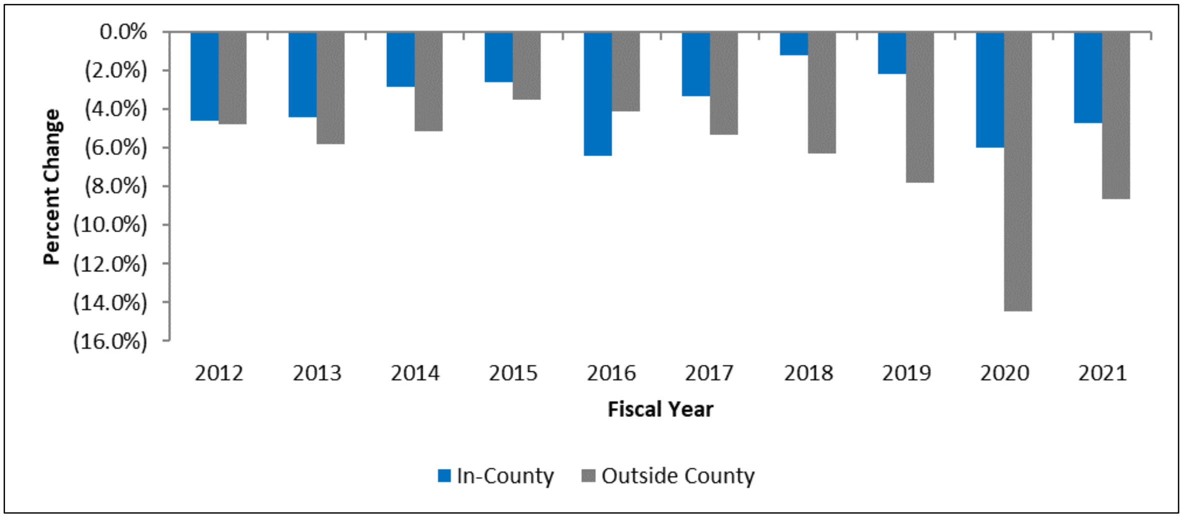
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
In-County	100	108	8	8.3%	21.3	24.2	2.9	13.7%
Outside County	1,698	1,661	(37)	(2.2%)	48.0	51.4	3.4	7.1%
Total	**1,798**	**1,770**	**(29)**	**(1.6%)**	**44.9**	**48.1**	**3.2**	**7.2%**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

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 2021 is similar to declines seen in recent years. The volume losses for Outside County Periodicals in both FY 2021 and FY 2020 have exceeded volume losses in previous years. Over the last decade, volume for Outside County Periodicals decreased by 47.1 percent or 2.9 billion pieces.

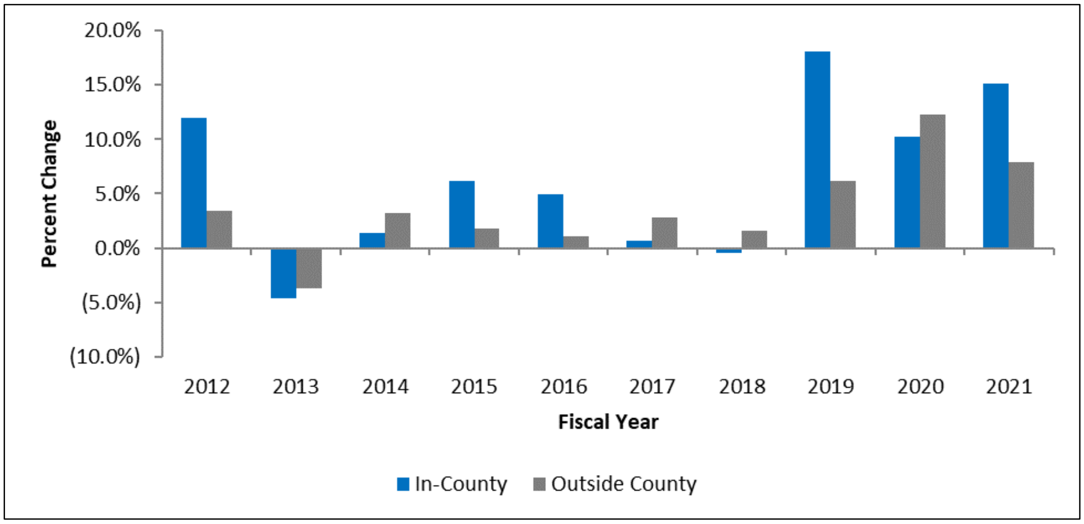
Figure III-14
Periodicals Percent Change in Volume, FY 2012–FY 2021



Source: FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Figure III-15 shows the percent change in the average unit attributable cost for In-County and Outside County Periodicals. Average unit attributable cost for In-County and Outside County has been increasing for several years. However, the increases in the last 3 years were particularly large.

Figure III-15
Periodicals Percent Change in Average Unit Attributable Cost, FY 2012–FY 2021



Source: FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-18 disaggregates the average unit attributable cost of Outside County Periodicals for FY 2020 and FY 2021. As shown in Table III-18, unit attributable cost increased for all cost segments depicted. Of these, unit transportation costs increased the most significantly in FY 2021, by 20.2 percent. Conversely, the “all other” category of costs for Outside County Periodicals decreased in FY 2021. The decrease was primarily due to a 30.8 percent decrease in the unit cost of vehicle service drivers. The unit cost of vehicle service drivers increased by 72.1 percent in FY 2020 and remains higher than in FY 2019, despite the decrease in FY 2021.

Table III-18

Outside County Periodicals Average Unit Attributable Cost by Segment, FY 2020 and FY 2021

	Unit Attributable Cost (Cents per Piece)		Percent Change
	FY 2020	FY 2021	
Mail Processing	21.70	23.28	7.3%
City Carrier In-Office	9.83	10.29	4.7%
City Carrrier Street	4.55	4.66	2.4%
Rural Carriers	5.40	6.19	14.7%
Transportation	4.60	5.53	20.2%
All Other	1.93	1.45	(25.1%)
Total	**48.02**	**51.41**	**7.1%**

Source: PRC derived from Postal Service CSC Report, FY 2020 and FY 2021.

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 2021 changes in volume and revenue for Package Services. Overall, Package Services volume decreased 9.4 percent in FY 2021. However, Media Mail/Library Mail and Alaska Bypass Service volumes were higher compared with FY 2020.

Package Services volume decreased 9.4 percent in FY 2021. However, Media Mail/Library Mail and Alaska Bypass Service volumes were higher compared with FY 2020.

Two Package Services products had higher revenue in FY 2021 than in FY 2020, resulting in slightly higher revenue for the Package Services class overall. On a unit basis, revenue increased slightly for all Package Services products in FY 2021.

Table III-19

Package Services Volume and Revenue, FY 2020 and FY 2021

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2020	FY 2021			FY 2020	FY 2021		
Alaska Bypass	1	1	0	5.7%	32	35	3	8.3%
Bound Printed Matter Flats	211	181	(30)	(14.1%)	161	140	(21)	(13.2%)
Bound Printed Matter Parcels	261	227	(33)	(12.8%)	289	260	(29)	(10.1%)
Media Mail/Library Mail	98	107	9	9.7%	349	400	50	14.4%
Total	**571**	**517**	**(54)**	**(9.4%)**	**832**	**835**	**2**	**0.3%**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

As shown in Table III-20, attributable cost decreased in the aggregate for the Package Services class compared with FY 2020, even with an increase in the attributable cost of two products. In FY 2021, Alaska Bypass Service cost, which consists entirely of Cost Segment 14 transportation, increased both in the aggregate and on a unit basis, 23.2 percent and 16.6 percent, respectively. The attributable cost of BPM Parcels and BPM Flats decreased in the aggregate (10.7 percent and 6.9 percent, respectively) but increased on a unit basis (2.4 percent and 8.4 percent, respectively) compared with FY 2020. Only Media Mail/Library Mail experienced a unit cost decrease in FY 2021, albeit a small one.

Table III-20

Package Services Attributable Cost and Average Unit Attributable Cost, FY 2020 and FY 2021

	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2021	FY 2020			FY 2021	FY 2020		
Alaska Bypass	22	27	5	23.2%	1,725.0	2,011.7	286.7	16.6%
Bound Printed Matter Flats	128	119	(9)	(6.9%)	60.7	65.8	5.1	8.4%
Bound Printed Matter Parcels	308	275	(33)	(10.7%)	118.1	120.9	2.8	2.4%
Media/Library Mail	441	474	34	7.6%	450.5	442.0	(8.5)	(1.9%)
Total	**899**	**896**	**(3)**	**(0.4%)**	**157.6**	**173.2**	**15.6**	**9.9%**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-21 shows the FY 2021 percent change in unit attributable cost for selected cost segments. As shown in Table III-21, costs increased across all products for two cost segments, rural carriers, and motor vehicle service.

For BPM Flats, while unit attributable cost increased overall in FY 2021, unit costs decreased for the city carrier delivery and transportation segments.

For BPM Parcels, unit attributable cost increased for most cost segments in FY 2021. The exceptions were to city carrier activities (in-office and street) and “all other,” which were primarily lower in FY 2021 due to lower window service costs. Vehicle service driver unit costs increased most substantially compared with FY 2020.

With reductions in mail processing, city carrier in-office, vehicle service driver, and “all other” unit costs, the unit attributable cost of Media Mail/Library Mail decreased in FY 2021. However, the cost of delivery activities increased, with city carrier delivery increasing 15.9 percent and rural delivery increasing 5.2 percent.

Table III-21
Package Services Percent Change in Average Unit Attributable Cost by Segment, FY 2021

	BPM Flats	BPM Parcels	Media Mail/ Library Mail
Mail Processing	20.0%	9.0%	(5.1%)
City Carrier In-Office	1.2%	(0.4%)	(16.0%)
City Carrier Street	(3.4%)	(13.1%)	15.9%
Vehicle Service Driver	1.4%	33.9%	(11.4%)
Rural Carriers	11.9%	13.2%	5.2%
Motor Vehicle Service	7.0%	3.3%	6.5%
Transportation	(9.4%)	18.3%	4.0%
All Other	9.4%	(67.0%)	(3.9%)
Total Attributable Cost	**8.4%**	**2.4%**	**(1.9%)**

Source: PRC derived from Postal Service CSC Report, FY 2020 and FY 2021.

Market Dominant Special Services

The Special Services class consists of 11 products: eight domestic products and three international products. Three Special Services products: Ancillary Services,[62] Address Management Services, and International Ancillary Services, include a number of distinct services.

Special Services include 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 by $27 million in FY 2021, though revenue for some products increased slightly. Most of the decline in revenue for Special Services was driven by a decrease in revenue from Certified Mail.

[62] 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-22

Market Dominant Ancillary Services and Special Services Revenue, FY 2020 and FY 2021

	Revenue			
	($ in Millions)		Increase or Decrease	% Change
	FY 2020	FY 2021		
Certified Mail	598	569	(29)	(4.9%)
COD	3	3	0	0.4%
Insurance	93	105	13	13.5%
Registered Mail	21	21	-	0.0%
Stamped Envelopes & Cards	13	12	(0)	(2.4%)
Other Ancillary Services	374	384	9	2.5%
Money Orders	153	147	(6)	(3.9%)
Post Office Box	298	299	1	0.4%
Other Services	159	143	(16)	(10.2%)
Total Services	**1,713**	**1,686**	**(27)**	**(1.6%)**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-23 shows that attributable cost for Special Services increased by $4 million in FY 2021. Although most services contributed to that increase, attributable costs for Insurance, Stamped Envelopes and Cards, and Other Services decreased significantly from FY 2020.

Table III-23

Market Dominant Ancillary Services and Special Services Attributable Cost, FY 2020 and FY 2021

	Attributable Cost ($ in Millions)			
	FY 2020	FY 2021	Increase or Decrease	% Change
Certified Mail	485	492	7	1.4%
COD	3	3	0	0.0%
Insurance	32	27	(5)	(14.7%)
Registered Mail	14	17	3	18.8%
Stamped Envelopes & Cards	10	9	(2)	(15.2%)
Other Ancillary Services	268	272	3	1.3%
Money Orders	157	166	9	6.0%
Post Office Box	130	137	6	4.8%
Other Services	71	51	(20)	(27.8%)
Total Services	**1,192**	**1,196**	**4**	**0.4%**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

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 167 Domestic Competitive NSA products in effect during FY 2021. 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 2021, there were also 482 International Outbound NSAs and 17 International Inbound NSAs.

Total Competitive product revenue increased 11.8 percent, or $3.6 billion, in FY 2021. Revenue increased across the board, including for categories that lost volume in FY 2021.

The products are grouped into several broad categories to facilitate comparisons. Table III-24 summarizes the FY 2021 changes in volume and revenue for Competitive products and services. Total volume for Competitive products increased in FY 2021, but less dramatically than at the onset of the COVID-19 pandemic. Postal Service FY 2021 Form 10-K at 20. Volume for Competitive products increased by 1.8 percent overall in FY 2021, but volume for ground parcels and International decreased. International volume decreased by 44.2 percent in FY 2021 due to the impact of the COVID-19 pandemic on the global economy, as well as significantly higher rates. *Id.* at 28. The decrease in ground parcels was minimal. Priority Mail, Priority Mail Express, and First-Class Package Service had double-digit percentage volume increases in FY 2021.

Total Competitive product revenue increased 11.8 percent, or $3.6 billion, in FY 2021. Revenue increased across the board, including for categories that lost volume in FY 2021. On a unit basis, for domestic Competitive products overall, revenue increased by approximately 12.6 percent.

Table III-24
Competitive Products Volume and Revenue, FY 2020 and FY 2021

	Mail Volume (Millions) FY 2020	Mail Volume (Millions) FY 2021	Mail Volume Increase or Decrease	Mail Volume % Change	Mail Revenue ($ in Millions) FY 2020	Mail Revenue ($ in Millions) FY 2021	Mail Revenue Increase or Decrease	Mail Revenue % Change
Priority Mail Express	24	29	5	19.1%	697	820	123	17.7%
First-Class Package Service	1,848	2,056	208	11.3%	6,228	7,388	1,161	18.6%
Priority Mail	1,262	1,394	133	10.5%	11,529	13,212	1,683	14.6%
Ground Parcels	3,584	3,546	(38)	(1.1%)	9,195	9,709	514	5.6%
International	413	230	(182)	(44.2%)	1,959	1,965	7	0.3%
Domestic Services					1,004	1,139	135	13.5%
Total Competitive	**7,130**	**7,256**	**125**	**1.8%**	**30,611**	**34,233**	**3,622**	**11.8%**

Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Table III-25 summarizes the FY 2021 changes in attributable cost. Total attributable cost for Competitive products increased 8.3 percent, or approximately $1.6 billion, in FY 2021. However, on a unit basis, attributable costs for Priority Mail and Priority Mail Express decreased in FY 2021 (1.6 percent and 6.7 percent, respectively). International unit cost increased substantially in FY 2021, by 65.7 percent.

Table III-25
Competitive Products Attributable Cost and Unit Attributable Cost, FY 2020 and FY 2021

	Attributable Cost ($ in Millions) FY 2020	Attributable Cost ($ in Millions) FY 2021	Attributable Cost Increase or Decrease	Attributable Cost % Change	Unit Attributable Cost (Cents per Piece) FY 2020	Unit Attributable Cost (Cents per Piece) FY 2021	Unit Attributable Cost Increase or Decrease	Unit Attributable Cost % Change
Priority Mail Express	280	312	31	11.2%	1,163	1,085	(78)	(6.7%)
First-Class Package Service	3,907	4,614	707	18.1%	211	224	13	6.1%
Priority Mail	8,284	9,006	722	8.7%	657	646	(11)	(1.6%)
Ground Parcels	4,693	4,791	99	2.1%	131	135	4	3.2%
International	1,451	1,343	(108)	(7.4%)	352	583	231	65.7%
Domestic Services	345	364	19	5.5%				
Total Competitive	**19,426**	**21,040**	**1,614**	**8.3%**	**272**	**290**	**18**	**6.4%**

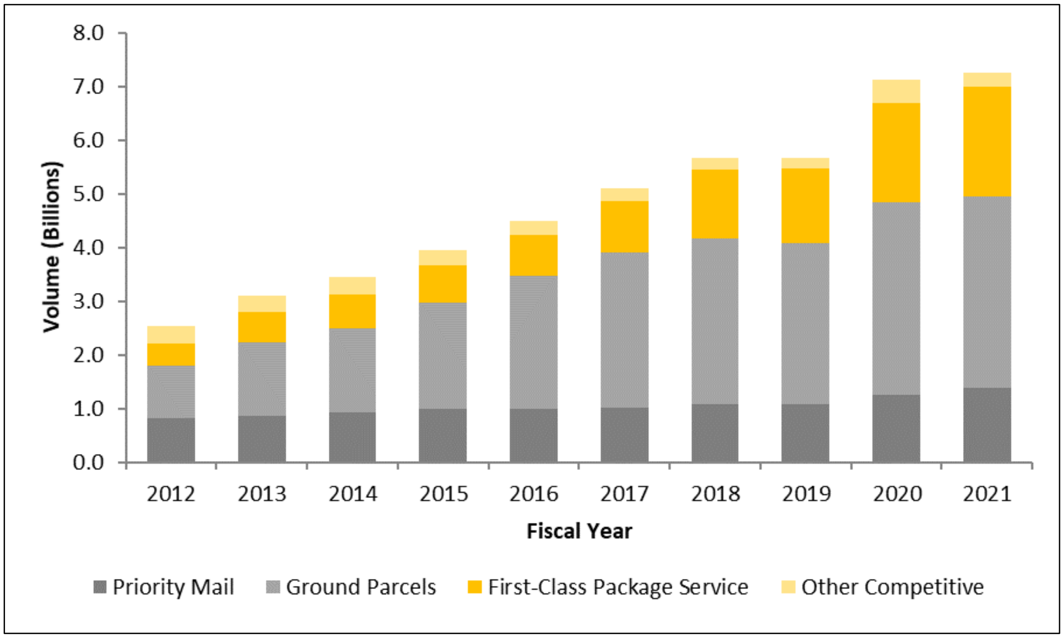
Negative values denoted by ().
Source: Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Trends in Competitive Products

After many years of significant increases, Competitive product volume grew only slightly in FY 2021. Figure III-16 highlights the growth in Competitive categories since FY 2012.[63] It illustrates the effect of the COVID-19 pandemic on Competitive volume over the last 2 years.

[63] 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.

Figure III-16
Competitive Products Volume by Category, FY 2012–FY 2021



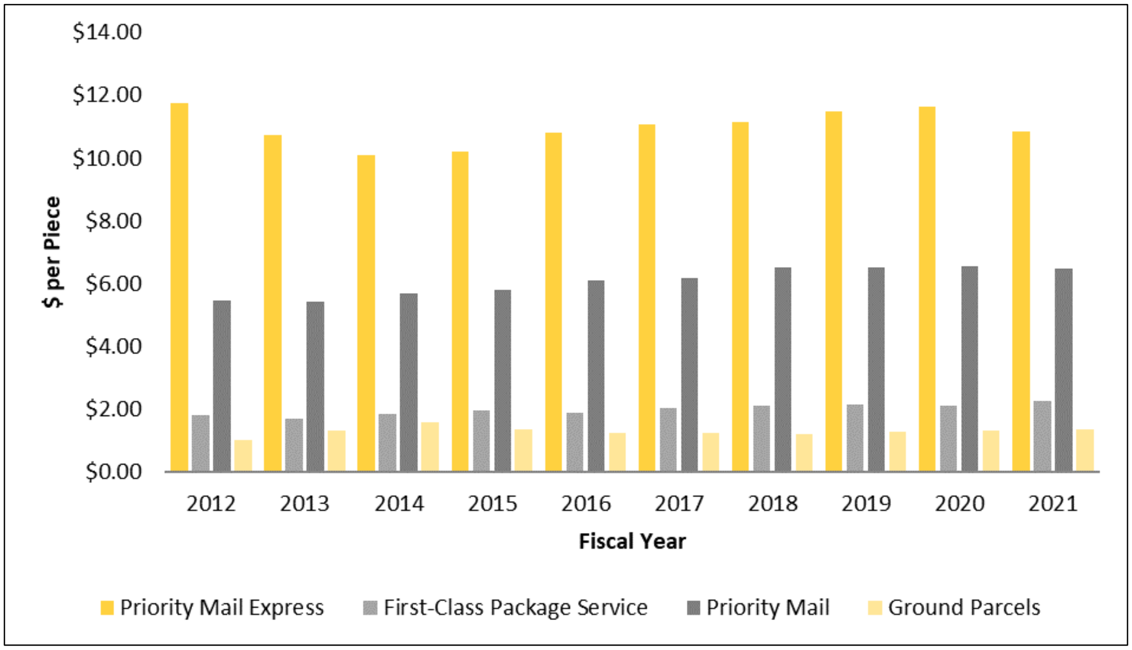
Source: FY 2012–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017-1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018-1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

The attributable cost of Competitive products has grown rapidly over the last decade and now comprises 43.5 percent of the 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.[64]

Figure III-17 shows the average unit attributable cost by category from FY 2012 to FY 2021. For each category, the unit attributable cost increased overall from 5 years ago. However, each category experienced both annual increases and decreases in unit attributable cost over that time.

[64] *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, Order Conditionally Granting Request to Transfer Parcel Post to the Competitive Product List, July 20, 2012 (Order No. 1411); Docket No. MC2015-7, Order Conditionally Approving Transfer, July 20, 2017 (Order No. 4009).

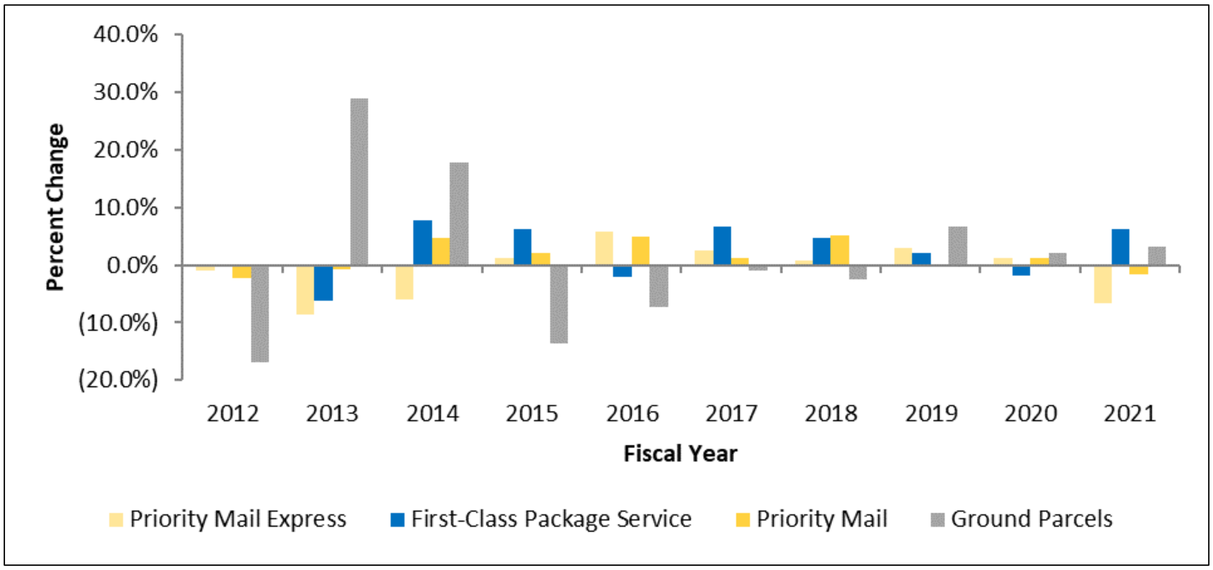
Figure III-17
Competitive Products Average Unit Attributable Cost by Category, FY 2012–FY 2021



Source: FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

Figure III-18 shows the percent change in average unit attributable cost by category from FY 2012 to FY 2021. In general, fluctuations in the average unit attributable cost of Competitive products have been smaller in the last 5 years than in the previous 5 years when a number of products were transferred from the Market Dominant to the Competitive product list.

Figure III-18
Competitive Products Percent Change in Average Unit Attributable Cost by Category, FY 2012–FY 2021



Source: FY 2012–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; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1; Library Reference PRC-LR-ACR2021-1.

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 operations impact these costs and how they impact total net income/loss. As stated in Chapter 2 (*see* Table II-4), the single largest cost for the Postal Service is employee salaries and benefits. This chapter contains a discussion of labor costs and workhours.

The basis of the analyses in this chapter are from reports filed by the Postal Service; the Cost and Revenue Analysis (CRA) Report; the Cost Segment and Components (CSC) Report; and payroll data.

Contribution Margin Income Statement

The contribution margin income statement distinguishes between the institutional and attributable costs of each cost segment. By bifurcating the costs from Chapter 2 into institutional and attributable cost categories, it aims to provide an alternative analysis 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. The sections below individually examine each component of the contribution margin income statement.

Contribution margin on the contribution margin income statement differs from the controllable loss on the Postal Service FY 2021 Form 10-K. Postal Service FY 2021 Form 10-K at 22. 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, actuarial revaluation of and discount rate changes on workers' compensation obligations, and retirement obligations.

Table IV-1 presents a high-level view of the contribution margin income statement, highlighting total attributable and institutional costs. From FY 2020 to FY 2021, total revenue and total attributable costs increased by 5.3 percent and 4.2 percent, respectively, and total institutional costs decreased by 6.5 percent.

Table IV-1

Condensed Contribution Margin Income Statement[65]

	FY 2020	FY 2021	FY 2021 over FY 2020	
			$ Change	% Change
Total Revenue	**$ 73,224**	**$ 77,068**	**$ 3,844**	**5.3%**
Total Attributable Costs	46,414	48,364	1,950	4.2%
Contribution Margin	26,809	28,704	1,894	7.1%
Total Institutional Costs	35,986	33,634	(2,352)	(6.5%)
Net Loss	**$ (9,176)**	**$ (4,930)**	**$ 4,246**	**(46.3%)**
Total All Mail and Services Volume (in Millions)	**129,184**	**128,895**	**(290)**	**(0.2%)**

Source: Postal Service CRA Report, FY 2020–FY 2021.

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[.]" 39 U.S.C. § 3622(c)(2). In Order No. 3506, the Commission revised the methodology for determining attributable cost to include inframarginal costs developed to estimate 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.

The Postal Service records costs, initially, as accrued costs. Accrued costs are separated into cost segments generally corresponding to major divisions in the Postal Service's chart of accounts. The use of various systems designed to break down the cost of various postal activities determines separation. Identifying cost drivers that reflect the essential activity of each cost component determines 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.[66]

After attributable costs are determined, the residual costs classify as institutional costs. Institutional costs cannot be attributed to specific products or services and are equal to total costs minus total attributable costs. While sometimes referred to as "fixed cost," institutional cost is more accurately characterized as "common cost" because it includes costs that are variable but not causally related to an individual product or class.

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

[66] 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.

Institutional costs include costs for carrier network travel time, amortization of RHB unfunded liability, amortization of CSRS unfunded liability apportioned to prior years, and various administrative costs.

In FY 2020 and FY 2021, the Postal Service generated a positive contribution after subtracting all attributable costs from revenue. However, total institutional cost exceeded the contribution amount leading to a net loss in both years. Between FY 2020 and FY 2021, the net loss decreased by 46.3 percent. Total volume declined 0.2 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.

Between FY 2020 and FY 2021, the net loss decreased by 46.3 percent. Total volume declined 0.2 percent during that same period.

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, largely driven by inflation.

To better understand the increase in institutional cost in FY 2021, the Commission analyzes individual cost segment changes. Table IV-2 presents the underlying changes in institutional cost by year, beginning in FY 2017. From FY 2017 through FY 2019 and in FY 2021, the largest changes have been in workers' compensation. In FY 2020, the impact of the COVID-19 pandemic on institutional costs is seen in city carrier costs. City carrier street delivery costs increased overall, costs for letter route street time decreasing, and costs for Special Purpose Routes increasing.[67] This outcome is consistent with the change in volume and the product mix because package volume, which is more likely to be delivered by special purpose routes, has increased during the pandemic, and packages as a share of total mail have increased as well.

[67] *See* Docket No. ACR2020, Library Reference USPS-FY20-32, Folder "B Workpapers", Excel file "CS06&7-Public-FY20," tab "6.0.3," December 29, 2020; Docket No. ACR2019, Library Reference USPS-FY19-32, December 27, 2019.

Table IV-2

Change in Other Cost by Segment, FY 2017–FY 2021 ($ in Millions)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Annuitant Health Benefits	$ (4,914)	$ 14	$ 9	$ 71	$ 255
CSRS Supplemental Liability	1,550	(270)	204	225	64
City Carriers	(95)	167	157	227	367
Rural Carriers	165	187	218	179	284
FERS Supplemental Liability	669	42	102	283	57
Transportation	580	99	112	92	142
Supplies and Services	74	3	(35)	188	16
Clerks and Mailhandlers	35	54	(25)	39	147
Other	405	(435)	349	422	(8)
Subtotal	**$ (1,531)**	**$ (140)**	**$ 1,091**	**$ 1,725**	**$ 1,323**
Workers' Compensation	(3,420)	1,002	3,495	(657)	(3,431)
Total Change	**$ (4,951)**	**$ 862**	**$ 4,585**	**$ 1,069**	**$ (2,108)**

Source: Postal Service CSC Report, FY 2017–FY 2021.

To further understand the cost changes that contribute to the Postal Service's net loss, Table IV-3 breaks out both volume variable and product-specific costs and other costs by cost segment. The term "other cost" is derived from the Cost Segment and Component Report and refers to the residual cost remaining after the subtraction of volume variable and product-specific costs from total accrued cost for a cost segment or component. Prior to Order No. 3506, the sum of "other costs" was equal to institutional costs, but "other costs" include inframarginal costs and group-specific costs that are now attributable. It is still the case that most "other costs" are institutional (and most institutional costs are "other costs"), so analysis of them provides insights into the composition and behavior of institutional costs.

Table IV-3
Contribution Margin Income Statement, FY 2020 and FY 2021 ($ in Millions)

	FY 2020	FY 2021	FY 2021 over FY 2020	
			$ Change	% Change
Total Revenue	**$ 73,224**	**$ 77,068**	**$ 3,844**	**5.3%**
Volume Variable and Product Specific Costs:				
Postmasters	$ 302	$ 308	$ 6	2.0%
Supervisors and Technicians	1,954	1,963	8	0.4%
Clerks and Mailhandlers	12,520	13,016	496	4.0%
City Delivery Carriers – Office Activity	3,424	3,384	(41)	(1.2%)
City Delivery Carriers – Street Activity	4,949	5,168	220	4.4%
Vehicle Service Drivers	516	552	36	7.1%
Rural Carriers	3,176	3,363	187	5.9%
Custodial and Maintenance Services	2,165	2,115	(50)	(2.3%)
Motor Vehicle Service	614	667	53	8.7%
Miscellaneous Local Operations	308	313	5	1.6%
Purchased Transportation	7,004	7,702	697	10.0%
Building Occupancy	1,489	1,517	28	1.9%
Supplies and Services	1,524	1,494	(30)	(2.0%)
Research and Development	0	0	0	n/a
Servicewide Personnel Benefits and HQ/Area Operations	3,193	3,336	142	4.5%
General Management Systems	0	0	(0)	(45.1%)
Other Accrued Expenses (Servicewide)	1,446	1,394	(52)	(3.6%)
Total Volume Variable and Product Specific Costs	**$ 44,585**	**$ 46,291**	**$ 1,706**	**3.8%**
Contribution Margin	**$ 28,639**	**$ 30,778**	**$ 2,139**	**7.5%**
Other Costs:				
Postmasters	$ 1,418	$ 1,446	$ 28	2.0%
Supervisors and Technicians	1,611	1,583	(29)	(1.8%)
Clerks and Mailhandlers	2,743	2,889	147	5.4%
City Delivery Carriers – Office Activity	497	469	(29)	(5.8%)
City Delivery Carriers – Street Activity	8,434	8,829	395	4.7%
Vehicle Service Drivers	338	361	24	7.1%
Rural Carriers	5,639	5,923	284	5.0%
Custodial and Maintenance Services	1,080	1,104	24	2.3%
Motor Vehicle Service	1,023	1,107	84	8.3%
Miscellaneous Local Operations	311	470	159	51.1%
Purchased Transportation	1,809	1,951	142	7.8%
Building Occupancy	613	588	(25)	(4.0%)
Supplies and Services	1,805	1,821	16	0.9%
Research and Development	18	15	(3)	(15.7%)
Servicewide Personnel Benefits and HQ/Area Operations	9,829	6,549	(3,280)	(33.4%)
General Management Systems	15	12	(3)	(18.6%)
Other Accrued Expenses (Servicewide)	633	589	(44)	(7.0%)
Total Other Costs	**$ 37,815**	**$ 35,707**	**$ (2,108)**	**(5.6%)**
Total Costs	**$ 82,400**	**$ 81,998**	**$ (402)**	**(0.5%)**
Net Loss	**$ (9,176)**	**$ (4,930)**	**$ 4,246**	**(46.3%)**
Total All Mail and Services Volume (in Millions)	**129,184**	**128,895**	**(290)**	**(0.2%)**

Source: Postal Service CSC Report, FY 2020 and FY 2021.

As seen in Table IV-3, certain cost segments show large absolute increases from FY 2020. The three largest absolute changes from the prior year, which occur in the cost segments for Servicewide Personnel Benefits and HQ/Area Operations, Purchased Transportation, and Clerks and Mailhandlers, are discussed below.

Servicewide Personnel Benefits and HQ/Area Operations consists of compensation and benefits costs of Headquarters, Field Service Units, Inspection Service, Security Force, Area Offices; and service-wide personnel expenses that are not reported by employee category, such as supplemental costs of CSRS, Postal Retirees Health Benefits Fund (PRHBF), FERS Supplemental Liability and workers' compensation. The decrease in Component 0486 (Workers' Compensation) largely accounted for the decrease in this cost segment. The bulk of costs in this component consists of the discounted present value of current and projected payments for employee claims against the Postal Service resulting from current year workplace injuries (Subcomponent 531 Workers' Compensation – Current Year) and changes in discount rates and/or changes in actuarial valuation of injuries occurring in past years (Subcomponent 205 Workers' Compensation Prior Year). The number of employees directly influences changes in the amount of current year workers' compensation expenses.

Accordingly, current year workers' compensation costs are considered volume variable to the same degree as total labor costs. The prior year's workers' compensation costs are not related to mail volume in the current fiscal year. Thus, they are treated as institutional costs. The Workers' Compensation liability calculation is highly sensitive to changes in discount rates. The 0.7 percent increase in the discount rate to calculate compensation claims and medical claims[68] from the prior fiscal year decreased the September 30, 2021 liability and related expense by approximately $3.6 billion. *Id.* at 42.

Purchased Transportation consists of the costs of contracted air, trucking, rail, and water transportation. Six components comprise this cost segment: Domestic Air (Component 142), Domestic Alaska Air (Component 681), Highway (Component 143), Railroad (Component 144), Domestic Water (Component 145), and International (Component 146). The largest portion of the increase from FY 2020 occurred in Domestic Air and Highway. Total accrued costs in these components increased by 4.3 percent and 14.2 percent, in contrast to the increase from the prior year when Domestic Air increased by 13.3 percent while Highway increased by 5.3 percent. The Postal Service explains[69] that an increase in the number of highway miles driven, the use of more expensive chartered flights when the COVID-19 pandemic limited commercial air carrier availability in the earlier part of the

[68] Postal Service FY 2021 Form 10-K at 81.

[69] *Id.* at 43.

year, and the shift of package volume from air to highway transportation resulted in comparatively higher Domestic Air and Highway costs.

Table IV-4 shows the percentage change from the prior-year quarter in accrued Domestic Air and Domestic Highway costs. The third and fourth quarters, which historically have been lower than the first two quarters, increased significantly in FY 2020 over FY 2019, resulting from the surge in shipping and packages volume, the use of chartered flights, and an increase in the number of highway miles driven. Postal Service FY 2020 Form 10-K at 11, 12. The Postal Service explains that the continued use of chartered flights during the first half of FY 2021 resulted in comparatively higher air transportation costs and the change in the mode of transporting packages from air to highway towards the second half of the year resulted in comparatively higher highway costs. Postal Service FY 2021 Form 10-K at 43.

Table IV-4
Percent Change from Same Period Last Year (SPLY) in Purchased Transportation Accrued Cost FY 2020 and FY 2021

	FY 2020 over FY 2019 Percent Change from SPLY				FY 2021 over FY 2020 Percent Change from SPLY			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Domestic Air	(4.5%)	3.9%	20.3%	34.3%	13.7%	18.4%	(4.4%)	(6.1%)
Domestic Highway	7.3%	(1.7%)	7.3%	7.8%	7.2%	16.7%	16.2%	18.5%
Purchased Transportation Total Cost	**2.4%**	**0.4%**	**10.8%**	**18.9%**	**8.5%**	**16.7%**	**8.4%**	**5.2%**

Source: PRC derived from Docket No. ACR2020, Library Reference USPS-FY20-32, tab "Input-Costs," Docket No. ACR2021, Library Reference USPS-FY20-32, tab "Input-Costs."

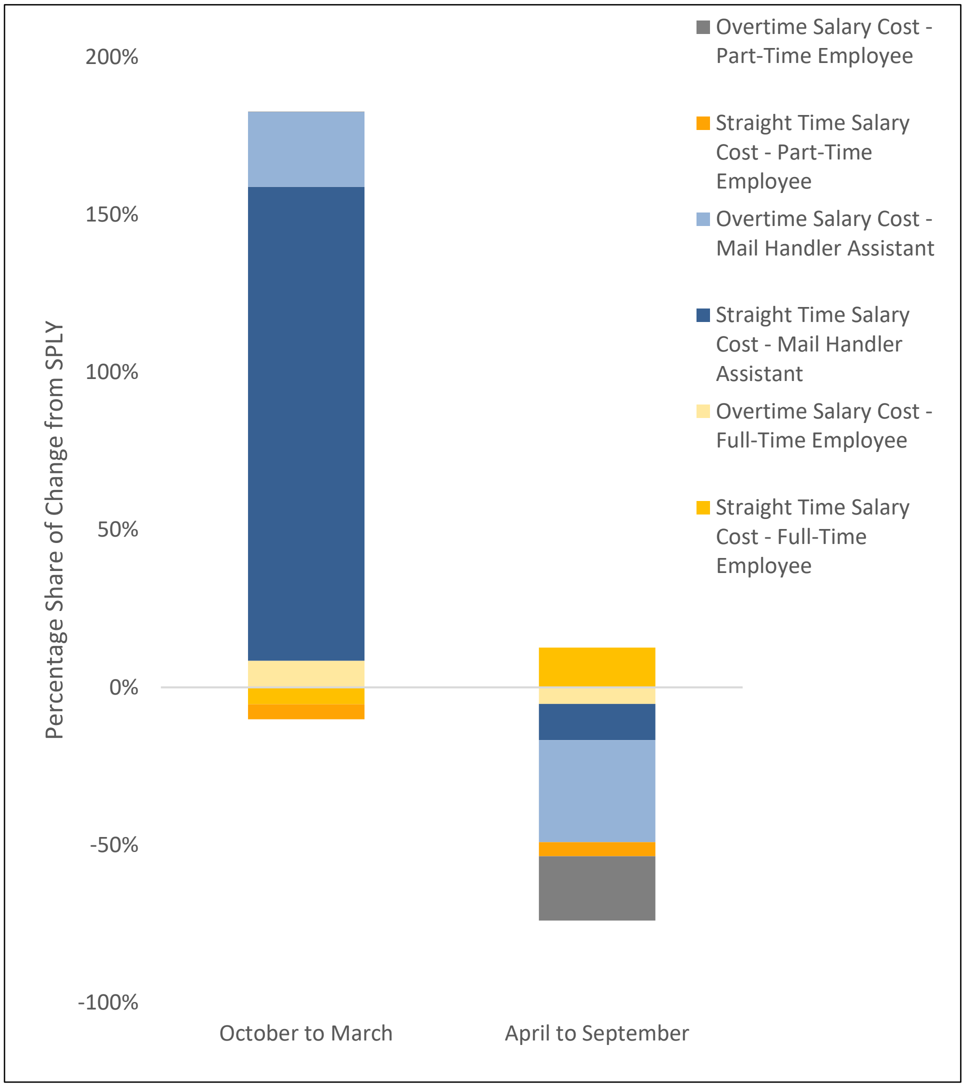
Clerks and mailhandlers consist of compensation and benefits costs of clerks and mailhandlers working at postal facilities and include mail processing, window services, and administrative and support activities. Whereas clerk work occurs in all component groups in this segment, mailhandler work is mainly mail processing work and involves loading, unloading, and moving mail. The bulk of costs in this cost segment are in Component 0035 (Mail Processing), Component 0040 (Window Service), and Component 00476 (Administrative Clerks). The largest portion of the increase in FY 2021 in this cost segment occurred in total accrued cost for Mail Processing, increasing 4.6 percent, the highest increase over a prior year in a decade. Costs in this component are fully volume variable with small portions classified as non-volume variable. The Postal Service explains that the increase in costs from FY 2020 is a product of "increased work hours, contractual wage increases, and costs associated with general inefficiencies in the workplace…." *Id.* at 30.

To analyze the effect of the pandemic on Cost Segment 3 compensation, Figures IV-1 and IV-2 break down the share of Cost Segment 3 total compensation percentage increase from

SPLY by type of craft, type of employee, and type of compensation for each half of FY 2021. As shown in Figures IV-1 and IV-2, during the first half of FY 2021, the largest percentage share of the total compensation increase from SPLY was in the non-career employee categories; Mailhandler Assistants and Clerk PSE. Compared to SPLY, the share of these non-career employees' straight-time salary and overtime costs increased in the first half of FY 2021 and decreased in the latter half of the year. The Postal Service explains that in the first half of the year, the surge in e-commerce and a record holiday season lasting through January 2021, combined with a high level of employee absenteeism,[70] resulted in additional employees and workhours to process the surge in packages. Postal Service FY 2021 Form 10-K at 21. As shown in Figures IV-2 and IV-3, the share of the increase in total Cost Segment 3 compensation from SPLY has decreased in the latter half of the year. The Postal Service notes that the surge has begun to abate as the economy begins to recover.

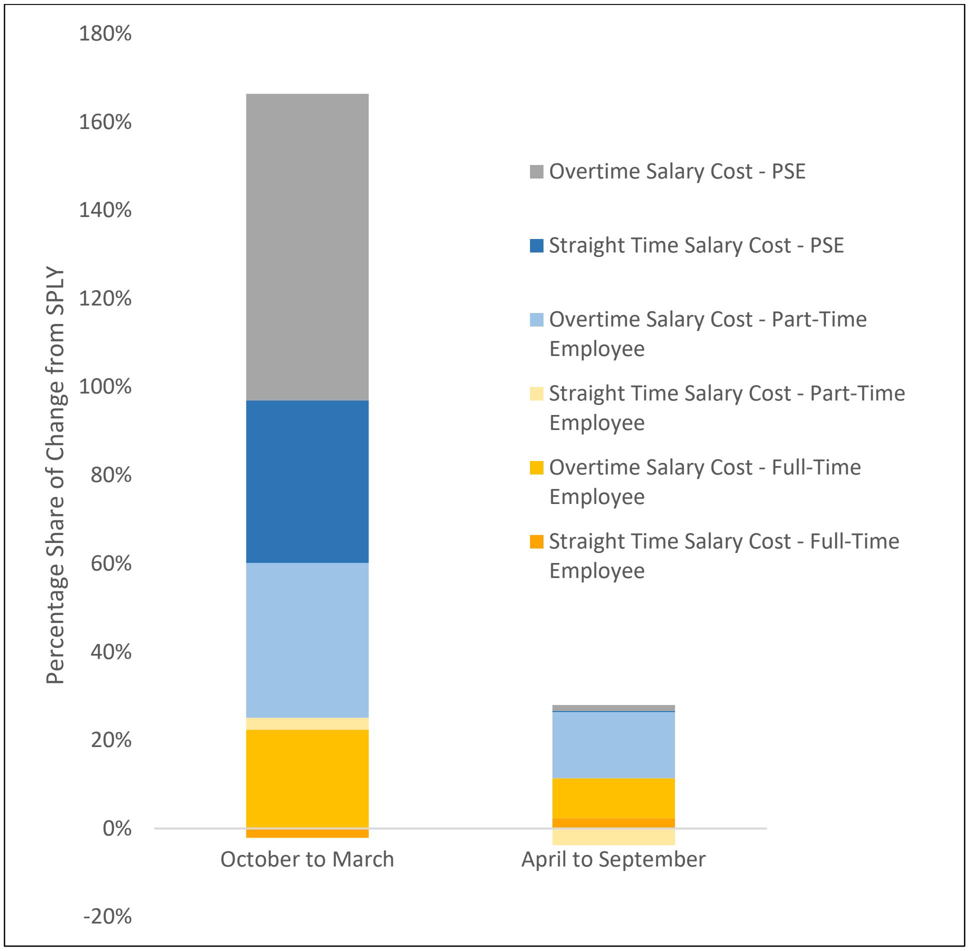
[70] Library Reference USPS-FY21-17, December 29, 2021, at 35 (*FY 2021 Annual Report*).

Figure IV-1
Share of Change in Mailhandler Compensation from Prior Year, FY 2021



Source: PRC derived from National Payroll Hours Summary Report, Pay Period 20, 2021, September 2021, October 1, 2021; National Payroll Hours Summary Report, Pay Period 20, 2020, October 7, 2020.

Figure IV-2
Share of Change in Clerks Compensation from Prior Year, FY 2021

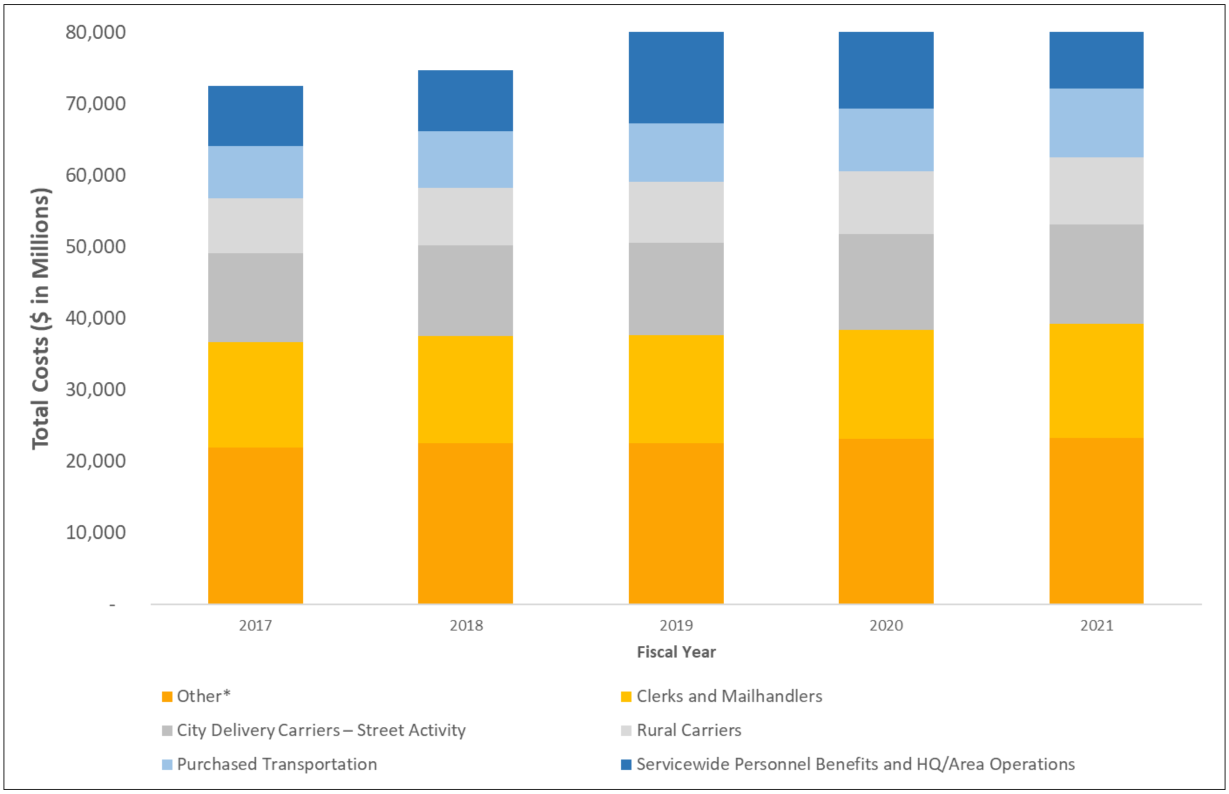


Source: PRC derived from National Payroll Hours Summary Report, Pay Period 20, 2021, September 2021, October 1, 2021; National Payroll Hours Summary Report, Pay Period 20, 2020, October 7, 2020.

Analysis of Cost Segments

The majority of the Postal Service's costs are concentrated in five cost segments (CS): Clerks and Mailhandlers (CS3), City Delivery Carriers – Street Activity (CS7), Rural Carriers (CS10), Purchased Transportation (CS14), and Servicewide Personnel Benefits and HQ/Area Operations (CS18). *See* Table IV-2.

Figure IV-3
Share of Total Costs by Major Cost Segment, FY 2017–FY 2021



* 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 2017–FY 2021.

From FY 2017 to FY 2021, the rate of growth in total costs in these five cost segments (16.2 percent) was higher than the rate of growth in the Postal Service's total costs (13.2 percent).

Table IV-5 shows the share of costs that are "other costs" for each cost segment. For three out of the five cost segments identified in Figure IV-4, more than 60 percent of total costs are "other costs."

Table IV-5
Other Cost Share of Total Costs, FY 2017–FY 2021

Cost Segments		Other Costs Share of Total Accrued Costs				
		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
CS1	Postmasters	82.4%	82.4%	82.4%	82.4%	82.4%
CS2	Supervisors and Technicians	45.7%	45.9%	45.5%	45.2%	44.6%
CS3	**Clerks and Mailhandlers**	18.0%	18.2%	18.0%	18.0%	18.2%
CS6	City Delivery Carriers – Office Activity	16.2%	16.5%	16.6%	12.7%	12.2%
CS7	**City Delivery Carriers – Street Activity**	63.1%	62.3%	62.2%	63.0%	63.1%
CS8	Vehicle Service Drivers	39.6%	39.6%	39.6%	39.6%	39.6%
CS10	**Rural Carriers**	65.6%	64.9%	64.1%	64.0%	63.8%
CS11	Custodial and Maintenance Services	31.9%	31.9%	26.4%	33.3%	34.3%
CS12	Motor Vehicle Service	61.8%	61.0%	61.5%	62.5%	62.4%
CS13	Miscellaneous Local Operations	54.2%	59.2%	53.8%	50.3%	60.1%
CS14	**Purchased Transportation**	20.8%	20.4%	21.0%	20.5%	20.2%
CS15	Building Occupancy	29.3%	29.0%	29.1%	29.2%	27.9%
CS16	Supplies and Services	51.3%	50.8%	52.5%	54.2%	54.9%
CS17	Research and Development	99.9%	100.0%	100.0%	100.0%	99.6%
CS18	**Servicewide Personnel Benefits and HQ/Area Operations**	63.3%	64.1%	76.0%	75.5%	66.3%
CS19	General Management Systems	100.0%	99.9%	99.9%	99.5%	99.7%
CS20	Other Accrued Expenses (Servicewide)	27.9%	28.3%	30.2%	30.4%	29.7%

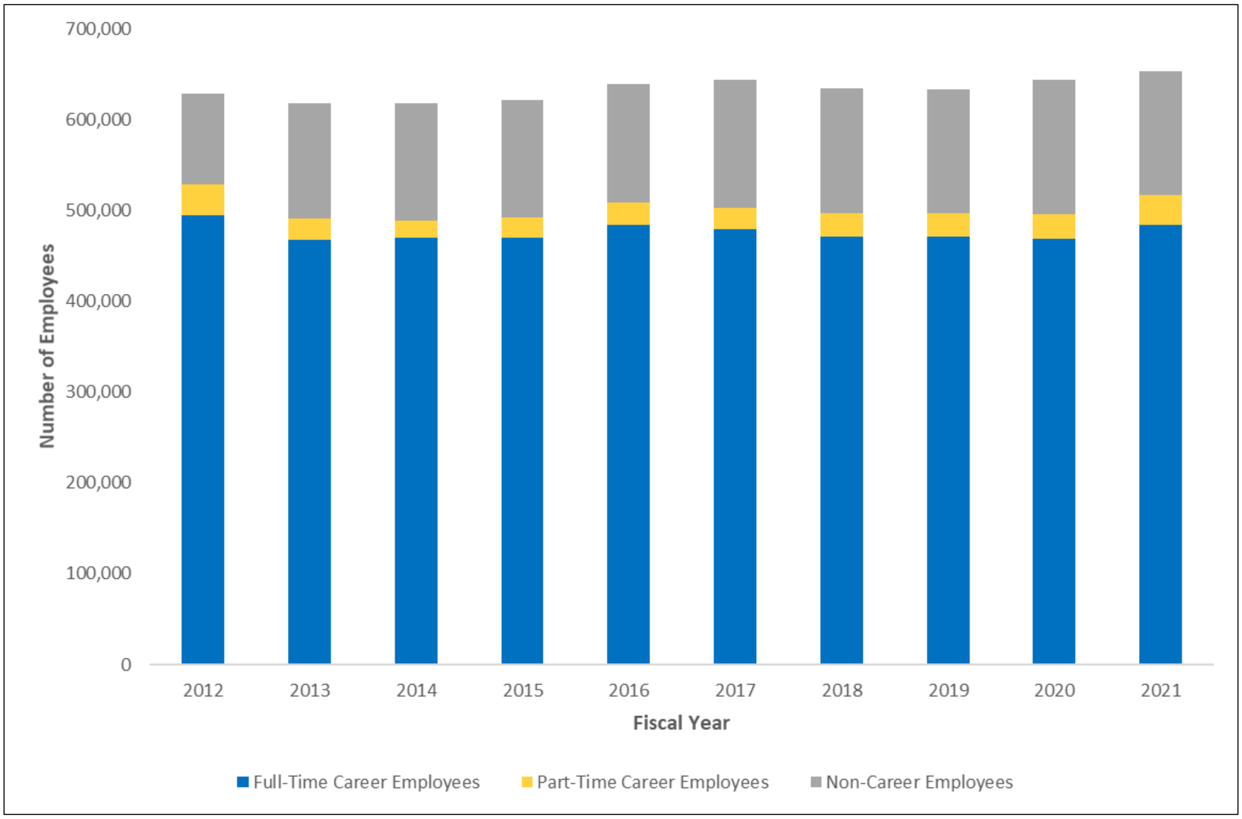
Source: Postal Service CRA Report, FY 2017–FY 2021.

Analysis of Employee Labor Cost

Employee labor costs, including compensation and benefits, are 75.7 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 2012–FY 2021), the Postal Service has reduced its full-time and part-time workforce by approximately 12,000 employees and added approximately 36,000 non-career employees. *See* Figure IV-4.

Over the past decade (FY 2012–FY 2021), the Postal Service has reduced its full-time and part-time workforce by approximately 12,000 employees and added approximately 36,000 non-career employees.

Figure IV-4
Breakdown of Workforce, FY 2012–FY 2021

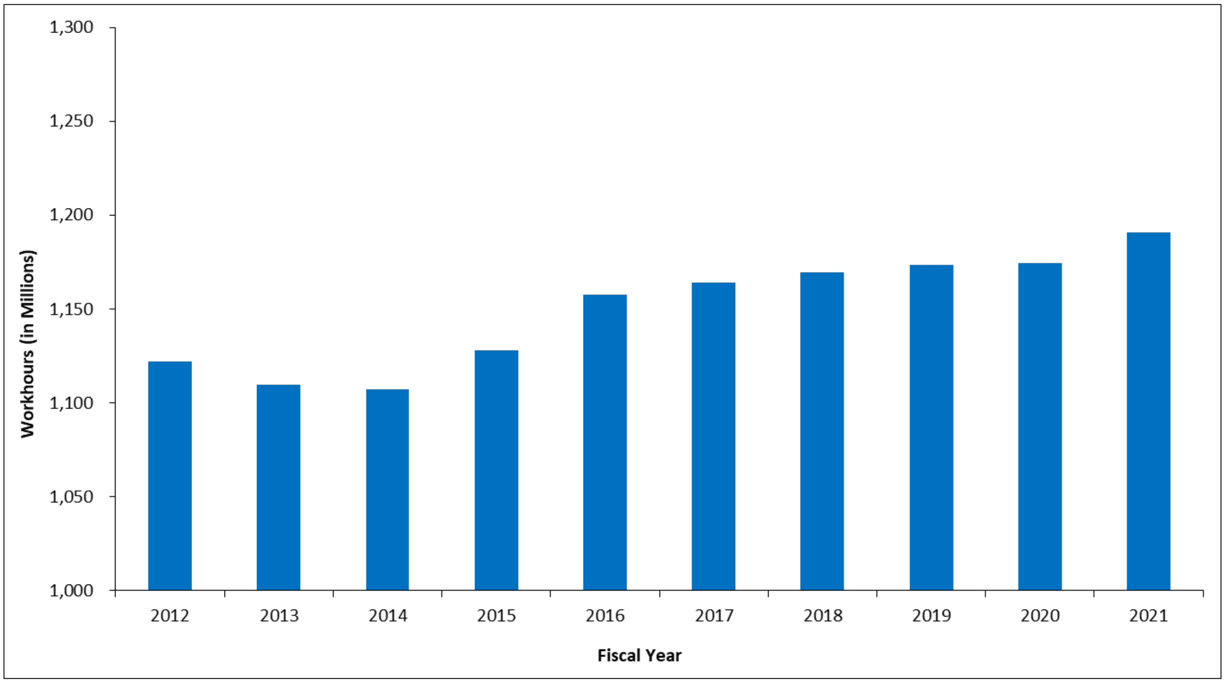


Source: Postal Service September 2021 ORPES Report; Postal Service September 2020 ORPES Report; Postal Service September 2019 ORPES Report; Postal Service September 2018 ORPES Report; Postal Service September 2017 ORPES Report; United States Postal Service, On-Roll and Paid Employee Statistics Report, 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.

During FY 2021, workhours increased 1.4 percent compared to the prior year, the highest annual rate in the past 5 years.

From FY 2012 to FY 2014, the Postal Service reduced workhours each year. That trend changed in FY 2015, and workhours have generally been increasing since then. In FY 2015 and FY 2016, workhours increased by 1.9 percent and 2.6 percent, respectively. Since FY 2016, workhours have been increasing at a slower pace, at 0.5 percent or lower each year until the current fiscal year. During FY 2021, workhours increased 1.4 percent compared to the prior year, the highest annual rate in the past 5 years. Figure IV-5 depicts annual workhours during the past 10 years.

Figure IV-5
Total Workhours ($ in Millions), FY 2012–FY 2021



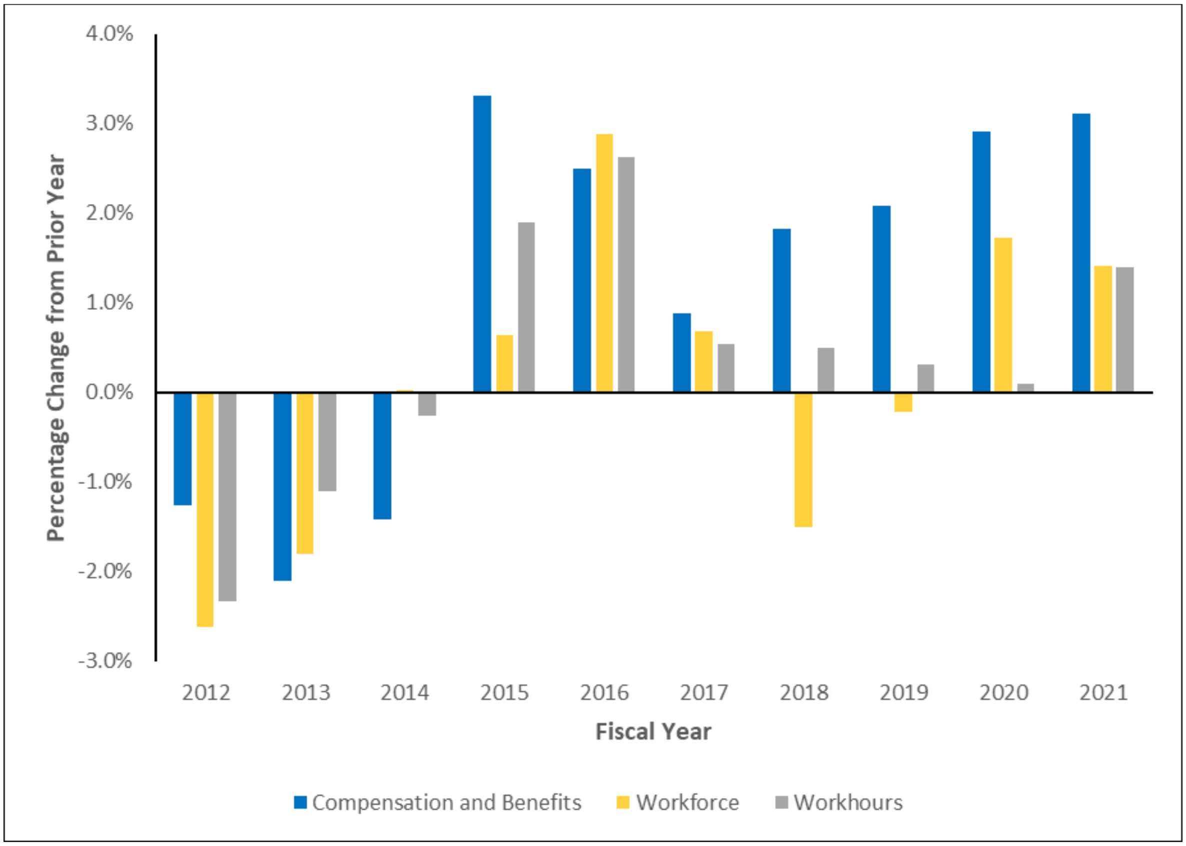
Source: Docket No. ACR2021, Library Reference USPS-FY21-17, compressed folder "FY21.17.Annual Report.zip", File folder "TFP Materials," Excel file "Table Annual 2021 ACR (Public).xls" Postal Service FY 2021 TFP, tab "Lab-13b.", December 29, 2021.

As illustrated in Figure IV-6, the Postal Service reduced its workforce and workhours from FY 2012 to FY 2014. 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 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 overtime hours of 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.

The cost of compensation and benefits spiked in FY 2015. 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 workforce, a slight increase (0.6 percent) in career employees, and contractually obligated salary escalations during FY 2015 resulted in higher compensation and benefits costs. Retirement expenses during FY 2015 increased 12.5 percent, primarily due to increases in the FERS employer contribution rate from 11.9 percent to 13.2 percent. Compensation and benefits have continued to grow since FY 2017.

Although there was a reduction in the workforce in FY 2018 and FY 2019, workhours and compensation, and benefits costs continued to increase.

Figure IV-6
Percent Change from Prior Year in Compensation and Benefits, Workforce and Workhours, FY 2012–FY 2021



Source: Postal Service FY 2021 Form 10-K at 30; Postal Service FY 2020 Form 10-K at 34, 31; United States Postal Service, 2019 Report on Form 10-K, November 14, 2019, at 25(Postal Service FY 2019 Form 10-K); United States Postal Service, 2016 Report on Form 10-K, November 28, 2016, at 20 (Postal Service FY 2016 Form 10-K); United States Postal Service, 2013 Report on Form 10-K, November 15, 2013, at 28 (Postal Service FY 2013 Form 10-K); Docket No. ACR2021, Library Reference USPS-FY21-17, compressed folder “FY21.17.Annual Report.zip”, File folder “TFP Materials,” Excel file “Table Annual 2021 ACR (Public).xls” Postal Service FY 2021 TFP, tab "Lab-13b.", December 29, 2021; Docket No. ACR2020, Library Reference USPS-FY20-17, .compressed folder “FY20.17.Annual Report.zip”, Excel file “TFP Table Annual 2020 ACR Public.xls”, tab "Lab-13b.", December 29, 2020 Postal Service September 2021 ORPES Report; Postal Service September 2020 ORPES Report; 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.

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 because the Postal Service does not cover health benefit premiums for non-career employees or 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 the 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 1.5 percent and 0.2 percent, respectively, reflecting normal attrition as the Postal Service aligned 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 cost 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.

In FY 2020 and FY 2021, compensation and benefits cost increased by 2.5 percent and 2.8 percent, respectively. Compared to prior years, in FY 2020 and FY 2021, compensation increased 2.6 percent and 2.7 percent, retirement expenses increased 6.0 percent and 6.7 percent, and health benefits increased 1.3 percent and 1.2 percent, respectively. Drivers of the compensation increase were contractual wage increases, higher overtime hours, and training of new hires. In FY 2020 and FY 2021, Postal Service contributions for social security, TSP, FERS, and FERS-Further Revised Annuity Employees' normal cost and average FEHB premium increased consistent with increases in compensation.

In FY 2020 and FY 2021, the postal workforce increased by 1.7 percent and 1.4 percent. In FY 2020, total workhours slightly increased by 0.1 percent, with an increase in overtime workhours of approximately 13 million, offsetting a decrease of straight-time hours of approximately 12 million. In FY 2021, total workhours increased by 1.4 percent, with an increase in overtime workhours of approximately 23 million, offsetting a decrease of straight-time hours of approximately 7 million.

The total postal workforce increased in FY 2020 and FY 2021 due to conversions of non-career employees to full-time career employees and the hiring of additional casual employees to handle higher shipping volume.

COVID-19 Pandemic Impact on Postal Finances

This section examines the impact of the COVID-19 pandemic on revenue, volume, and compensation in FY 2021. Figure IV-7 below compares FY 2021 mail revenue by quarter to the SPLY to illustrate the effect of the pandemic on annual mail revenue and volume.

During the first half of FY 2021, Market Dominant revenue was lower and Competitive products revenue higher compared to SPLY, which corresponds with the period before the onset of the pandemic.

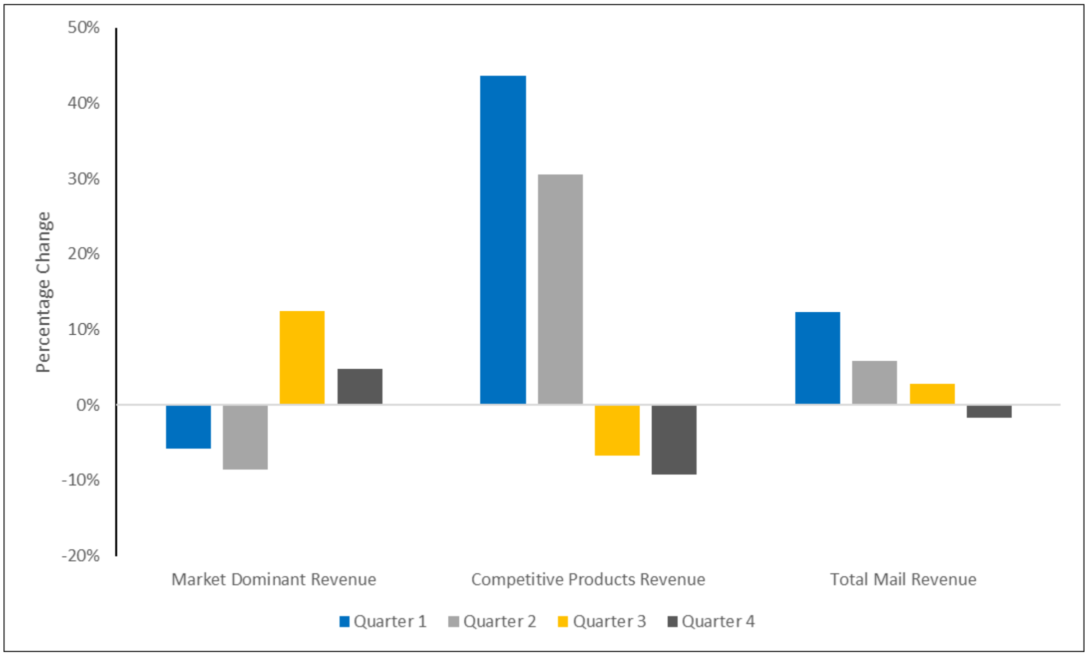
Beginning in late March 2020, the effects of the pandemic were seen in mail revenue and volume as businesses operated at limited capacity and reduced their advertising costs.[71] Market Dominant revenue declined significantly. *Id.* During the same period, Competitive products revenue grew substantially[72] from a surge in e-commerce caused by travel restrictions. As seen in Figure IV-7, during the first half of FY 2021, Market Dominant revenue was lower and Competitive products revenue higher compared to SPLY, which corresponds with the period before the onset of the pandemic. Postal Service FY 2020 Form 10-K at 21.

In the second half of FY 2021, the effect of a recovering U.S. economy and the diminishing impact of the pandemic resulted in increases in Marketing Mail revenue, a slower decline in First-Class Mail revenue, and a decrease in Competitive products revenue. As seen in Figure IV-7, in Quarters 3 and 4, compared to SPLY, Market Dominant revenue grew, and Competitive products revenue declined. Postal Service FY 2021 Form 10-K at 20, 21. In FY 2021, revenue from Competitive products exceeded First-Class Mail revenue. *Id.* at 23.

[71] United States Postal Service, Form 10-Q Quarter III FY 2020 , August 7, 2020, at 31 (Postal Service FY 2020 Form 10-Q)

[72] Postal Service FY 2021 Form 10-K at 20.

Figure IV-7
Growth in Mail Revenue by Quarter, FY 2021 compared to SPLY

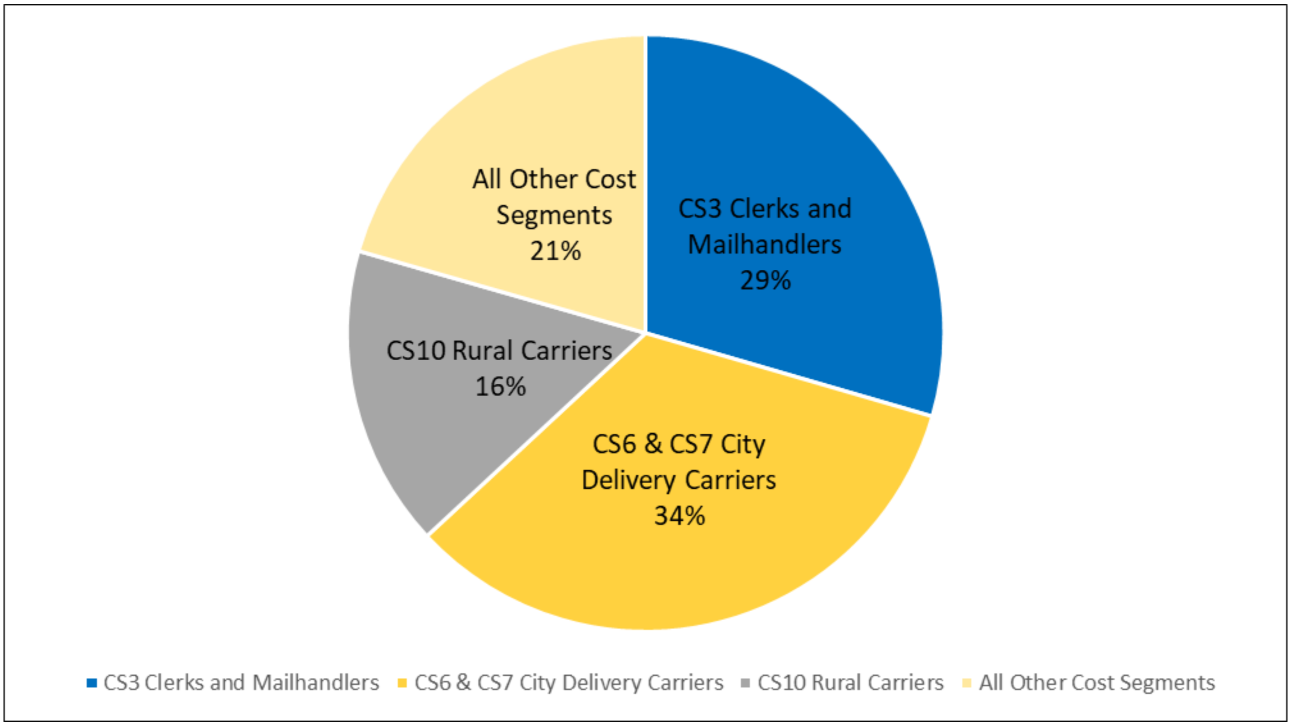


Source: Postal Service RPW Report, FY 2020 and FY 2021.

This section examines changes in compensation in FY 2021 across the three cost segments where labor costs are highest by comparing compensation costs (salary before benefits) in FY 2021 to the prior year.

Four Cost Segments account for almost 80 percent of total compensation costs: CS6 & 7 City Delivery Carriers (in-office and street), CS3 Clerks and Mailhandlers, and CS10 Rural Carriers.

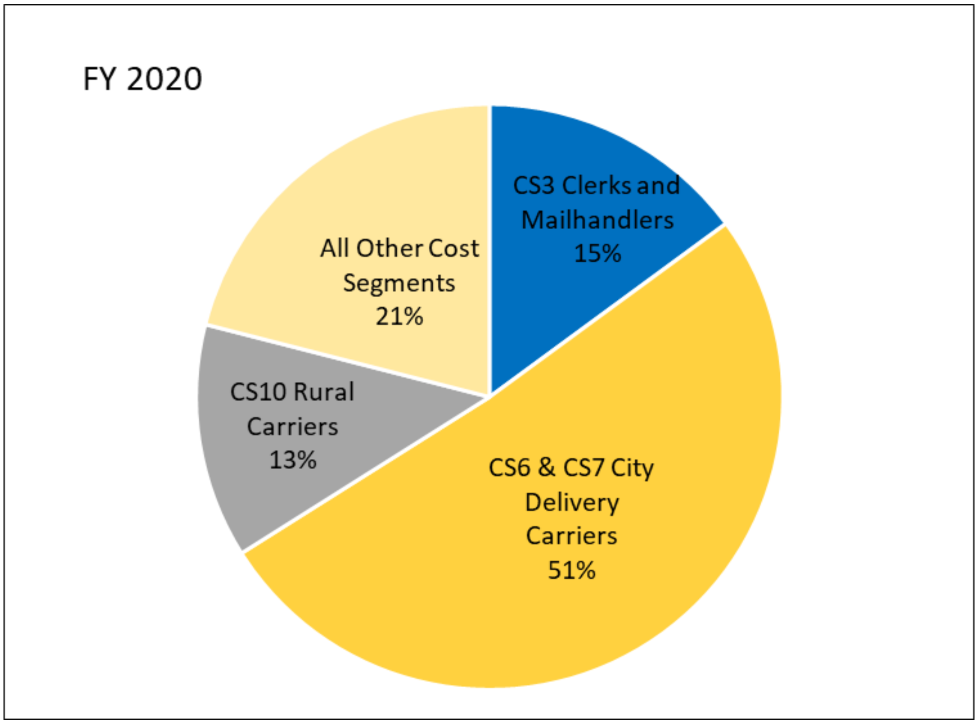
Figure IV-8
Cost Segment Share of Total Compensation Cost, FY 2021

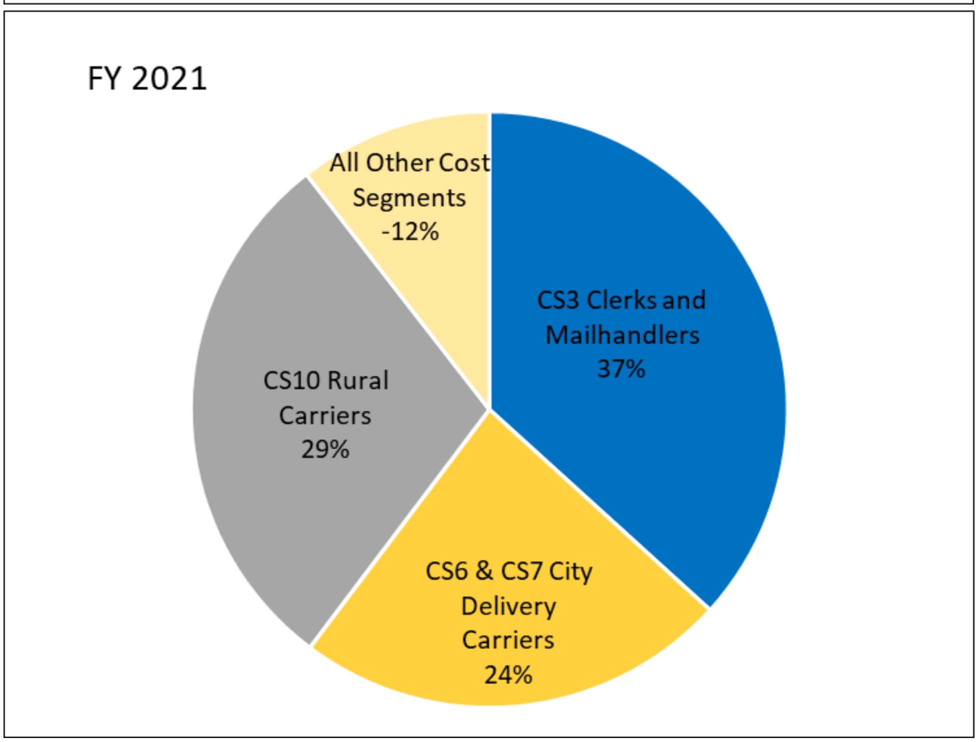


Source: PRC derived from Docket No. ACR2021, Library Reference USPS-FY21-7, Excel file "Wkyrcalc.xls," tab "Calculations."

Total compensation cost increased by 2.7 percent in FY 2021, a 0.1 percent increase from the previous fiscal year's cost growth rate. Postal Service FY 2020 Form 10-K at 30. Figure IV-9 presents the relative shares of the growth in compensation for FY 2020 and FY 2021. This shows how each cost segment's share of the total growth rate changed significantly from the prior year. Notably, the share of growth in Clerks and Mailhandlers and Rural Carriers doubled, and City Delivery Carriers decreased by half.

Figure IV-9
Cost Segment Shares of Growth Rate of Total Compensation Cost, FY 2020-FY 2021





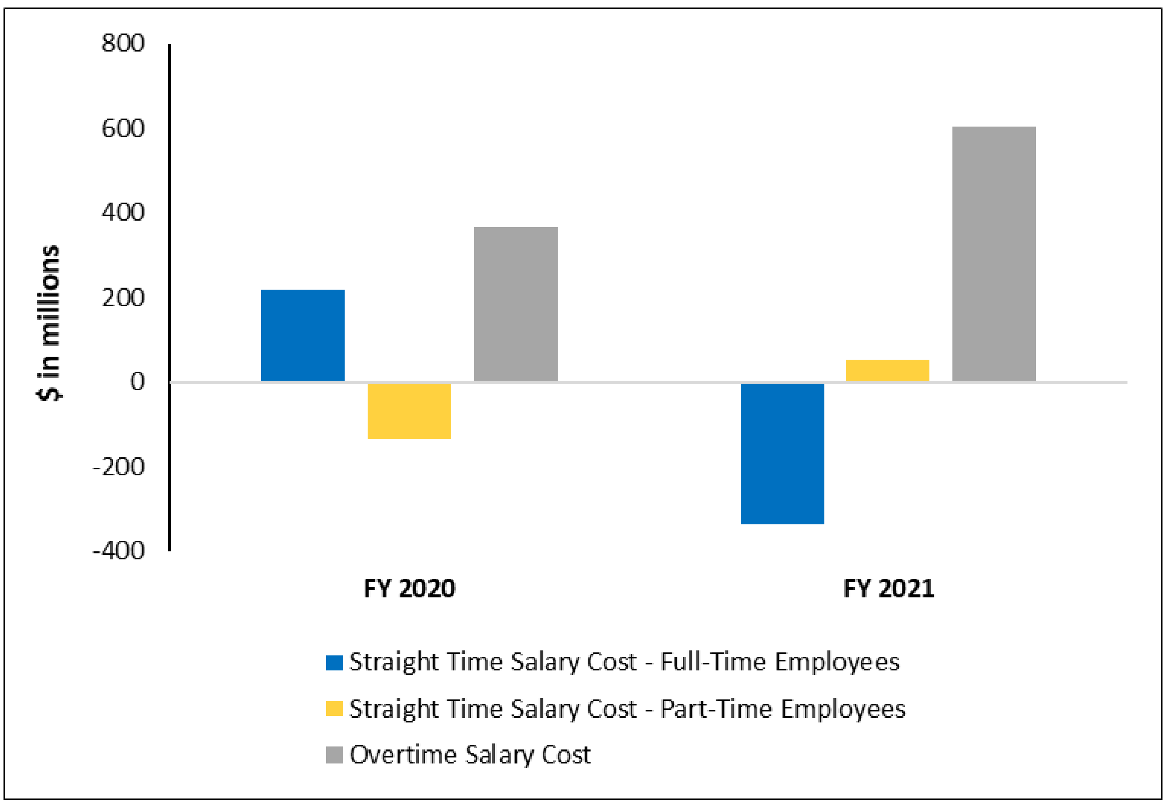
Source: PRC derived from Docket No. ACR2021, Library Reference USPS-FY21-7, Excel file “Wkyrcalc.xls,” tab "Calculations."

These differences, driven by changes in the mix of the workforce and type of workhours, caused individual cost segment growth rates to change between FY 2020 and FY 2021. The result was a change in each segment's share of total compensation costs.

In FY 2021, the total compensation cost for City Delivery Carrier increased by 2 percent ($318 million), half of the 4 percent ($453 million) increase in the prior year. As shown in Figure IV-10, compensation costs for overtime increased by 22 percent ($602 million), compared to 15 percent ($368 million) in FY 2020. Straight-time compensation for full-time employees decreased by 4 percent, reversing the 2-percent increase in the prior year. Straight-time compensation for part-time employees increased by 4 percent ($52 million), reversing the decreasing trend in the prior 2 fiscal years of 9 percent ($134 million) in FY 2020 and 2 percent ($35 million) in FY 2019.

Figure IV-10

Composition of Cost Segments 6 & 7 City Delivery Carriers Change from Prior Year

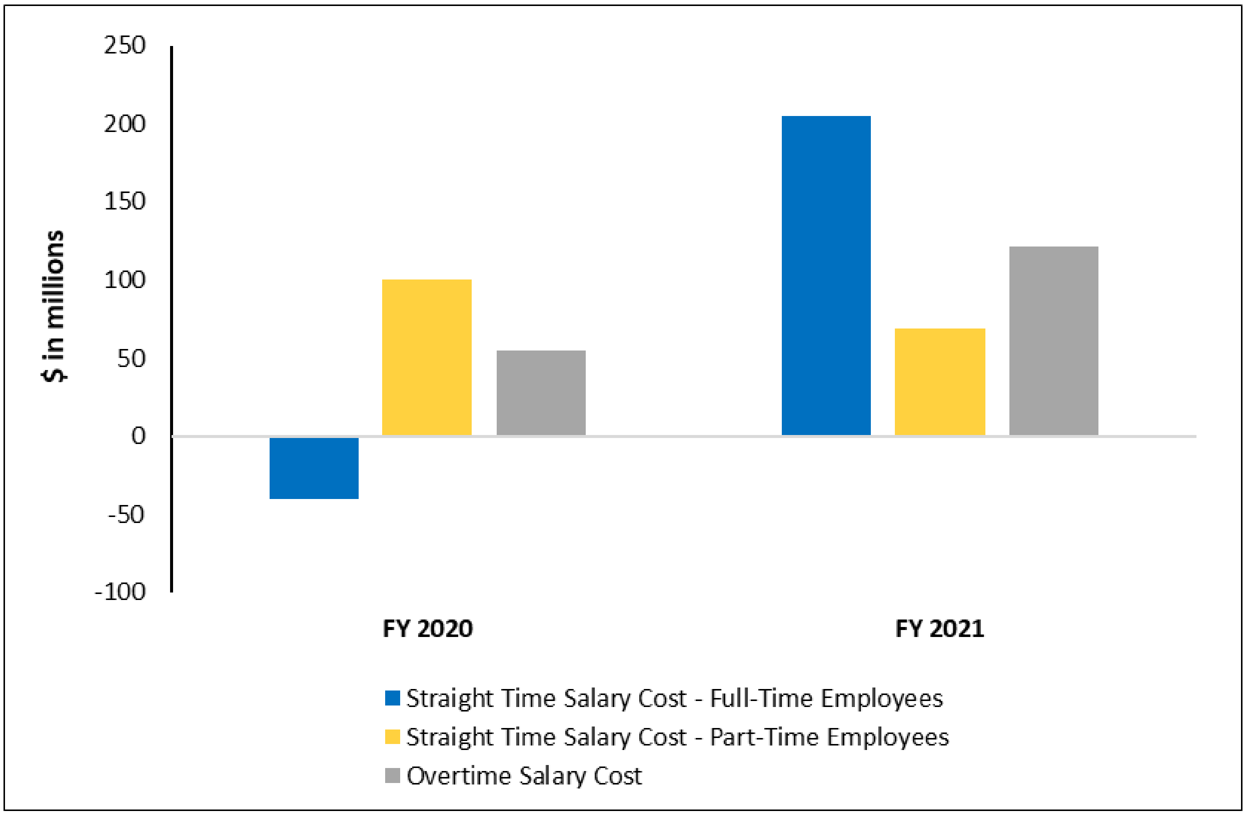


Source: PRC derived from Docket No. ACR2021, Library Reference USPS-FY21-7, Excel file "Wkyrcalc.xls," tab "Calculations."

In FY 2021 and FY 2020, total compensation costs for Rural Carriers increased by 6 percent ($395 million) and 2 percent ($115 million), respectively. In both years, compensation costs for overtime increased by 31 percent ($121 million) in FY 2021 and by 16 percent

($54 million) in FY 2020. Straight-time compensation for full-time employees increased by 5 percent ($205 million), reversing the prior year's decrease of 1 percent ($40 million). Straight-time compensation for part-time employees increased in both years: 5 percent ($69 million) and 7 percent ($101 million), respectively.

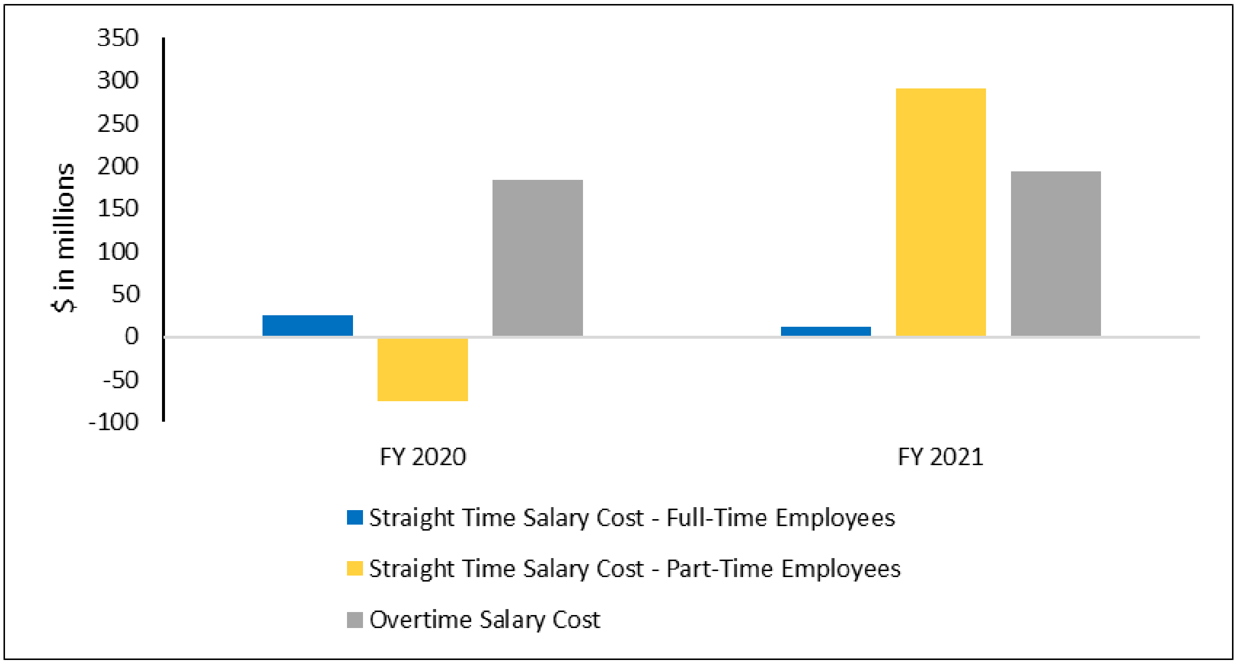
Figure IV-11
Composition of Cost Segment 10 Rural Carriers Change from Prior Year, FY 2020 and FY 2021



Source: PRC derived from Docket No. ACR2021, Library Reference USPS-FY21-7, Excel file "Wkyrcalc.xls," tab "Calculations."

In FY 2021 and FY 2020, total compensation costs for Clerks and Mailhandlers increased by 4 percent ($497 million) and 1 percent ($132 million), respectively. Compensation costs for overtime increased by 10 percent in both years ($194 million in FY 2021 and $183 million in FY 2020). Straight-time compensation for full-time employees slightly increased in both years by 0.2 percent ($11 million) and 0.3 percent ($25 million), respectively. Straight-time compensation for part-time employees increased by 14 percent ($291 million) compared to the 3-percent ($76 million) decrease in FY 2020.

Figure IV-12
Composition of Cost Segment 3 Clerks and Mailhandlers Change from Prior Year, FY 2020 and FY 2021



Source: PRC derived from Docket No. ACR2021, Library Reference USPS-FY21-7, Excel file "Wkyrcalc.xls," tab "Calculations."

As shown in Figures IV-10, IV-11, and IV-12, compensation costs for overtime[73] increased in both years for all three cost segments. Generally, compensation cost for additional overtime is lower than for additional straight time because benefit costs do not increase with overtime workhours.[74]

In addition to the increased use of overtime in FY 2021, there were notable changes to the mix of postal career and non-career employees. In FY 2021, total postal employees increased by a net of 9,134 or 1.4 percent; career headcount increased by 20,695 employees or 4.2 percent, and non-career headcount decreased by 11,561 employees or 7.8 percent. *FY 2021 Annual Report* at 28.

[73] Postal overtime is compensation paid at 150 percent of the employee's basic hourly rate. Penalty overtime is compensation paid at two times the employee's basic hourly straight-time rate for hours described in applicable labor agreements. Employee and Labor Relations Manual ELM 49, at 162, September 2020.

[74] Generally, benefits such as retirement are based on straight time basic wage which is defined "as higher level pay but does not include Territorial Cost of Living Allowances, overtime pay, night differential, military pay, allowances, premium pay, or lump-sum terminal leave benefits." Employee and Labor Relations Manual ELM 49, at 513, September 2020.

Appendices

Appendix A: Fiscal Year 2021 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	28,722	819,971	311,662	508,308	2,854.841	1,085.096	1,769.745	263.1%
Priority Mail	1,394,268	13,211,669	9,005,540	4,206,130	947.570	645.897	301.673	146.7%
Total Ground	3,545,729	9,708,549	4,791,421	4,917,128	273.810	135.132	138.677	202.6%
First-Class Package Service	2,056,424	7,388,096	4,614,163	2,773,933	359.269	224.378	134.891	160.1%
Competitive Domestic Services		1,138,994	364,170	774,825				312.8%
Competitive International Mail & Services	230,365	1,965,493	1,342,597	622,897	853.209	582.813	270.396	146.4%
Total Competitive Group Specific & Non-Product Inframarginal Costs			610,325					
Total Competitive Mail and Services	**7,255,508**	**34,232,772**	**21,039,877**	**13,192,895**	**471.818**	**289.985**	**181.833**	**162.7%**
MARKET DOMINANT MAIL								
First-Class Mail								
Single-Piece Letters and Cards	13,920,659	7,636,945	5,127,360	2,509,585	54.861	36.833	18.028	148.9%
Presort Letters and Cards	35,621,927	14,134,274	5,049,409	9,084,865	39.679	14.175	25.504	279.9%
Flats	1,176,290	1,543,653	1,560,309	(16,656)	131.231	132.647	(1.416)	98.9%
First-Class Non-Product Inframarginal Costs			250,613					
Seamless Acceptance Incentive Payments		(16,134)						
Total Domestic First-Class Mail	**50,718,876**	**23,298,738**	**11,987,691**	**11,311,047**	**45.937**	**23.636**	**22.301**	**194.4%**
MARKETING MAIL								
High Density & Saturation Letters	6,531,621	1,128,753	618,794	509,959	17.281	9.474	7.808	182.4%
High Density & Saturation Flats & Parcels	9,994,303	1,790,490	1,427,393	363,097	17.915	14.282	3.633	125.4%
Carrier Route	5,041,577	1,364,234	1,441,599	(77,365)	27.060	28.594	(1.535)	94.6%
Letters	41,221,741	8,986,138	5,143,469	3,842,668	21.800	12.478	9.322	174.7%
Flats	2,869,265	1,240,585	2,057,825	(817,240)	43.237	71.720	(28.483)	60.3%
Parcels	36,216	55,423	75,784	(20,361)	153.034	209.253	(56.220)	73.1%
Every Door Direct Mail - Retail	541,716	104,383	42,041	62,342	19.269	7.761	11.508	248.3%
Marketing Mail Non-Product Inframarginal Costs			413,004					
Seamless Acceptance Incentive Payments		(25,069)						
Total Marketing Mail	**66,236,440**	**14,644,936**	**11,219,909**	**3,425,027**	**22.110**	**16.939**	**5.171**	**130.5%**
Periodicals								
Within County	447,172	48,652	108,059	(59,406)	10.880	24.165	(13.285)	45.0%
Outside County	3,231,853	894,876	1,661,410	(766,534)	27.689	51.407	(23.718)	53.9%
Periodicals Non-Product Inframarginal Costs			465					
Seamless Acceptance Incentive Payments		(1,244)						
Total Periodicals	**3,679,025**	**942,284**	**1,769,934**	**(827,650)**	**25.612**	**48.109**	**(22.496)**	**53.2%**
Package Services								
Alaska Bypass	1,336	34,869	26,874	7,996	2,610.255	2,011.715	598.540	129.8%
Bound Printed Matter Flats	181,487	140,106	119,442	20,664	77.199	65.813	11.386	117.3%
Bound Printed Matter Parcels	227,242	259,975	274,817	(14,842)	114.405	120.936	(6.531)	94.6%
Media and Library Mail	107,260	399,835	474,101	(74,266)	372.773	442.012	(69.239)	84.3%
Package Services Non-Product Inframarginal Costs			711					
Seamless Acceptance Incentive Payments		(32)						
Total Package Services	**517,324**	**834,754**	**895,945**	**(61,191)**	**161.360**	**173.188**	**(11.828)**	**93.2%**
U.S. Postal Service Mail	281,854							
Free Mail	19,909		29,528	(29,528)		148.315		
Total Market Dominant Mail	**121,453,428**	**39,720,712**	**25,903,007**	**13,817,705**	**32.704**	**21.328**	**11.377**	**153.3%**
MARKET DOMINANT SERVICES								
Ancillary Services								
Certified Mail		569,046	491,732	77,314				115.7%
COD		3,476	2,392	1,083				145.3%
Insurance		105,256	27,462	77,793				383.3%
Registered Mail		22,286	17,205	5,080				129.5%
Stamped Envelopes		11,828	8,410	3,418				140.6%
Stamped Cards		566	224	343				253.1%
Other Ancillary Services		383,790	271,694	112,095				141.3%
Money Orders		147,253	166,429	(19,177)				88.5%
Post Office Box Service		299,262	136,710	162,551				218.9%
Caller Service		87,774	28,327	59,446				309.9%
Other Special Services		46,160	15,746	30,414				293.2%
Market Dominant Services Non-Product Inframarginal Costs			22,480					
Total Market Dominant Domestic Services		**1,676,695**	**1,188,813**	**487,882**				
Outbound Single-Piece Mail Intl	104,603	167,180	109,434	57,745				
Inbound Single-Piece Mail Intl	81,650	60,267	49,322	10,945				
International Services		9,053	7,095	1,958				
Market Dominant Intl Non-Product Inframarginal Costs			14					
Market Dominant International Mail & Services	**186,253**	**236,499**	**165,865**	**70,634**				
Other Income		1,119,606		1,119,606				
Other International Mail Attributable			66,886	(66,886)				
Total Mail and Services	**128,895,188**	**76,986,284**	**48,364,448**	**28,621,837**	**59.728**	**37.522**	**22.206**	**159.2%**
Institutional Costs			33,633,611					
Appropriations: Revenue Forgone		54,294						
Investment Income		27,739						
Total Revenues		**77,068,318**						
Total Costs			**81,998,056**					
Net Income (Loss)		**(4,929,739)**						

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.

The Postal Service is a labor-intensive organization. Approximately 75 percent of its resource usage is made up of labor. 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.

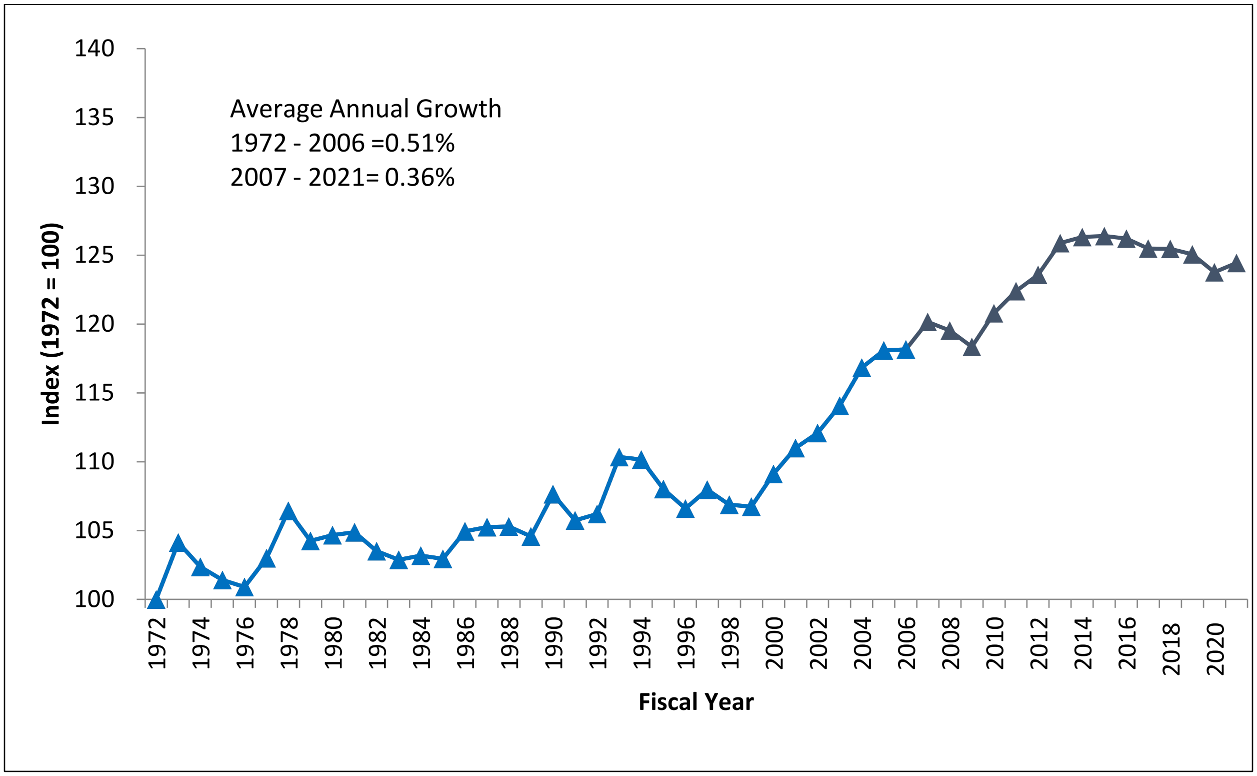
The last decade saw early TFP growth that leveled off in recent years. The productivity growth is partly caused by the reduction in workhours and the continued restrictions on capital investment, resulting in lower resource usage and a corresponding improvement in productivity. From FY 2011 to FY 2015, 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.

In FY 2020 and FY 2019, TFP decreased by 1.0 percent and 0.3 percent, respectively. Total workload increased by 0.3 percent in FY 2020, less than the 1.3 percent increase in resources for the same period. The growth rate of resources used, specifically materials (domestic air transportation, highway transportation, and supplies), contributed to the decrease in TFP in FY 2020.

In FY 2021, TFP increased by 0.7 percent, primarily from an increase in labor productivity. Delivery points increased, and mail volume decreased slightly, resulting in a 0.2 percent increase in workload, less than the 0.5 percent decrease in resources for the same period.

Figure B-1 shows the trend in TFP from FY 1972 through FY 2021.

Figure B-1
Postal Service Total Factor Productivity, FY 1972–FY 2021



Source: Postal Service FY 2021 TFP, tab "Tfp-52."