Postal Regulatory Commission
Submitted 5/17/2023 2:53:04 PM
Filing ID: 125255
Accepted 5/17/2023

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

Fiscal Year 2022

May 17, 2023

Table of Contents

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 2022 Form 10-K measured against FY 2021 and its FY 2022 Integrated Financial Plan (Financial Plan).[1] Additionally, data filed with the FY 2022 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 2021 and FY 2022, 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 Postal Service Reform Act Improved Postal Service Finances but Challenges Remain—Key Findings

On April 6, 2022, President Biden signed the Postal Service Reform Act (PSRA), which removed the $57 billion liability for past due Retiree Health Benefits (RHB) obligations and eliminated the annual payments for the RHB normal costs and the Retiree Health Benefits Fund (RHBF) amortization. These changes improved the Postal Service's balance sheet, reducing the net deficiency to $16.6 billion from $75.7 billion in FY 2021. Annual retirement-related expenses were also reduced by approximately $5 billion. While increases in compensation and non-personnel costs partly offset the savings, the net loss from operations improved by $2.2 billion from FY 2021. Despite these improvements and a net income of $56 billion in FY 2022, the Postal Service recorded a net loss of $0.9 billion excluding the one-time effect of the removal of the $57 billion RHB liability.

In FY 2022, the Postal Service recorded a net loss from operations of $0.5 billion, a $2.2 billion improvement from the prior year. The decrease in the FY 2022 net operating loss is the result of a $1.6 billion increase in revenue and a $0.5 billion decrease in operating expenses.

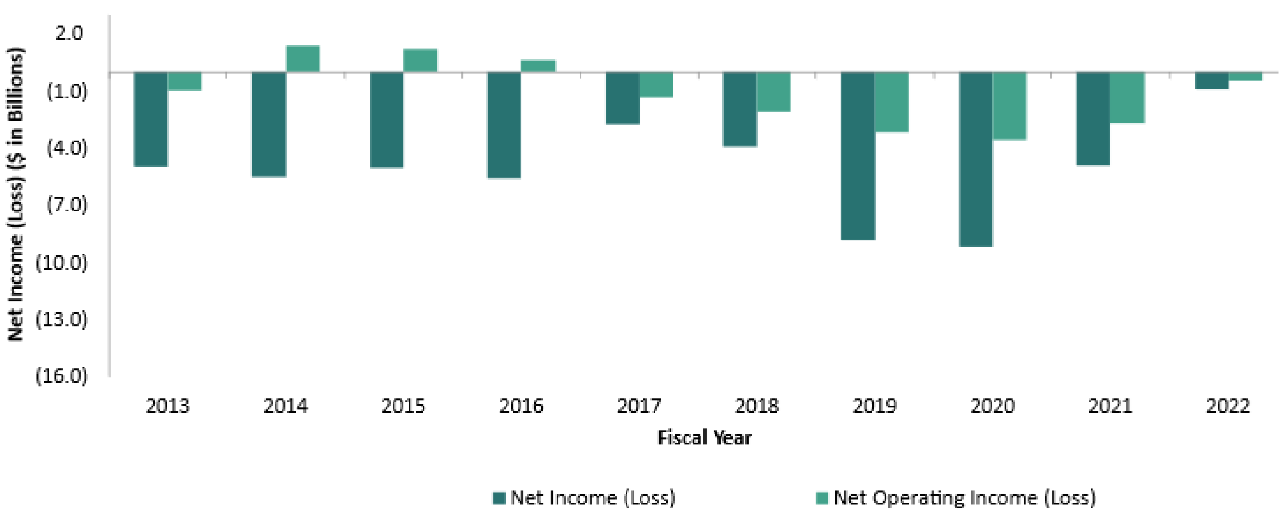
1 The Integrated Financial Plan is a Postal Service report that includes the operating plan, capital investment plan, and financing plan for the fiscal year. This document is required to be filed as a periodic report pursuant to the 39 C.F.R. § 3050. United States Postal Service, Integrated Financial Plan, Fiscal Year 2022, November 18, 2021.

When Non-operating Expenses (NOEs) are included, the net operating loss of $0.5 billion becomes a net loss of $0.9 billion. This is an improvement of $4.2 billion compared to FY 2021. Figure I-1 shows net income (loss) and net operating income (loss) results for the period FY 2013 – FY 2022. Annual retirement-related expenses were also reduced by approximately $5 billion. While increases in compensation and non-personnel costs partly offset the savings, the net loss from operations improved by $2.2 billion from FY 2021. Despite these improvements and a net income of $56 billion in FY 2022, the Postal Service recorded a net loss of $0.9 billion excluding the one-time effect of the removal of the $57 billion RHB liability.

In FY 2022, the Postal Service recorded a net loss from operations of $0.5 billion,[2] a $2.2 billion improvement from the prior year. The decrease in the FY 2022 net operating loss is the result of a $1.6 billion increase in revenue and a $0.5 billion decrease in operating expenses.

When Non-operating Expenses (NOEs) are included,[3] the net operating loss of $0.5 billion becomes a net loss of $0.9 billion. This is an improvement of $4.2 billion compared to FY 2021. Figure I-1 shows net income (loss) and net operating income (loss) results for the period FY 2013 – FY 2022.

Figure I-1
Postal Service Net Income Trends



Source: United States Postal Service, Form 10-K FY 2022, November 10, 2022; United States Postal Service, Form 10-K FY 2021, November 10, 2021; United States Postal Service, Form 10-K FY 2020, November 13, 2020; United States Postal Service, Form 10-K FY 2019, November 14, 2019; United States Postal Service, Form 10-K FY 2018, November 16, 2018; United States Postal Service, Form 10-K FY 2017, November 14, 2017; United States Postal Service, Form 10-K FY 2016, November 28, 2016; United States Postal Service, Form 10-K FY 2015, November 13, 2015; United States Postal Service, Form 10-K FY 2014, December 5, 2014; United States Postal Service, Form 10-K FY 2013, November 15, 2013 (Collectively Postal Service Form 10-K, FY 2013-FY 2022)

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,

2 Postal Service FY 2022 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. 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 2022 Form 10-K at 19.

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

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. The removal of the Postal Service's RHB liability improved this situation, but at the end of FY 2022, total assets of $46.1 billion remain less than total liabilities of $62.7 billion. Due to this gap, financial sustainability of the Postal Service is adversely impacted by insufficient current assets to cover current liabilities.

At the end of FY 2022:

- The Postal Service's net loss excluding the removal of the RHB liability was $0.9 billion.
    - The net deficit was $16.6 billion, consisting of an accumulated deficit of $32.8 billion offset by capital contributions of $16.1 billion. The net deficiency is $59 billion less than in FY 2021, primarily as the result of the removal of the $57 billion RHB liability by the PSRA.
- The Postal Service saw the highest positive growth recorded in capital assets since the start of the PAEA.
- The Postal Service's cash and cash equivalents total, excluding restricted cash, was $19.6 billion, a decrease of $4.3 billion.
    - Remaining available borrowing authority from the PAEA-mandated debt ceiling of $15 billion was $5 billion, an increase of $1 billion.
    - The cash ratio was 0.64, an increase of 0.36 compared to the prior year. The FY 2022 cash ratio was also higher than the 10-year average of 0.16.
- The Postal Service's operating revenue was $78.6 billion, which was $1.6 billion higher than the previous year, and $1.0 billion more than the Integrated Financial Plan.
    - In FY 2022, revenue from Competitive products exceeded First-Class Mail revenue.
    - Market Dominant revenue increased by $2.3 billion in FY 2022, a substantial increase compared to FY 2021 resulting from revenue increases in First-Class Mail and USPS Marketing Mail.
- Total operating expenses stood at $79.1 billion, which were $0.5 billion less in FY 2022 than the prior year, and $2.4 billion more than the Integrated Financial Plan.
    - Highway transportation expenses increased by 12.8 percent from higher average unit costs per mile, higher diesel fuel prices, and a shift in package volume from air to highway transportation.
    - Total operating expenses were less than planned from the reversal of retiree health benefit normal costs.
    - Compensation and benefits were $3.6 billion lower than expected, from the removal of the retiree health benefit normal cost obligation.

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.

- Personnel-related expenses made up 72.6 percent of total expenses.
    - Overtime hours decreased by 16 million hours, a significant decline from the prior year. Total workhours decreased for the first time in eight years.
    - Total postal employees decreased by a net of approximately 18,000. Since FY 2020 the non-career workforce has declined by approximately 29,000 employees while the career work force has increased by 21,000 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 2021 and FY 2022. 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 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 Postal Accountability Enhancement Act (PAEA)[7] established the Retiree Health Benefit Fund (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 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 health benefits premiums for retired employees was paid from the RHBF. The Postal Service was also required to make annual contributions to the RHBF for the normal costs[8] of retiree health benefits.

At the beginning of FY 2022, the Postal Service had a total unpaid balance of $57 billion in retiree health benefit liabilities. The $57 billion included the defaulted RHBF prefunding payments of $33.9 billion from FY 2012 through FY 2017, the defaulted RHBF amortization payments totaling $4.3 billion for FY 2017 through FY 2021 and defaulted payments for retiree health benefits normal costs totaling $18.8 billion for FY 2017 through FY 2021.

The enactment of the Postal Service Reform Act (PSRA) on April 6, 2022, resulted in significant changes to the Postal Service's retirement obligations. The PSRA cancelled the outstanding $57 billion retiree health benefit liability, 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.[9] These changes are reflected on the Statement of Operations as a non-cash adjustment to total net income and on the Balance Sheet as a reversal to current liabilities. Normal costs accrued through March FY 2022 were also reversed. These adjustments resulted in a total net income of $56 billion, a significant positive increase from the FY 2021 net loss of $4.9 billion. In this report, the Commission will exclude the one-time $57 billion adjustment when appropriate in order to analyze the effects of all other changes between the FY 2022 financial results and prior years.

THE PSRA CANCELLED THE OUTSTANDING $57 BILLION RETIREE HEALTH BENEFIT LIABILITY, THE ANNUAL PAYMENTS FOR THE RETIREE HEALTH BENEFITS NORMAL COSTS AND THE RHBF AMORTIZATION

5 In FY 2022, $77 billion (97.7 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 2022. The Postal Service considers these expenses non-controllable.

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

8 Normal costs represent the present value of the estimated retiree health benefits attributable to active employees' current year of service. Postal Service FY 2022 Form 10-K at 64.

9 Postal Service FY 2022 Form 10-K at 66.

The Postal Service is still required to make annual amortization payments for unfunded Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS) liabilities. The PAEA suspended the Postal Service's contributions for CSRS until after FY 2016. Beginning in FY 2017, OPM revalued the CSRS liability each year and assessed annual installment payments in order to liquidate the unfunded liability by FY 2043. In FY 2022, the Postal Service did not pay its annual installment of $2.3 billion.[10] Postal Service FY 2022 Form 10-K at 57. As of September 30, 2022, the Postal Service had a total of $10.8 billion in unpaid CSRS liabilities for years FY 2017 through FY 2022. *Id.* at 38.

FERS is a defined benefit plan that, until FY 2013, had assets that exceeded its liabilities. Since FY 2013, FERS 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 2022, the Postal Service paid $0.5 billion of the total $1.6 billion FERS obligation, leaving $1.1 billion outstanding. *Id.* at 57. Since FY 2013, the Postal Service has accumulated total unpaid FERS liabilities of $7.3 billion. *Id.* at 38.

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. For FY 2022, the Commission also separately states the one-time PSRA adjustment to retiree health benefits. Table II-1 illustrates the Commission's disaggregated version of the Income Statements.

10 In April 2023, the Commission ordered the Postal Service to remit $553.989 million towards outstanding retirement liabilities in accordance with 39 C.F.R. § 3030.182. The remittance is the amount of revenue generated during the prior year from all previous uses of retirement-based authority. *See* Docket ACR2022, Determination of Available Market Dominant Authority, April 3, 2023, at 10-11 (Order No. 6472).

Table II-1
Analysis of Postal Service Income Statements, FY 2021 and FY 2022 ($ in Millions)

	FY 2021	FY 2022	$ Change	FY 2022 Plan	$ Change from Plan
Net Operating Revenue	**$ 77,041**	**$ 78,620**	**$ 1,579**	**$ 77,483**	**$ 1,137**
Operating Expense as Reported by the Postal Service	81,844	22,595	(59,249)	85,713	(63,118)
Less: Amortization of RHB Unfunded Liability	(907)	56,975	57,882	(1,000)	57,975
Amortization of CSRS Unfunded Liability	(1,858)	(2,284)	(426)	(1,858)	(426)
Amortization of FERS Unfunded Liability	(1,401)	(1,627)	(226)	(1,402)	(225)
Non-Cash Change to Workers' Compensation Liability	1,925	3,454	1,529	0	3,454
Net Operating Expense	**$ 79,603**	**$ 79,113**	**$ (490)**	**$ 81,453**	**$ (2,340)**
Interest Income	28	192	164	30	162
Interest Expense	155	171	16	151	20
Net Income (Loss) from Operations	**$ (2,689)**	**$ (472)**	**$ 2,217**	**$ (4,091)**	**$ 3,619**
Amortization of RHBF Unfunded Liability	$ 907	**$ 0**	(907)	1,000	(1,000)
Amortization of CSRS Unfunded Liability	1,858	2,284	426	1,858	426
Amortization of FERS Unfunded Liability	1,401	1,627	226	1,402	225
Non-Cash Change to Workers' Compensation Liability	(1,925)	(3,454)	(1,529)	0	(3,454)
Net Loss (Excluding PSRA Adjustment)	**$ (4,930)**	**$ (929)**	**$ 4,001**	**$ (7,351)**	**$ 6,422**
PSRA Adjustment for Reversal of Unpaid RHBF Expenses		(56,975)	(56,975)	1,000	(57,975)
Total Net Income/(Loss)	**$ (4,930)**	**$ 56,046**	**60,976**	**$(8,351)**	**64,397**

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. ACR2022, Library Reference USPS-FY22-5, December 29, 2022; Docket No. ACR2021, Library Reference USPS-FY21-5, December 29, 2021; FY 2022 Plan data from USPS Preliminary Financial Information (Unaudited), September 2022, November 10, 2022, file "2022.11.10. Sept FY2022 Monthly Fin Rep"(Postal Service September 2022 PFI Report (unaudited))

THE POSTAL SERVICE'S FY 2022 NET OPERATING LOSS IS $2.2 BILLION LESS THAN THE FY 2021 NET OPERATING LOSS, REPRESENTING AN INCREASE IN PROFITABILITY

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 2022 net operating loss is $2.2 billion less than the FY 2021 net operating loss, representing an increase in profitability. [11] The primary reason for the improvement is the removal of retiree health benefit normal costs as a result of the PSRA, a difference of $4.2 billion when compared to the prior year.

Operating revenue increased by approximately $1.6 billion compared to FY 2021. The increase in revenue was driven primarily by rate increases in First-Class Mail and USPS Marketing Mail. Competitive revenue declined from FY 2021 when package volumes were higher because of the pandemic-related surge in e-commerce, which continues to slow as the economy recovers. FY 2022 Form 10-K at 18.

11 The Commission's calculation of FY 2021 net operating income (loss) differs from the controllable net income (loss) reported in Postal Service FY 2022 Form 10-K by $303 million. The Postal Service excluded the difference in the normal cost of RHB from its controllable income (loss) because it is the result of actuarial changes. This difference is not applicable in FY 2022 as normal costs were reversed in accordance with the PSRA. Postal Service FY 2022 Form 10-K at 19.

Net operating expenses were $0.5 billion less in FY 2022 than the prior year. The decrease was caused by the decline in retiree health benefit costs partially offset by increases in compensation, transportation, and other expenses. Contributing factors to the increase in compensation were wage increases (which include inflationary impacts on Cost of Living Allowances (COLAs)) and increases in FERS and CSRS unfunded expenses. *Id.* at 24, 36.

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 2022 with FY 2021 revenue by class.

Table II-2
Revenue by Market Dominant Class,[12] FY 2021 and FY 2022 ($ in Millions)

	FY 2021	FY 2022	$ Change FY 2022 over FY 2021	% Change FY 2022 over FY 2021	FY 2020	$ Change FY 2022 over FY 2020	% Change FY 2022 over FY 2020
First-Class Mail	$ 23,526	$ 24,260	$ 734	3.1%	$ 24,203	$ 57	0.2%
Marketing Mail	14,645	16,052	1,407	9.6%	13,959	2,093	15.0%
Periodicals	942	959	17	1.8%	1,024	(65)	(6.3%)
Package Services	835	859	25	3.0%	832	27	3.3%
Ancillary and Special Services	1,686	1,813	127	7.5%	1,713	100	5.8%
Subtotal Market Dominant Mail and Services Revenue	**$ 41,634**	**$ 43,944**	**$ 2,310**	**5.5%**	**$ 41,731**	**$ 2,213**	**5.3%**
Other	1,102	1,631	529	48.0%	779	852	109.4%
Total Market Dominant Mail and Services Revenue	**$ 42,736**	**$ 45,574**	**$ 2,839**	**6.6%**	**$ 42,509**	**$ 3,065**	**7.2%**

Decrease in revenue is denoted by ().

Numbers may not add across due to rounding.

Source: Docket No. ACR2022, Library Reference PRC-LR-ACR2022-1, March 29, 2023; Library Reference USPS-FY22-42, December 29, 2022.

Docket No. ACR2021, Library Reference PRC-LR-ACR2021-1, March 29, 2022.

Market Dominant mail and services revenue[13] increased by 5.9 percent from the prior year. Revenue increased in all classes of mail. As shown in Table II-2, First-Class Mail revenue increased by $0.7 billion (3.3%) and USPS Marketing Mail revenue increased by $1.4 billion (9.7%).

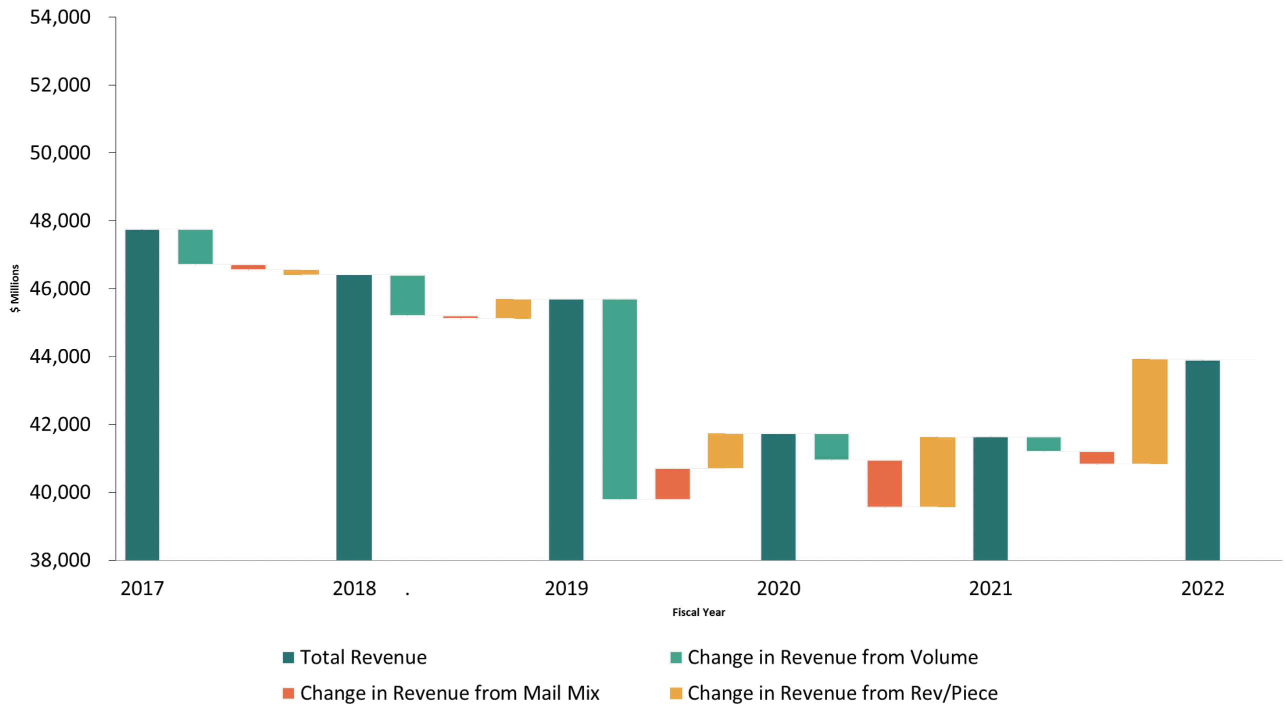
Changes in revenue per piece resulting from rate increases, volume changes, and migration between classes, products, and rate categories (known as mail mix fluctuations) affect total revenue. Figure II-1 isolates the change in Market Dominant revenue due to mail volume changes, mail mix, and average

12 Other Market Dominant revenue includes appropriations, miscellaneous item revenue, and revenue foregone.

13 This excludes Other Market Dominant mail revenue

revenue per piece for each year since FY 2017. For overall Market Dominant products, increases in revenue per piece fully offset revenue loss from volume decline and mail mix fluctuations. FY 2022 was the first full year in which additional rate authority authorized by the Commission under the revised system was in effect.

Figure II-1
Change in Market Dominant Revenue Due to Changes in Mail Volume, Mail Mix, and Average Revenue per Piece, FY 2017-FY 2022 ($ in Millions)



Source: PRC derived from 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; Docket No. ACR2022, Library Reference USPS-FY22-43, December 29, 2022; Docket No. ACR2021 Library Reference USPS-FY21-43, December 29, 2021.

Competitive Product Revenue Compared to Prior Year

Total revenue from Competitive products declined by $1.1 billion, or 3.2 percent, compared to FY 2021, as the result of volume declines. Table II-3 compares revenue for Competitive Products between FY 2021 and FY 2022.

TOTAL REVENUE FROM COMPETITIVE PRODUCTS DECLINED BY $1.1 BILLION OR 3.2 PERCENT COMPARED TO FY 2021

Table II-3
Competitive Product Revenue, FY 2021 and FY 2022 ($ in Millions)

	FY 2021	FY 2022	$ Change FY 2022 over FY 2021	% Change FY 2022 over FY 2021
Priority Mail	$ 13,212	$ 11,958	$ (1,254)	(9.5%)
Total Ground	9,709	9,867	158	1.6%
First-Class Package Service	7,388	7,809	421	5.7%
Priority Mail Express	820	770	(50)	(6.0%)
International	1,966	1,459	(507)	(25.8%)
Ancillary and Special Services	1,139	1,266	127	11.2%
Subtotal Competitive Products Mail and Services Revenue	$ 4,233	$ 33,129	$ (1,103)	(3.2%)
Other Revenue	129	152	23	17.8%
Total Competitive Products Mail and Services Revenue	$ 34,362	$ 33,281	$ (1,080)	(3.1%)

Decrease in revenue denoted by ().
Numbers may not add across due to rounding.
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2021-1.

Expense Analysis as Compared to Prior Year

As noted earlier, for purposes of analyzing the Postal Service's financial position, the Commission differentiates between operating and total expenses. As shown in Table II-4, in FY 2022, total expenses excluding the retiree health benefit adjustment decreased by $1.4 billion (1.7 percent), while operating expenses decreased by approximately $0.5 billion (0.6 percent). The decrease in operating expenses was the result of the elimination of retiree health benefit normal costs, partially offset by increases in salaries and benefits and other expenses.

Table II-4
Total Expenses, FY 2021 and FY 2022 ($ in Millions)[14]

					% of Total Expenses	
Compensation & Benefits Expenses	**FY 2021**	**FY 2022**	**$ Change**	**% Change**	**FY 2021**	**FY 2022**
Salaries and Benefits	$ 54,039	$ 55,864	$ 1,825	3.4%	66.0%	70.2%
Workers' Compensation - Cash Outlays	1,345	1,335	(10)	(0.7%)	1.6%	1.7%
Normal Costs of Retiree Health Benefits	4,203	0	(4,203)	NMF	5.1%	0.0%
Other Personnel Related	163	107	(56)	(34.4%)	0.2%	0.1%
Subtotal Personnel Expenses Excluding Systemwide Personnel Expenses	**$ 59,750**	**$ 57,306**	**$ (2,444)**	**(4.1%)**	**73.0%**	**72.0%**
Transportation	9,652	10,281	629	6.5%	11.8%	12.9%
Other Expenses	10,201	11,526	1,325	13.0%	12.5%	14.5%
Total Operating Expenses	**$ 79,603**	**$ 79,113**	**$ (490)**	**(0.6%)**	**97.3%**	**99.4%**
Systemwide Personnel Expenses:						
Non-Cash Change to Workers' Compensation Liability	(1,925)	(3,454)	(1,529)	NMF	(2.4%)	(4.3%)
Amortization of RHB Unfunded Liability	907	0	(907)	NMF	1.1%	0.0%
Amortization of FERS Unfunded Liability	1,401	1,627	226	16.1%	1.7%	2.0%
Amortization of CSRS Unfunded Liability	1,858	2,284	426	22.9%	2.3%	2.9%
Total Expenses	**$ 81,844**	**$ 79,570**	**$ (2,274)**	**(2.8%)**	**100.0%**	**NMF**
PSRA Adjustment for Reversal of Unpaid RHBF Expenses		(56,975)	(56,975)	**NMF**	**NMF**	**NMF**
Total Expenses (Including PSRA Adjustment)	**$ 81,844**	**$ 22,595**	**$(59,249)**	**(72.4%)**	**100.0%**	**100.0%**

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

Numbers may not add across due to rounding.

Source: Postal Service September 2022 PFI Report (unaudited), file "2022.11.10. Sept FY2022 Monthly Fin Rep.pdf."

PERSONNEL EXPENSES

In FY 2022, total compensation increased by approximately $1.4 billion compared to FY 2021 primarily due to contractual wage increases partially offset by a decline in workhours

The majority of Postal Service expenses are personnel related. In FY 2022, operating personnel expenses, which exclude the non-cash adjustment to workers' compensation and amortization costs of unfunded retirement liabilities, made up 72.4 percent of operating expenses.[15] Including the non-cash adjustments, labor costs account for 72.6 percent of total expenses.

Table II-5 shows that total operating personnel expenses for FY 2022 decreased by $2.4 billion from FY 2021, resulting

14 The PSRA adjustment of RHB Unfunded Liability is excluded from the calculation of percentage of total costs.

15 Subtotal personnel expenses ($57.3 billion) as a percentage of total operating expenses ($79.1 billion).

from the removal of retiree health benefit normal costs. When systemwide personnel expenses were included, total personnel expenses declined by $3.3 billion. The net non-cash decrease in the workers' compensation liability[16] more than offset the increases in other non-operating retirement expenses.

Table II-5
Breakdown of Total Personnel Expenses, FY 2021 and FY 2022 ($ in Millions)

	FY 2021	FY 2022	$ Change	% Change
Total Compensation	**$ 40,837**	**$ 42,228**	**$ 1,391**	**3.4%**
Retirement	7,739	8,209	470	6.1%
Health Benefits-Current Employees	5,248	5,203	(45)	(0.9%)
Workers' Compensation - Cash Outlays	1,345	1,335	(10)	(0.7%)
Normal Costs of Retiree Health Benefits	4,203	0	(4,203)	(100.0%)
Other Compensation	378	332	(46)	(12.1%)
Total Personnel Operating Expenses	**$ 59,750**	**$ 57,307**	**$ (2,443)**	**(4.1%)**
Non-Cash Change to Workers' Compensation Liability	(1,925)	(3,454)	(1,529)	NMF
Amortization of RHB Unfunded Liability	907	0	(907)	NMF
Amortization of FERS Unfunded Liability	1,401	1,627	226	16.1%
Amortization of CSRS Unfunded Liability	1,858	2,284	426	22.9%
Total Personnel Expenses	**$ 61,991**	**$ 57,765**	**$ (4,226)**	**(6.8%)**
PSRA Adjustment for Reversal of Unpaid RHBF Expenses	0	(56,975)	(56,975)	NMF
Total Personnel Expenses (Including PSRA Adjustment)	**$ 61,991**	**$ 789**	**$ (61,202)**	**(98.7%)**

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

Numbers may not add across due to rounding.

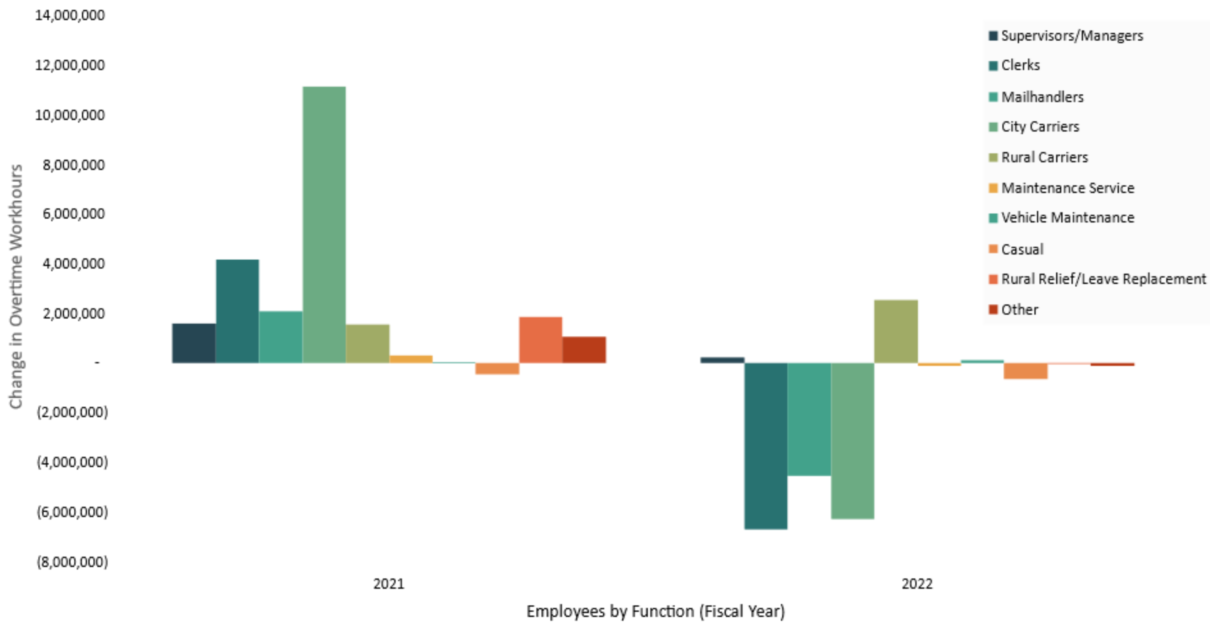
Source: PRC derived from United States Postal Service, National Trial Balance, September 2022, November 10, 2022; United States Postal Service, National Trial Balance September 2021, November 5, 2021.

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 COLAs, the number of overtime workhours, and the composition of the workforce. In FY 2022, total compensation increased by approximately $1.4 billion compared to FY 2021, primarily due to contractual wage increases partially offset by a decline in workhours. Workhours declined with lower First-Class Mail and Package volume, partially offset by additional workhours associated with COVID-19 test distribution. Postal Service FY 2022 Form 10-K at 25.

Figure II-2 illustrates the change in overtime workhours by craft. Overtime hours decreased for all crafts except for postmasters, supervisors, rural carriers, vehicle maintenance, and headquarters. According to the Postal Service, total overtime workhours decreased by approximately 16 million hours, resulting in part from lower First-Class mail and Shipping and Packages volume. *Id.*

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

Figure II-2
Change in Overtime Workhours, FY 2021 and FY 2022[17] (Millions)



Source: PRC derived from United States Postal Service, National Payroll Hours Summary Report, Pay Period 20, 2022, October 4, 2022; United States Postal Service, National Payroll Hours Summary Report, Pay Period 20, 2021, October 1, 2021.

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 2020-FY 2022.

17 "Other" includes Postmasters, Professional and Administrative, Vehicle Operators, and Headquarters.

Table II-6
Postal Service Employee Complement, FY 2020–FY 2022

	FY 2021	FY 2022	Change FY 2022 over FY 2021	FY 2020	Change FY 2021 over FY 2020
Career Employees	516,636	516,760	124	495,941	20,695
Postal Support Employees (PSE)	31,346	25,842	(5,504)	25,778	5,568
City Carrier Assistants (CCA)	37,652	35,035	(2,617)	38,079	(427)
Mailhandler Assistants (MHA)	11,064	8,555	(2,509)	12,927	(1,863)
Other Non-Career	56,469	49,177	(7,292)	71,308	(14,839)
Total On-Roll Employees	**653,167**	**635,369**	**(17,798)**	**644,033**	**9,134**

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, Pay Period 20, 2022, September 29, 2022; United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2021, September 29, 2021; United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2020, October 07, 2020 (Collectively Postal Service ORPES Report PP 20, FY 2020-FY 2022).

In FY 2022, the Postal Service's total workforce decreased by approximately 18,000 employees, virtually all of which were non-career workforce, offset by a slight increase of only 124 career employees. Postal Service FY 2022 Form 10-K at 25.

In January 2022, the Postal Service reached a tentative agreement with the National Rural Letter Carriers Association (NRLCA), 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 for November 2022 and a retroactive COLA for January 2022.[18]

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 for November 2022 and COLA increases in March and September of each year. The tentative contract will also convert PSEs to career status depending on the size of their respective post offices.[19]

In September 2022, the Postal Service extended its contract negotiations with the National Postal Mail Handlers Union, AFL-CIO (NPMHU), on a new collective bargaining agreement. The previous contract expired in September 2022 and included modest wage increases, a reduction in health insurance premiums, increased flexibility to use mailhandler assistants, and the elimination of non-career casual employees. Postal Service FY 2022 Form 10-K at 63.

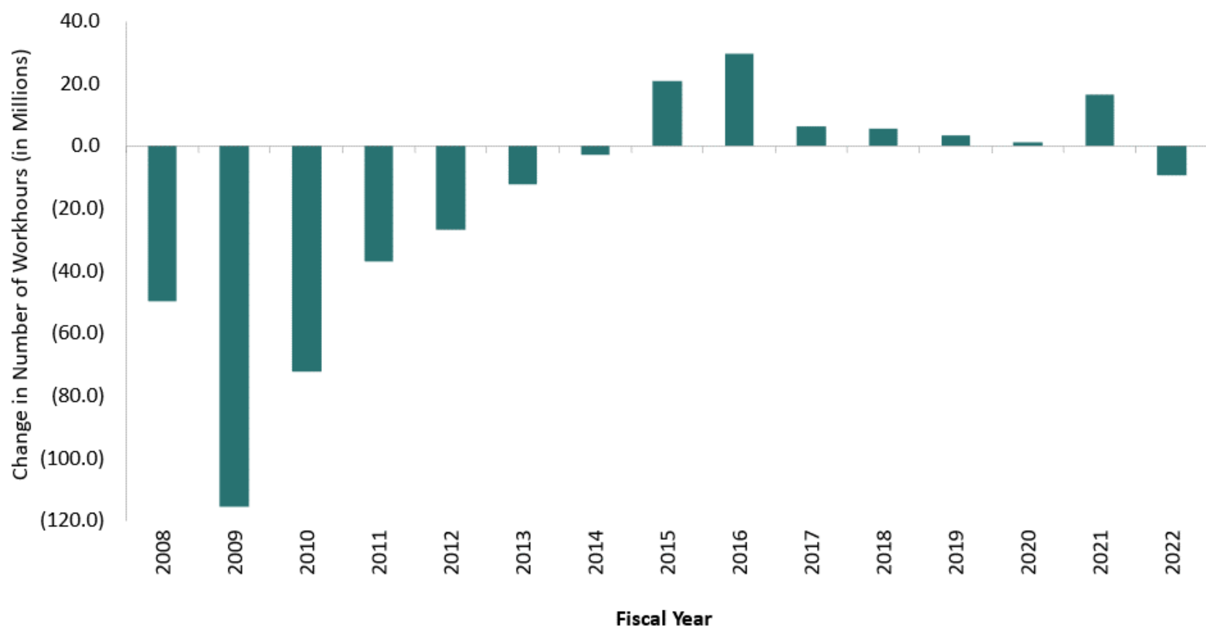
During FY 2022, total workhours decreased for the first time since FY 2014 by approximately 10 million.[20] Figure II-3 illustrates the change in total workhours since FY 2008.

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

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

20 Postal Service FY 2022 Form 10-K at 25.

Figure II-3
Change in Total Workhours, FY 2008–FY 2022



Source: Postal Service Form 10-K, FY 2013–FY 2022; United States Postal Service, Form 10-K FY 2013, November 15, 2013; United States Postal Service, Form 10-K FY 2012, November 15, 2012; United States Postal Service, Form 10-K FY 2011, September 30, 2011; United States Postal Service, Form 10-K FY 2010, September 30, 2010; United States Postal Service, Form 10-K FY 2009, September 30, 2009; United States Postal Service, Form 10-K FY 2008, September 20, 2008 (collectively Postal Service Form 10-K, FY 2008-FY 2022).

An analysis of workhours by function shows that in FY 2022, workhours decreased in Customer Service (5.5 percent), City Delivery (0.9 percent), Plant & Equipment (2.6 percent), and Other (3.0 percent).[21] Workhours increased in Mail Processing (3.0 percent), Rural Delivery (0.5 percent), and Vehicle Maintenance (0.3 percent), as shown in Table II-7.

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

Table II-7
Workhours by Function (Thousands of Workhours), FY 2020–FY 2022

	FY 2021	FY 2022	% Change FY 2022 over FY 2021	FY 2020	% Change FY 2021 over FY 2020
Mail Processing	208,232	214,455	3.0%	193,286	7.7%
Customer Service	165,041	155,901	(5.5%)	167,676	(1.6%)
Delivery Service					
City Delivery	425,962	422,204	(0.9%)	425,728	0.1%
Rural Delivery	223,040	224,076	0.5%	217,396	2.6%
Maintenance					
Plant & Equipment	59,310	57,760	(2.6%)	61,540	(3.6%)
Vehicle	31,296	31,384	0.3%	31,058	0.8%
Other	77,889	75,561	(3.0%)	77,642	0.3%
Total Workhours	**1,190,769**	**1,181,342**	**(0.8%)**	**1,174,326**	**1.4%**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Docket No. ACR2022, Library Reference USPS-FY22-7, December 29, 2022; Docket No. ACR2021, Library Reference USPS-FY21-7, December 29, 2021; Docket No. ACR2021, Library Reference USPS-FY20-7, December 29, 2020.

The Postal Service defines productive hourly wage rates as the labor costs per work hour by cost segment/craft.[22] This metric reflects the effect of wage levels, the composition of workforce, overtime, pay premiums, and leave usage on hourly labor costs. Table II-8 shows the productive hourly wage rates.[23] The productive hourly wage rate for Headquarters decreased 8.7 percent compared to the prior year, partially reversing the 15.9 percent increase in FY 2021. The productive hourly wage rate for all other categories increased compared to the prior year.

22 Docket No. ACR 2021, Library Reference USPS-FY21-17, December 29, 2021, PDF file "USPS-FY21-17.pdf," at 1.

23 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 2020–FY 2022

	FY 2021	FY 2022	% Change FY 2022 over FY 2021	FY 2020	% Change FY 2021 over FY 2020
Supervisors & Technicians	$ 55.65	$ 6.45	1.4%	$ 54.17	2.7%
Clerks	43.13	44.20	2.5%	42.69	1.0%
Mail Handlers	40.84	41.63	1.9%	41.80	(2.3%)
City Delivery Carriers	45.22	46.64	3.1%	43.17	4.8%
Vehicle Drivers	49.08	51.20	4.3%	47.52	3.3%
Rural Carriers	39.01	39.67	1.7%	38.25	2.0%
Building Services	47.58	49.67	4.4%	45.80	3.9%
Operating Equipment	60.00	61.50	2.5%	58.41	2.7%
Building Equipment	55.07	56.81	3.2%	53.65	2.6%
Motor Vehicle Service	54.75	57.30	4.7%	52.78	3.7%
Headquarters	79.74	72.77	(8.7%)	68.81	15.9%

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.

Source: USPS-FY22-7; USPS-FY21-7; USPS-FY20-7.

In FY 2022, the non-cash component of long-term workers' compensation expenses decreased by $1.5 billion compared to the prior year

Workers' compensation expenses decreased by $1.5 billion in FY 2022. 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.[24] 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 from year to year. In FY 2022, the non-cash component of long-term workers' compensation expenses decreased by $1.5 billion compared to the prior year. Table II-9 disaggregates components factoring into the workers' compensation expense for the past 2 years.

24 *See* Workers' Compensation and Estimation Report for Fiscal Year 2022, March 1, 2023, https://www.prc.gov/docs/124/124561/Workers%20Comp%20Estimation%20Report_FY2022.xlsx.

Table II-9
Components of Workers' Compensation Expense, FY 2021 and FY 2022 ($ in Millions)

	FY 2021	FY 2022	$ Change	% Change
Medical and Compensation Claims Payments	$ 1,255	$ 1,245	$ (10)	(0.8%)
Administrative Fee	90	90	0	0.0%
Cash Outlays	1,345	1,335	(10)	(0.7%)
(Decrease) Increase in Long Term Workers' Compensation Obligation	(1,925)	(3,454)	(1,529)	NMF
Workers' Compensation Expense	**$ (580)**	**$ (2,119)**	**$ (1,539)**	**NMF**

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

Source: Postal Service FY 2022 Form 10-K at 35.

NON-PERSONNEL EXPENSES

Transportation is the largest non-personnel expense for the Postal Service. It accounts for 12.9 percent of total expenses. Table II-10 shows transportation expenses by category.

Table II-10
Transportation Expenses by Category, FY 2021 and FY 2022 ($ in Millions)

	FY 2021	FY 2022	$ Change	% Change
Highway Transportation	$ 5,427	$ 6,123	$ 696	12.8%
Air Transportation	3,613	3,673	60	1.7%
International Transportation	563	437	(126)	(22.4%)
Other Transportation	49	48	(1)	(2.0%)
Total Transportation	$ 9,652	$ 10,281	$ 629	6.5%

Decrease in expenses is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2022 Form 10-K at 36.

HIGHWAY TRANSPORTATION INCREASED BY 12.8 PERCENT COMPARED TO LAST YEAR, RESULTING FROM HIGHER AVERAGE UNIT COSTS PER MILE, HIGHER DIESEL FUEL PRICES, AND A SHIFT IN PACKAGE VOLUME FROM AIR TO HIGHWAY TRANSPORTATION AS PART OF ITS DELIVERING FOR AMERICA PLAN

Total transportation expenses increased by 6.5 percent from FY 2021. Highway transportation expenses increased by 12.8 percent compared to last year, resulting from higher average unit costs per mile, higher diesel fuel prices, and a shift in package volume from air to highway transportation as part of the Postal Service's Delivering for America plan. *Id.* Air transportation expenses increased by 1.7 percent compared to last year, resulting from higher jet fuel prices, partly offset by lower package volumes. *Id.*

Table II-11 shows all other non-personnel-related expenses increased by $1.3 billion in FY 2022, resulting from higher fuel costs, increases in the costs of supplies and services, and increases in rent and utilities. *Id.*

Table II-11
Other Non-Personnel Expenses, FY 2021 and FY 2022 ($ in Millions)

	FY 2021	FY 2022	$ Change	% Change
Supplies and Services	$ 2,945	$ 3,189	$ 244	8.3%
Depreciation and Amortization	1,668	1,677	9	0.5%
Rent and Utilities	1,790	1,981	191	10.7%
Vehicle Maintenance Services	633	703	70	11.1%
Delivery Vehicle Fuel	526	795	269	51.1%
Information Technology and Communications	987	1,134	147	14.9%
Rural Carrier Equipment Maintenance	563	644	81	14.4%
Miscellaneous Other	1,089	1,403	314	28.8%
Total Other Non-Personnel Expenses	**$ 10,201**	**$ 11,526**	**$ 1,325**	**13.0%**

Decrease in expenses is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2022 Form 10-K at 36.

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 2022 Operating Plan, as outlined in its 2022 Integrated Financial Plan (IFP), projected a net loss of $7.4 billion in FY 2022.[25] The actual total net loss (excluding the PSRA adjustment to retiree health benefit expenses) of $0.9 billion was $6.4 billion less than the Postal Service estimated. Total revenue was $1.3 billion more than planned. Total operating expenses were $2.3 billion less than planned, resulting from the reversal of retiree health benefit normal costs. Table II-12 compares actual FY 2022 results with the estimated results in the Operating Plan.

25 United States Postal Service, Integrated Financial Plan, Fiscal Year 2022, November 18, 2021, at 1 (Postal Service FY 2022 IFP); Postal Service September 2022 PFI Report (unaudited); Excluding the retiree health benefit prefunding adjustment.

Table II-12
Actual and Operating Plan Income Statements, FY 2022 ($ in Billions)

	FY 2022 Actual	FY 2022 Operating Plan	$ Change
Total Revenue	$ 78.8	$ 77.5	$ 1.3
Total Operating Expense	79.3	81.6	(2.3)
Net Operating Income/(Loss)	**$ (0.5)**	**$ (4.1)**	**$ 3.6**
Non-Cash Change to Worker Compensation	(3.5)	0	(3.5)
FERS Unfunded Liability Amortization	1.6	1.4	0.2
CSRS Unfunded Liability Amortization	2.3	1.9	0.4
Total Net Loss (excluding RHB Unfunded Liability Amortization and PSRA Adjustment)	**$ (0.9)**	**$ (7.4)**	**$ 6.4**
RHBF Unfunded Liability Amortization	0	1.0	(1.0)
PSRA Adjustment for Reversal of Unpaid RHBF Expenses	(57.0)	0	(57.0)
Total Net Income/(Loss)	**$ 56.0**	**$ (8.4)**	**64.4**

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 2022 PFI Report (unaudited), file “2022.11.10 Sept FY2022 Monthly Fin.pdf.”

As seen in Table II-13, total mail revenue was $1 billion greater than anticipated. Marketing Mail and Competitive and Other Parcels[26] revenues were more than projected, the result of higher than anticipated volumes.

26 Competitive and Other Parcels mail includes Competitive packages and Market Dominant Package Service mail.

Table II-13
Actual and Operating Plan Revenue by Categories Shown in IFP,[27] FY 2022 ($ in Billions)[28]

	FY 2022 Actual	FY 2022 Operating Plan	$ Change
First-Class Mail	$ 24.0	$ 24.2	$ (0.2)
Periodicals	1.0	1.0	(0.0)
Marketing Mail	16.1	15.2	0.9
Other	3.1	4.3	(1.2)
Competitive and Other Parcels	32.6	30.6	2.0
International	1.7	2.2	(0.5)
Total Mail Revenue	**$ 78.5**	**$ 77.5**	**$ 1.0**

Decrease in revenue is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service September 2022 PFI Report (unaudited), file "2022.11.10 September FY2022 Monthly in.pdf."

Total volume was more than expected, primarily due to higher-than-expected volume in USPS Marketing Mail and Competitive and Other Parcels 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,[29] FY 2022 (in Billions)

	FY 2022 Actual	FY 2022 Operating Plan	Change
First-Class Mail	48.9	49.0	(0.1)
Periodicals	3.4	3.5	(0.1)
Marketing Mail	67.1	63.9	3.2
Other	0.3	0.3	(0.0)
Competitive and Other Parcels	7.2	6.9	0.3
International	0.4	0.4	(0.0)
Total Mail Volume	**127.3**	**124.0**	**3.3**

Decrease is denoted by ().

Numbers may not add due to rounding.

Source: Postal Service September 2022 PFI Report (unaudited) Report at 2; Postal Service FY 2022 IFP at 3.

Total operating expenses were $2.5 billion less than anticipated, as a result of lower than anticipated compensation and benefits. Compensation and benefits were $3.6 billion lower than expected, resulting from the removal of the retiree health benefit normal cost obligation. Excluding the non-cash workers'

27 The Postal Service FY 2022 IFP isolates volume from International and Parcels from the other categories. *See* Postal Service FY 2022 IFP at 3.

28 Total mail revenue excludes investment income.

29 The Postal Service FY 2022 IFP isolates revenue and volume from International and Parcels from the other categories. *See* Postal Service FY 2022 IFP at 3.

compensation adjustment,[30] non-operating expenses were $0.6 billion more than anticipated, resulting from higher 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 2022 Form 10-K at 36.

Total non-personnel expenses were $1.1 billion more than projected, due to higher than anticipated transportation and other expenses.

Table II-15
Actual and Operating Plan Expenses, FY 2022 ($ in Billions)

	FY 2022 Actual	FY 2022 Operating Plan	$ Change
Compensation & Benefits	$ 57.3	$ 60.7	$ (3.4)
Transportation	10.3	9.6	0.7
Supplies & Services	3.2	3.4	(0.2)
Depreciation and Amortization	1.7	1.7	(0.0)
Rent/Utilities/Other	6.7	6.0	0.7
Total Operating Expenses	**$ 79.1**	**$ 81.4**	**$ (2.3)**
Workers' Compensation Adj.	(3.5)	0.0	(3.5)
RHB Unfunded Amortization	0	1.0	(1.0)
FERS Unfunded Amortization	1.6	1.4	0.2
CSRS Unfunded Amortization	2.3	1.9	0.4
Total Expenses	**$ 83.0**	**$ 85.7**	**$ (2.6)**
PSRA Adjustment for Reversal of Unpaid RHBF Expenses	(57.0)	0	(58.0)
Total Expenses (Including PSRA Adjustment)	**$ 26.0**	**$ 85.7**	**$ (59.6)**

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service September 2022 PFI Report (unaudited) at 3; Postal Service FY 2022 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 2022. These ratios provide a concise and systematic way to organize financial data into meaningful information. The historic accounting information used in ratio analysis is not adjusted for inflation in order to maintain consistency with Generally Accepted Accounting Principles (GAAP) and comparability over time, and because some postal expenses, such as labor, retirement, and workers' compensation, are impacted by cost indexes other than inflation.

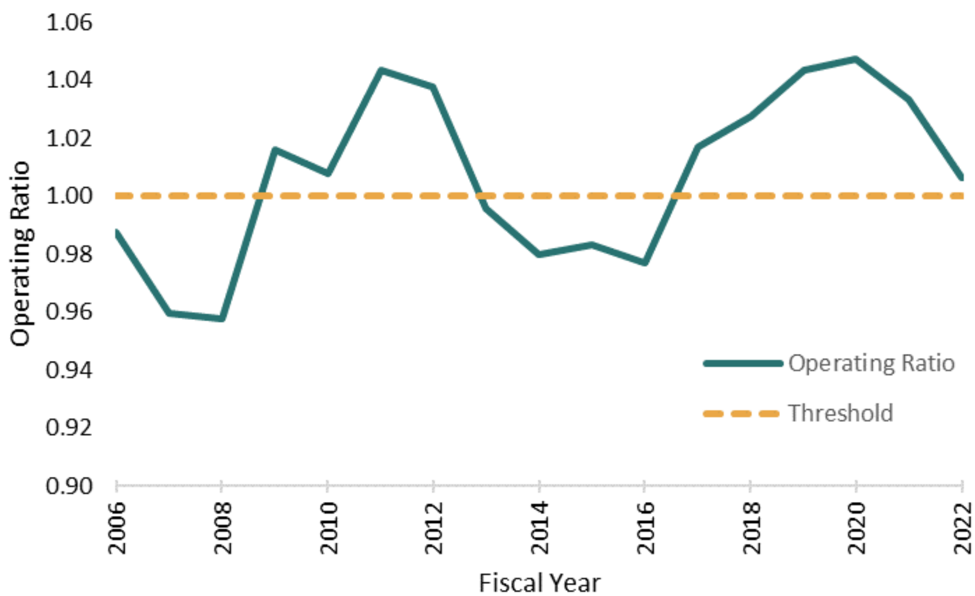
30 The Postal Service excludes the non-cash adjustment to workers' compensation from plan because it is dependent on actuarial assumptions, interest rates, and other factors outside of Postal Service management's control. *See* Postal Service FY 2022 IFP at 1.

OPERATING RATIO

IN FY 2022, THE OPERATING RATIO DECLINED FOR THE SECOND YEAR IN A ROW, TO 1.01, AS OPERATING REVENUE GREW

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.[31] 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 operating ratio below 1 indicates an operating profit, and the decline in the ratio represents an improvement in the Postal Service's ability to reduce its operating expenses while generating revenue. In FY 2020, the operating ratio was the highest in more than a decade. In FY 2022, the operating ratio declined for the second year in a row, to 1.01, as operating revenue grew and operating expenses declined. The improvement in FY 2022 is primarily due to lower operating expenses as a result of the removal of retiree health benefit normal costs.[32]

Figure II-4
Operating Ratio Trend FY 2006–FY 2022



Source: PRC derived from Postal Service Form 10-, FY 2008–FY 2022; United States Postal Service, Form 10-K FY 2007, November 20, 2007 (Collectively Postal Service Form 10-K FY 2007-FY 2013).

RETURN ON ASSETS

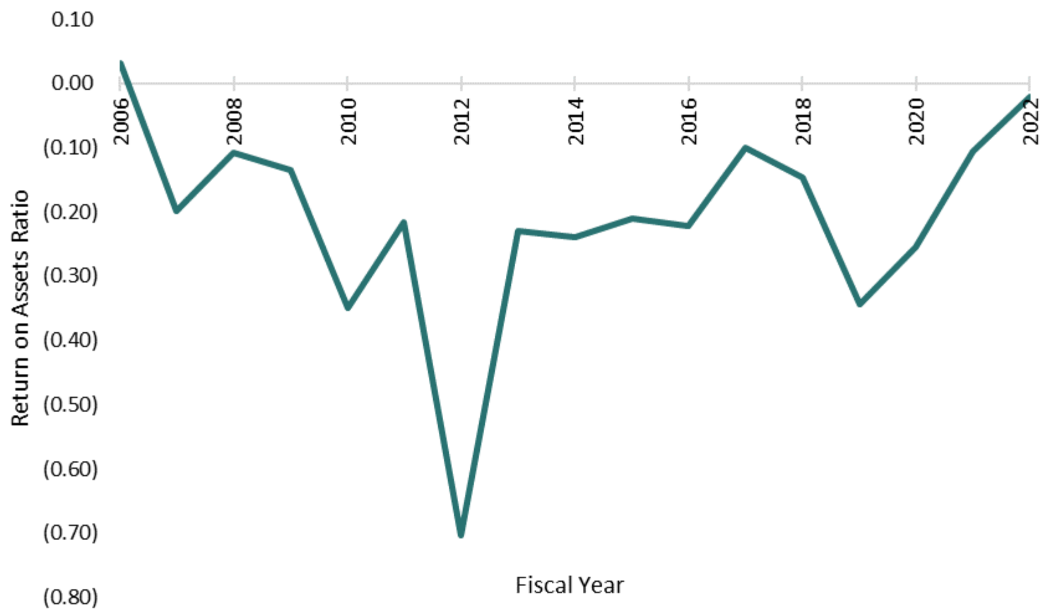
The return on assets ratio is a measure of how efficiently an organization uses its assets to generate profits. It compares total assets to net income (loss) for each year. A negative return on assets indicates

31 The Commission calculates the operating ratio by dividing total operating expenses by total operating revenue.

32 If the $4.2 billion in retiree health benefit costs were excluded from operating expenses for FY 2021, the operating ratio for that year would have been 0.98.

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 2022



Source: PRC derived from Postal Service Form 10-K, FY 2007–FY 2022.

The Postal Service's total assets are cash and cash equivalents; receivables; and property, plant, and equipment. At the end of FY 2022, the Postal Service had a return on assets ratio of negative 0.02,[33] an improvement compared to the prior year's ratio of negative 0.11. The decline in FY 2022 total net loss was the result of the removal of retiree health benefit normal costs in compensation and benefits, which improved the ratio.

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.[34] The sharp decline in FY 2012 was largely the result of 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[35] 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.

33 For analysis purposes the Commission excludes the one-time non-cash adjustment to retiree health benefit unfunded liability accruals ($57 billion).

34 Postal Service Form 10-K, Balance Sheet, FY 2007–FY 2010.

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

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, 2022 (FY 2022) and September 30, 2021 (FY 2021). Table II-16 compares certain categories in the Postal Service's asset and liability structure for FY 2022 with FY 2021.

Table II-16
Structure of Assets and Liabilities, FY 2021 and FY 2022 ($ in Millions)

				% of Total Assets	
Assets	**FY 2021**	**FY 2022**	**$ Change**	**FY 2021**	**FY 2022**
Cash and Cash Equivalents (includes Restricted Cash)	$ 24,307	$ 20,618	$ (3,689)	52.4%	44.7%
Receivables	1,412	1,326	(86)	3.0%	2.9%
Supplies and Prepayments	189	252	63	0.4%	0.5%
Total Current Assets	25,908	22,196	(3,712)	55.8%	48.1%
Noncurrent Assets	20,497	23,919	3,422	44.2%	51.9%
Total Assets	**$ 46,405**	**$ 46,115**	**$ (290)**	**100.0%**	**100.0%**
				% of Total Liabilities	
Liabilities	**FY 2021**	**FY 2022**	**$ Change**	**FY 2021**	**FY 2022**
Retiree Benefits	$ 56,975	$ 0	$ 56,975)	46.7%	0.0%
Short-Term Debt	1,000	0	(1,000)	0.8%	0.0%
Deferred Revenue-Prepaid Postage	2,623	2,519	(104)	2.1%	4.0%
Other Current Liabilities	26,731	29,628	2,897	21.9%	47.2%
Total Current Liabilities	87,329	32,147	(55,182)	71.5%	51.2%
Workers' Compensation Costs, Noncurrent	16,849	13,418	(3,431)	13.8%	21.4%
Long-Term Debt	10,000	10,000	0	8.2%	15.9%
Other Noncurrent Liabilities	7,907	7,184	(723)	6.5%	11.4%
Total Noncurrent Liabilities	34,756	30,602	(4,154)	28.5%	48.8%
Total Liabilities	**$ 122,085**	**$ 62,749**	**$ (59,336)**	**100.0%**	**100.0%**

Decrease in amounts is denoted by ().

Numbers may not add across due to rounding.

Source: Postal Service FY 2022 Form 10-K at 46.

At the end of FY 2022, total assets decreased by $0.3 billion compared to the prior period, driven by declines in cash partially offset by an increase in noncurrent restricted cash.[36] Declines in cash were

36 On August 16, 2022, the President signed the Inflation Reduction Act of 2022 (Public Law 117-169). This legislation provided $1.29 billion in funding to the Postal Service for the procurement of zero-emission delivery vehicles and $1.71 billion in funding to the Postal Service for the purchase, design, and installation of the requisite infrastructure to support zero-emission delivery vehicles at facilities that the Postal Service owns or leases from non-Federal entities. Both amounts were deposited into the Postal Service Fund and recorded as noncurrent restricted cash in September FY 2022. The funds will remain available for use through September 30, 2031. Postal Service FY 2022 Form 10-K at 55.

mostly driven by higher operating expenses, increases in compensation due to timing of payroll, the repayment of deferred Social Security taxes, and the $500 million payment towards FERS amortization costs.[37] Current assets are the sum of cash and cash equivalents, receivables and supplies, and prepayments, which are 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.

In FY 2022, the passage of the PSRA removed $57 billion of RHB unfunded liability which had been previously reported as a current liability on the Postal Service's balance sheet

Liabilities at the end of FY 2022 totaled $62.7 billion, 51.2 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. In FY 2022, the passage of the PSRA removed $57 billion of RHB unfunded liability which had been previously reported as a current liability on the Postal Service's balance sheet. The Postal Service is still required to make payment for amortization of unfunded CSRS and FERS liabilities. The Postal Service continued to accrue these unpaid retirement expenses, which totaled approximately $18.2 billion at the end of FY 2022. This obligation is 28.9 percent of current liabilities. Additionally, at the end of FY 2022, the Postal Service had $1 billion less in short-term debt compared to FY 2021. Long-term liabilities consist mainly of workers' compensation liability ($13.4 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 2022, the Postal Service recorded a $16.6 billion net deficit, consisting of an accumulated deficit of $32.8 billion offset by capital contributions of $16.1 billion. The accumulated deficit is the result of multiple years of net losses, beginning in FY 2007, partially offset by FY 2022 net income of $56 billion driven by PSRA adjustments. The $16.1 billion in capital contributions consists of a beginning balance of $13.1 billion[38] and the $3.0 billion in funds the Postal Service received in FY 2022 as part of the Inflation Reduction Act of 2022. The net deficiency of $16.6 billion is $59.1 billion less than FY 2021 due to the $57 billion PSRA adjustment to RHB unfunded liability and the $3.0 billion in capital contributions.

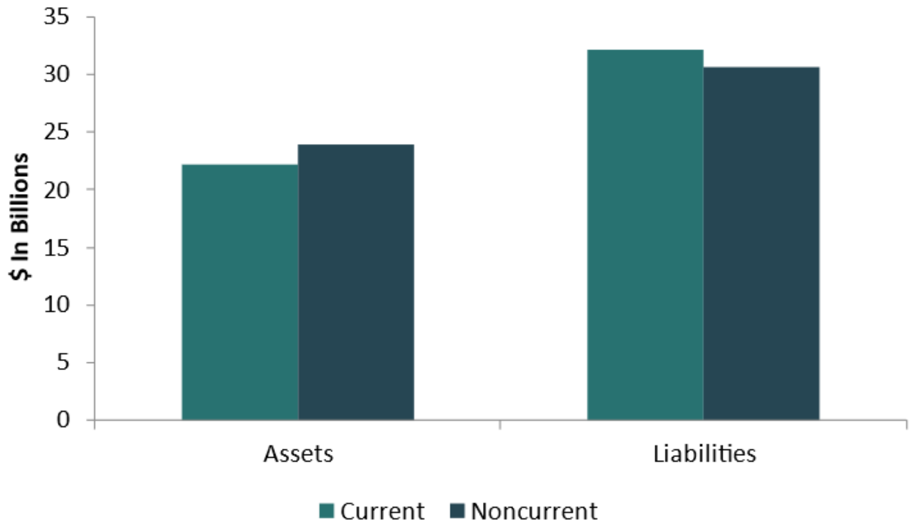
The net deficiency of $16.6 billion is $59.1 billion less than FY 2021 due to the $57 billion PSRA adjustment to RHB unfunded liability and the $3.0 billion in capital contributions

Figure II-6 shows the mix of the Postal Service's asset and liability structure as of September 30, 2022. The shortage of current assets (48.1 percent of total assets) to cover current liabilities (51.2 percent of total liabilities) adversely affects the Postal Service's financial condition. In FY 2022, despite the reversal of RHB unfunded liability accruals, the Postal Service did not have a sufficient amount of current assets to pay for current liabilities. Non-current assets comprise 51.9 percent of total assets, while non-current liabilities only comprise 48.8 percent of total liabilities.

37 Postal Service FY 2022 Form 10-K at 37.

38 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.

Figure II-6
Comparison of Postal Service's FY 2022 Current and Noncurrent Assets and Liabilities



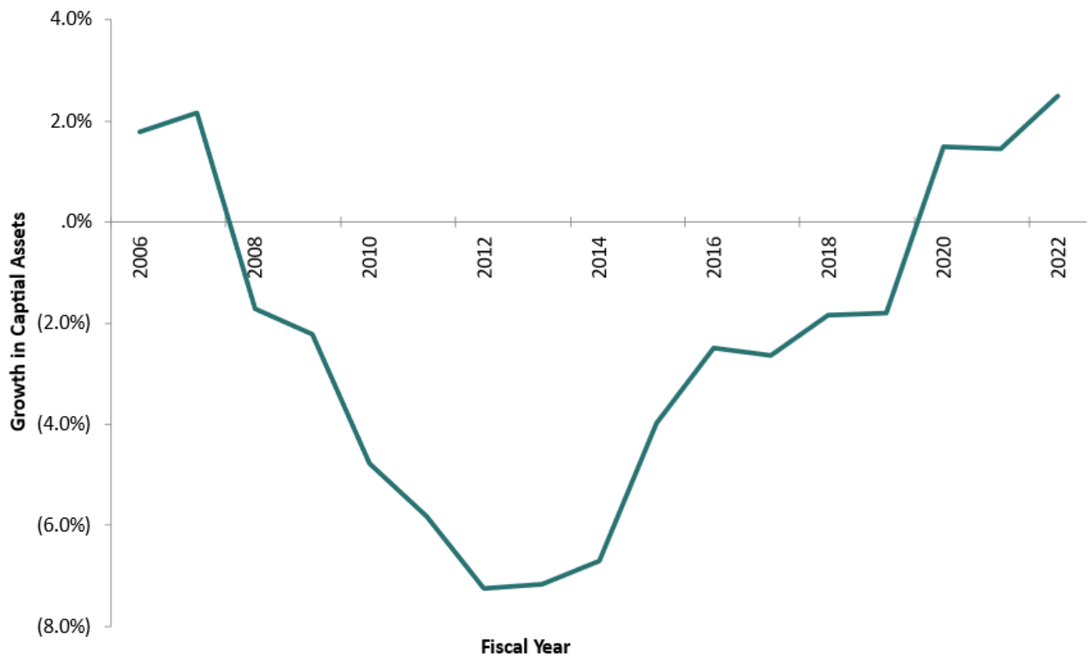
Source: PRC derived from Postal Service FY 2022 Form 10-K at 46.

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 2022, the Postal Service's working capital was a negative $10 billion.

Assets

Since 2008, Postal Service capital investments have not kept pace with depreciation and amortization. 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 2006 - FY 2022



Source: PRC derived from Postal Service Form 10-K, FY 2007–FY 2022.

FY 2022 RECORDED ITS HIGHEST POSITIVE GROWTH IN CAPITAL ASSETS

FY 2022 recorded Postal Service's highest positive growth in capital assets. The Postal Service recorded a 2.5 percent growth in capital, compared to the 1.4 percent in FY 2021. The Postal Service purchased $1.8 billion in property and equipment, offset by the total property, plant, and equipment depreciation of $1.7 billion.

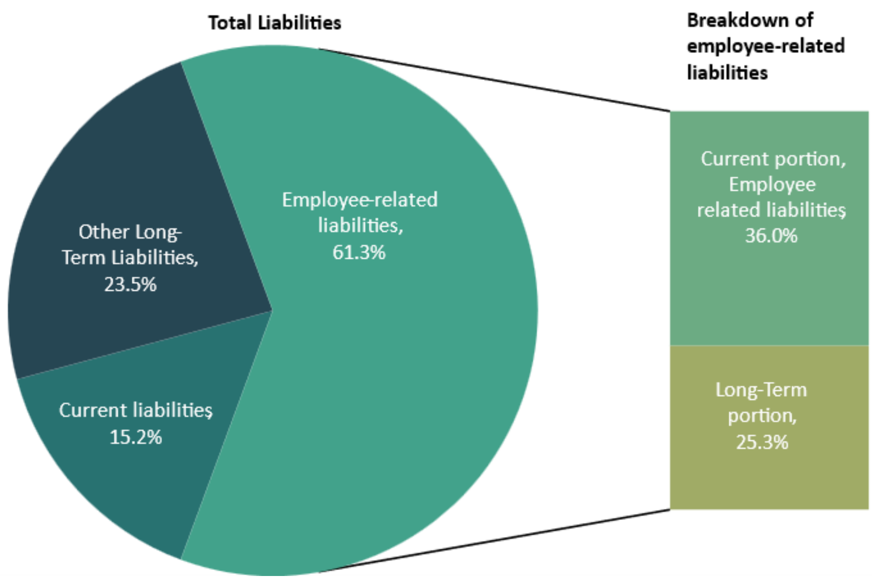
In September 2022, the Postal Service received $3.0 billion under the Inflation Reduction Act, of which $1.3 billion is available for the purchase of zero-emission vehicles, with the additional $1.7 billion available for the purchase and installation of infrastructure to support those vehicles. *Id.* at 59.

LIABILITIES

In FY 2021, total liabilities decreased by $59.3 billion, mostly due to the reduction in current liabilities as a result of the RHB liability adjustment.

The long-term portion of workers' compensation decreased by $3.4 billion in FY 2022. This actuarial adjustment is highly sensitive to discount and inflation rates and to new and existing claims. Figure II-8 shows the current breakdown of the Postal Service's liabilities as of September 30, 2022.

Figure II-8
Postal Service Liabilities Structure, September 30, 2022



Source: PRC derived from Postal Service FY 2022 Form 10-K at 46.

In addition to the liabilities recorded on the Postal Service's Balance Sheets, there are other liabilities not recognized in the Postal Service's financial statements. These liabilities are controlled and administered by OPM and relate to the assets and liabilities attributed to the Civil Service Retirement and Disability Fund (CSRDF). *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, 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

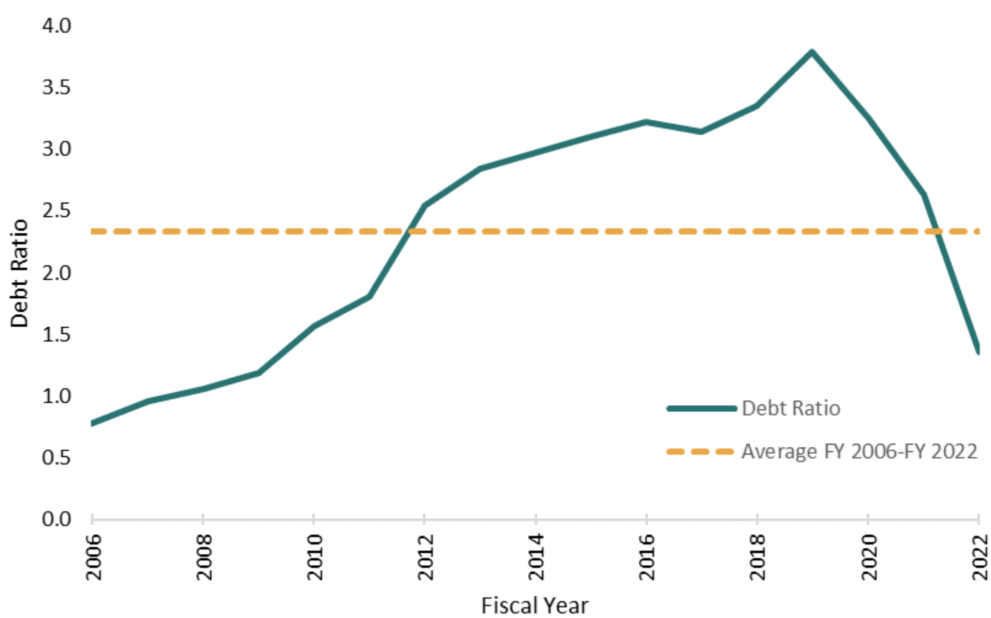
	FY 2021	FY 2022	Change
Debt Ratio	2.63	1.36	(1.27)
Current Ratio	0.30	0.69	0.39
Cash Ratio	0.28	0.64	0.36

Source: PRC derived from Postal Service FY 2022 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 effectively to challenges and opportunities. Figure II-9 reflects the Postal Service's debt ratio trend since FY 2006.

Figure II-9
Debt Ratio, FY 2006–FY 2022



Source: PRC derived from Postal Service Form 10-K, FY 2007–FY 2022.

The debt 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.

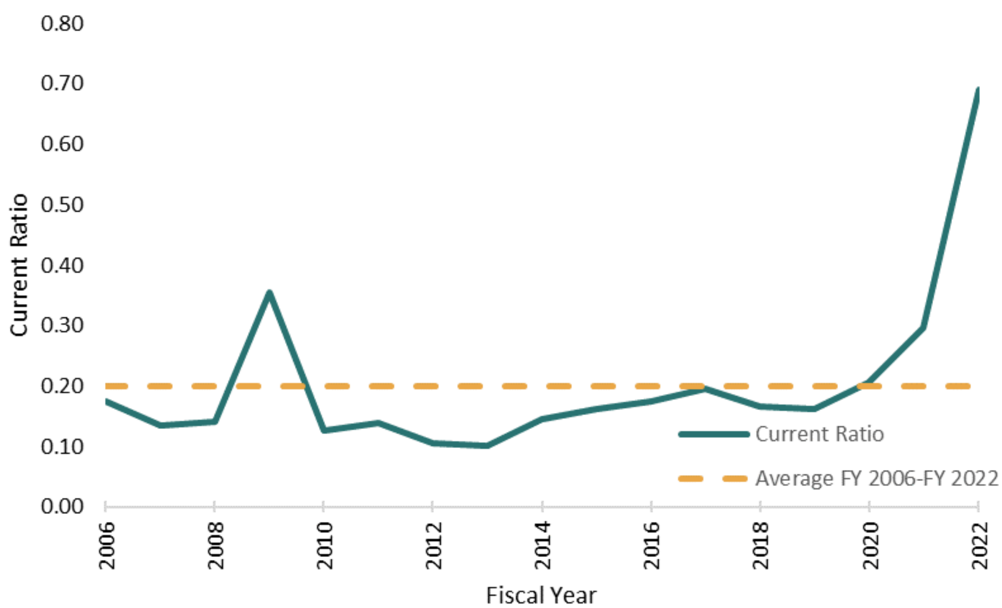
At the end of FY 2022, the debt ratio decreased to 1.36 from the 2.63 debt ratio for FY 2021, the lowest the ratio has been since FY 2008. The decrease is primarily the result of the $57 billion reduction in retiree health benefit liabilities. The Postal Service's FY 2022 debt ratio was lower than the average debt ratio from FY 2006 to FY 2022 of 2.33. Despite the improvement, this ratio still indicates that the Postal Service lacks sufficient resources to pay down its liabilities.

AT THE END OF FY 2022, THE DEBT RATIO DECREASED TO 1.36 FROM THE 2.63 DEBT RATIO FOR FY 2021, THE LOWEST THE RATIO HAS BEEN SINCE FY 2008

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 2022



Source: PRC derived from Postal Service Form 10-K, FY 2007–FY 2022.

At the end of FY 2022, the Postal Service had a current ratio of 0.69, an increase of 0.39 from the end of FY 2021. This is higher than the average current ratio from FY 2006 to FY 2022 of 0.20.

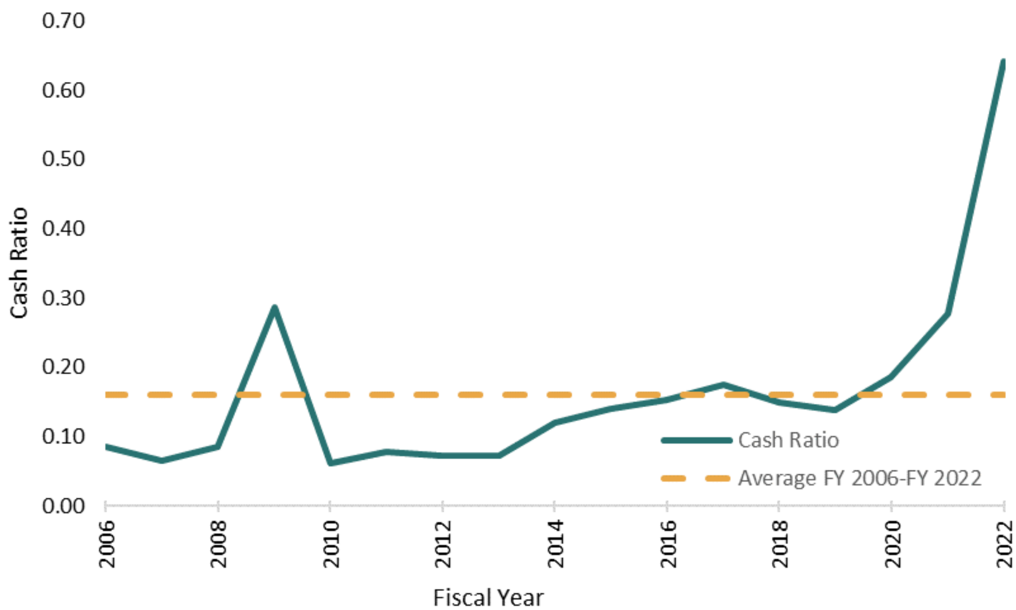
The increase in the current ratio resulted from a significantly larger decline in current liabilities compared to current assets. Current liabilities decreased by $55.2 billion (63.2 percent) due to the elimination of retiree health benefit liabilities, partially offset by increases in CSRS and FERS unfunded liabilities. Current assets decreased by $3.7 billion (14.3 percent) compared to the end of FY 2021 as a result of a decrease in cash.

The reduction of statutory prefunding payments in FY 2009 resulted in a higher current ratio. A combination of increasing current liabilities and increasing cash helped keep the current ratio relatively flat. It has increased in the last 3 years resulting from increases in cash in years FY 2020 and FY 2021 and the reduction in current liabilities in FY 2022.

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 2022.

Figure II-11
Cash Ratio, FY 2006–FY 2022



Source: PRC derived from Postal Service Form 10-K, FY 2007–FY 2022.

The Postal Service had a cash ratio of 0.64 at the end of FY 2022. This is an increase compared to the prior year's cash ratio of 0.28. The FY 2022 cash ratio is also higher than the average cash ratio from FY 2006 to FY 2022 of 0.16. The increase in the cash ratio resulted from the $55.2 billion decrease in current liabilities compared to FY 2021. 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. During years FY 2020 and FY 2021, gradual cash increases helped improve the cash ratio.

Analysis of Statements of Cash Flows

At the end of FY 2022, the Postal Service's total cash and cash equivalents, excluding $1 billion in restricted cash, were $19.6 billion. Cash and cash equivalents, excluding restricted cash, were $4.3 billion lower than at the end of FY 2021. At the end of FY 2022, the Postal Service had $5 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 2022.

Table II-18
Postal Service Statements of Cash Flows, FY 2013–FY 2022 ($ in Millions)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Net Income/(Loss)	$(4,977)	$(5,508)	$(5,060)	$(5,591)	$(2,742)	$(3,913)	$(8,813)	$(9,176)	$(4,930)	$56,046
Non-Cash Items and Other Cash Flows	5,911	8,822	7,939	8,327	6,565	6,680	11,278	13,545	9,414	(57,020)
Cash Flows From Investing Activities:	0	0	0	0	0	0	0	0	0	0
Decrease (Increase) in Restricted Cash	(79)	66	13	(20)	(38)	16	(91)	12	(95)	(3,562)
Purchase of Property and Equipment	(667)	(781)	(1,222)	(1,428)	(1,344)	(1,409)	(1,419)	(1,810)	(1,872)	(1,796)
Proceeds From Sale of Property and Equipment	158	129	120	206	58	32	27	32	14	111
Net Cash Used in Investing Activities	(588)	(586)	(1,089)	(1,242)	(1,324)	(1,361)	(1,483)	(1,766)	(1,953)	(5,247)
Cash Flows From Financing Activities:	0	0	0	0	0	0	0	0	0	0
Increase (Decrease) in Debt	0	0	0	0	0	(1,800)	1,800	3,000	(3,000)	(1,000)
Payments for Capital Leases	(59)	(58)	(62)	(51)	(63)	(58)	(48)	(40)	(31)	(30)
Net Change in Revolving Credit Line	0	0	0	0	0	0	(4,000)	0	0	0
U.S. Government Appropriations - Expensed	(48)	(90)	0	0	0	0	0	0		
Contributions of the U.S. Government	0	0	0	0	0	0	0	0	10,000	3,000
Net Cash (Used) Provided by Financing Activities	(107)	(148)	(62)	(51)	(63)	(1,858)	(2,248)	2,960	6,969	1,970
Net Increase/ (Decrease) in Cash	803	2,580	1,728	1,443	2,436	(452)	(1,266)	5,563	9,500	(4,251)
Cash Balance Beginning of Year	1,283	2,326	4,906	6,634	8,077	10,513	10,061	8,795	14,358	23,858
Cash Balance End of Year	**$ 2,086**	**$ 4,906**	**$ 6,634**	**$ 8,077**	**$10,513**	**$10,061**	**$ 8,795**	**$14,358**	**$23,858**	**$19,607**
Debt Outstanding	$15,000	$15,000	$15,000	$15,000	$15,000	$13,200	$11,000	$14,000	$11,000	$10,000

Numbers may not add across due to rounding.

Source: PRC derived from Postal Service Form 10-K, FY 2013–FY 2022.

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, 2022, the Postal Service had $5 billion in remaining borrowing capacity but is limited to a $3 billion annual borrowing cap. Postal Service FY 2022 Form 10-K at 62.

Table II-19
Total Postal Service Liquidity (in $ Millions)
End of FY 2021 Compared to FY 2022

	FY 2021	FY 2022
Cash and Cash Equivalents	$ 23,858	$ 19,607
Current Portion of Debt	1,000	0
Long-Term Debt	10,000	10,000
Total Debt	**$ 11,000**	**$ 10,000**
Statutory Debt Limit	15,000	15,000
Available Debt	4,000	5,000
Total Liquidity (Cash + Available Debt)	**$ 27,858**	**$ 24,607**

Source: Postal Service FY 2022 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.

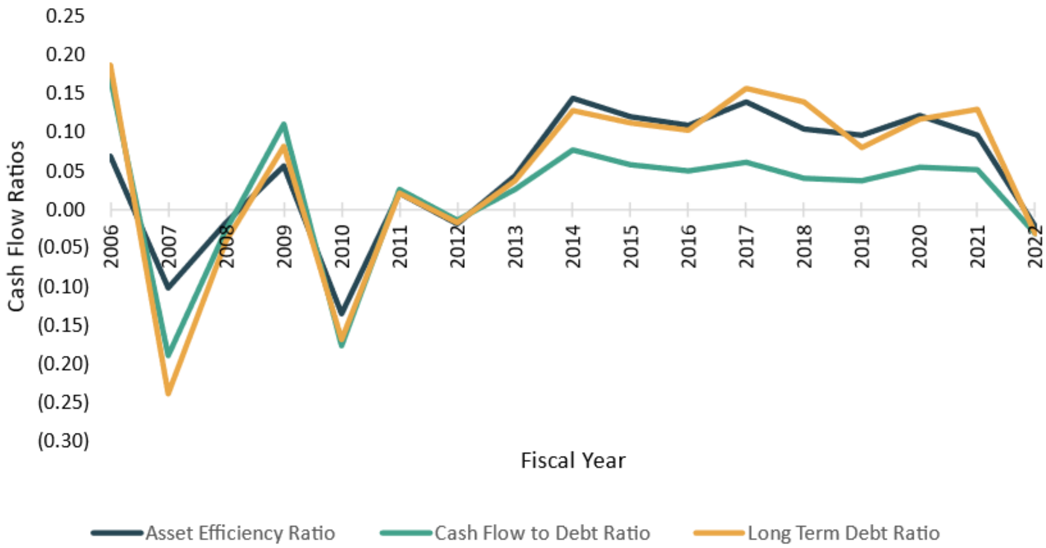
Table II-20
Cash Flow Ratios, FY 2021 and FY 2022

	FY 2021	FY 2022	Change
Asset Efficiency Ratio	0.10	(0.02)	(0.12)
Cash Flow to Debt Ratio	0.05	(0.03)	(0.08)
Long Term Debt Ratio	0.13	(0.03)	(0.16)

Source: PRC derived from Postal Service FY 2022 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 2007–FY 2022.

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 2022, the Postal Service had an asset efficiency ratio of negative 0.02, which is 0.12 lower than the prior year. The FY 2022 asset efficiency ratio is lower compared to the historical average from FY 2006 to FY 2022 of 0.05; cash flow from operations decreased significantly while total assets declined slightly. 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 negative 0.03 at the end of FY 2022, which is a decrease of 0.08 from the prior year and lower than the historical average from FY 2006 to FY 2022. The operating cash flow ratio measures an entity's ability to generate cash that can be used to cover current debt. In FY 2022, both cash flow from operations and current liabilities decreased compared to FY 2021. 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 2022, the Postal Service had a long-term debt ratio of negative 0.03, a decrease of 0.16 from the end of FY 2021.

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 legislative and methodological changes implemented in FY 2022, 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 2021 and FY 2022;[39] 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,[40] 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.[41] 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 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.[42]

Attributable cost is distributed to products using distribution keys that reflect the underlying cost driver.[43] 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

39 FY 2021 volume, revenue, and cost data that are not depicted in tables in this section can be found in the corresponding section of the FY 2021 Financial Report.

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

41 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).

42 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

43 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.

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 products collectively. Institutional cost includes costs for carrier network travel time, amortization of CSRS unfunded liability apportioned to prior years, and various administrative costs.

Legislative and Methodological Changes

The Postal Service Reform Act of 2022 eliminated the requirement that the Postal Service pre-fund retiree health benefits. *See supra*. The cost of pre-funding retiree health benefits was previously included in Cost Segment 18, among the service-wide personnel expenses that are not reported by employee category. Therefore, as a consequence of the legislation, Cost Segment 18 costs in FY 2022 are significantly lower than in previous years, complicating comparisons over time of piggybacked unit costs which include Cost Segment 18 costs.

In FY 2022, the Commission approved new TRACS-based highway peak season distribution keys for the transportation cost model, which had minor effects on the transportation costs of some products,[44] but no methodological changes substantially shifted costs between products.

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 2021 and FY 2022.

Table III-1
Market Dominant Volume, Revenue, and Cost, FY 2021 and FY 2022

	FY 2021	FY 2022	% Change
Volume (Millions)	121,640	120,372	(1.0%)
Revenue ($ Millions)	41,634	43,943	5.5%
Attributable Cost ($ Millions)	27,258	26,304	(3.5%)
Contribution to Institutional Cost ($ Millions)	14,376	17,638	22.7%

Negative values are denoted by ().

Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

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 2022 Form 10-K at 10. Although Market Dominant volume decreased by 1.0 percent in FY 2022, Market Dominant revenue increased by 5.5 percent in FY 2022 due to the Docket No. R2022-1 price increases. On a unit basis, revenue increased by 6.7 percent from FY 2021, to $0.37 per piece.

Market Dominant revenue increased by 5.5 percent in FY 2022

With the decrease in volume, the attributable cost for Market Dominant products also decreased from FY 2021. However, the average unit attributable cost remained the same as in FY 2021, at $0.22 per piece.

44 *See* Docket No. RM2022-13, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), November 3, 2022 (Order No. 6322).

Total Market Dominant contribution to institutional cost increased by $3.3 billion, or 22.7 percent, in FY 2022, due to the FY 2022 price increase, and the decline in volume of unprofitable categories of mail.

Market Dominant products accounted for 96.4 percent of total mail volume, an increase of 1.8 percentage points from FY 2021. Revenue from these products as a percentage of total revenue from mail and services increased from 54.1 percent in FY 2021 to 55.9 percent in FY 2022. Market Dominant attributable cost as a percentage of total attributable cost decreased from 56.4 percent in FY 2021 to 55.9 percent in FY 2022.

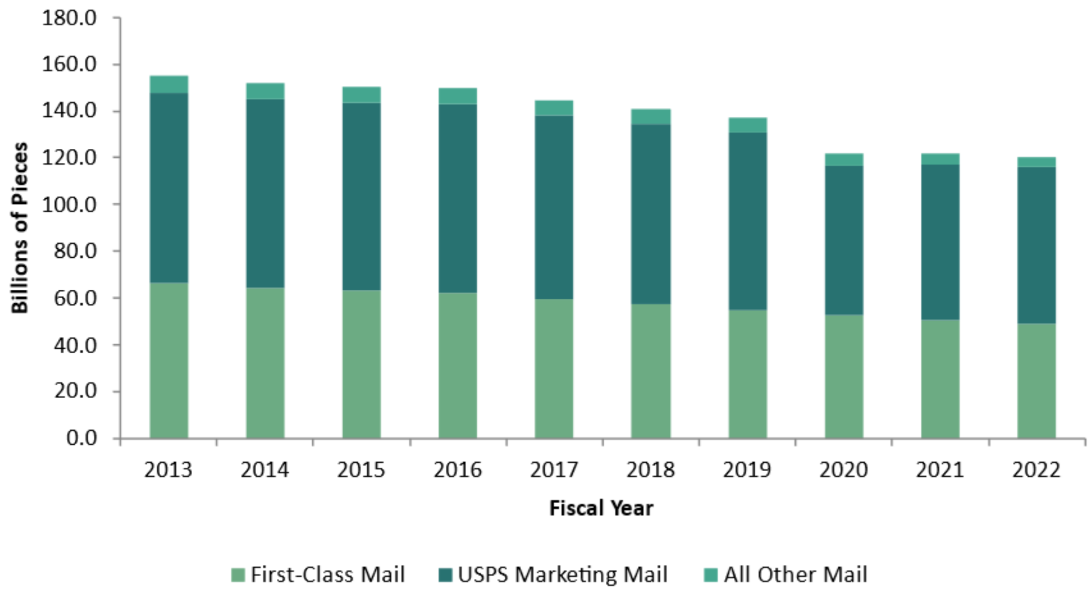
IN FY 2022, THE POSTAL SERVICE LOST $1.3 BILLION FROM PRODUCTS THAT DO NOT COVER THEIR ATTRIBUTABLE COSTS, COMPARED TO $1.9 BILLION IN FY 2021

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 $1.3 billion in FY 2022; an improvement compared to FY 2021, when the negative contribution from underwater products was $1.9 billion. Nine domestic mail products and services failed to cover their attributable cost: USPS Marketing Mail Flats ($648.7 million), USPS Marketing Carrier Route ($8.5 million), USPS Marketing Mail Parcels ($7.5 million), Periodicals Outside County ($557.9 million), Periodicals In-County ($53.3 million), Package Services Media Mail/Library Mail ($38.4 million), and Money Orders ($1.5 million).

MARKET DOMINANT VOLUME TRENDS

Over the last decade, volume for Market Dominant products declined by 37.0 billion pieces as shown in Figure III-1.

Figure III-1
Market Dominant Volume, FY 2013–FY 2022



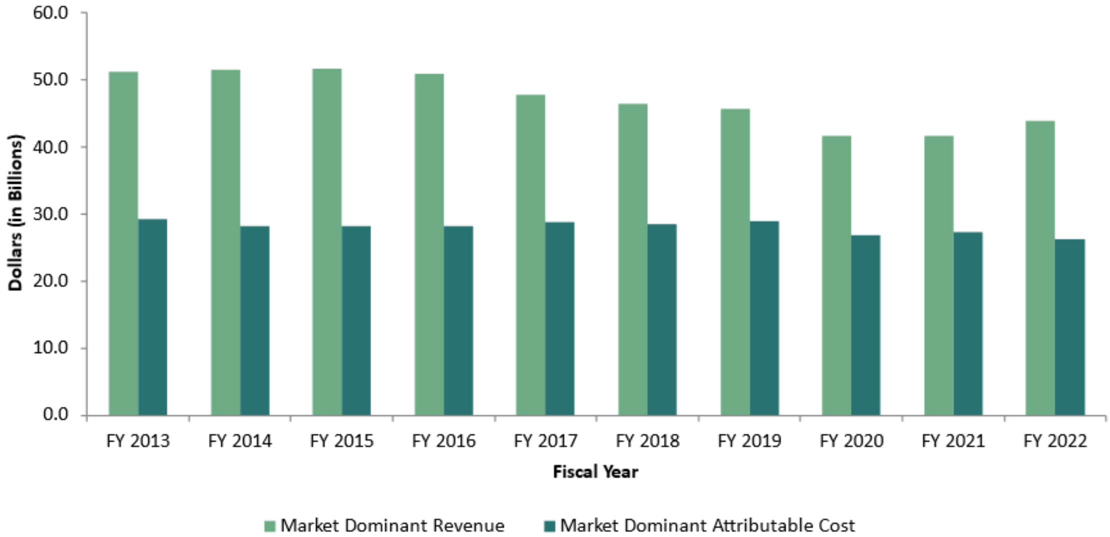
Source: Docket No. ACD2013, *Annual Compliance Determination*, March 27, 2014 (FY 2013 ACD); Docket No. ACR2014, Library Reference PRC-LR-ACR2014-1, March 27, 2015; Docket No. ACR2015, Library Reference PRC-LR-ACR2015-1, March 28, 2016; Docket No. ACR2016, Library Reference PRC-LR-ACR2016-1, March 28, 2017; Docket No. ACR2017, Library Reference PRC-LR-ACR2017-1, March 29, 2018; Docket No. ACR2018, Library Reference PRC-LR-ACR2018-1, April 12, 2019; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1, March 25, 2020 ; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1, March 29, 2021; Docket No. ACR2021, Library Reference PRC-LR-ACR2021-1, March 29, 2022; Library Reference PRC-LR-ACR2022-1 (collectively, Library Reference PRC-LR-1, FY 2014-FY 2022).

In FY 2022, First-Class Mail and USPS Marketing Mail accounted for 96.4 percent of the total Market Dominant product volume. First-Class Mail volume, which "has been eroded by competition from electronic media," has declined every year over the last decade, resulting in a loss of 20.7 billion pieces. Postal Service FY 2022 Form 10-K at 10. This represents a 29.8 percent loss in volume over that time period. USPS Marketing Mail volume has also declined considerably over the last decade "due to mailers' growing use of digital advertising, including digital mobile advertising." *Id.* While USPS Marketing Mail volume increased slightly over the past two years, it remains more than eight billion pieces below pre-COVID-19 pandemic levels. Moreover, USPS Marketing Mail accounts for 34.3 percent of the 37.0 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 2013 to FY 2022. Over the last 10 years, total revenue declined by 16.8 percent, while total attributable cost declined by 18.2 percent. First-Class Mail and USPS Marketing Mail continue to provide the majority of the Postal Service's operating revenue, even as the "shift to substitute products and digital communication, a trend that has been further exacerbated by the effects of the pandemic," continues to negatively impact the demand for these services. *Id.*

Figure III-2
Market Dominant Revenue and Attributable Cost, FY 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Competitive Products and Services

The COVID-19 pandemic initially caused a surge in e-commerce, causing a substantial increase in Competitive product volume. While Competitive product volume decreased slightly in FY 2022, it stands above pre-pandemic levels. Revenue for Competitive products also decreased in FY 2022. Table III-2 compares the total volume, revenue, and cost of these products and services between FY 2021 and FY 2022.

Table III-2
Competitive Volume, Revenue, and Cost, FY 2021 and FY 2022

	FY 2021	FY 2022	% Change
Volume (Millions)	7,256	6,891	(5.0%)
Revenue ($ Millions)	34,233	33,129	(3.2%)
Attributable Cost ($ Millions)	21,040	20,667	(1.8%)
Contribution to Institutional Cost ($ Millions)	13,193	12,462	(5.5%)

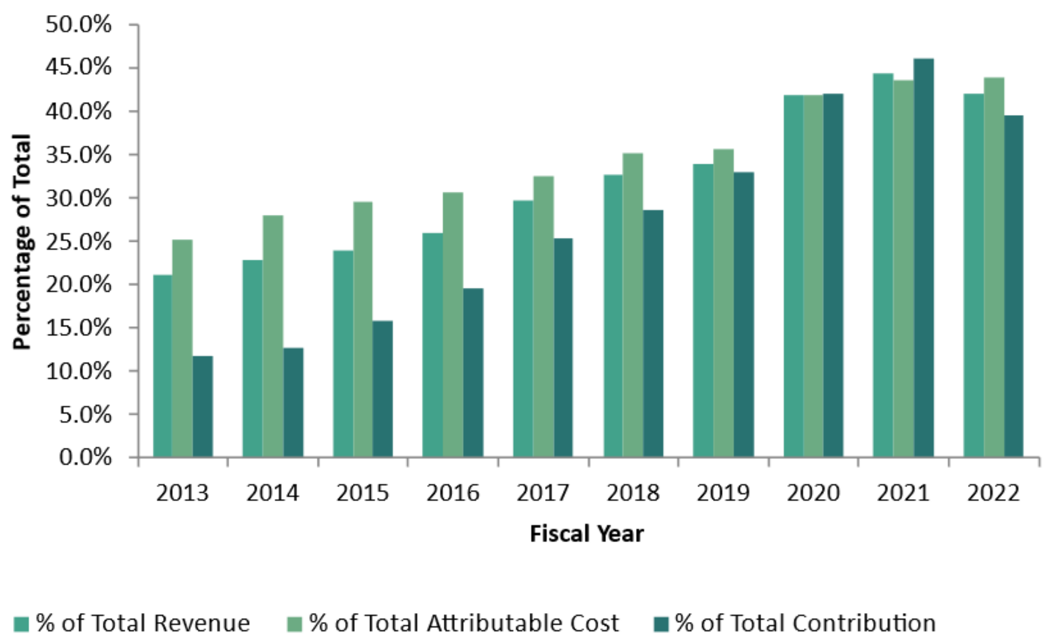
Negative values are denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

VOLUME FOR COMPETITIVE PRODUCTS DECREASED BY 5.0 PERCENT IN FY 2022 BUT REMAINS ABOVE PRE-PANDEMIC LEVELS

Volume for Competitive products decreased by 5.0 percent in FY 2022 but remains above pre-pandemic levels. The loss in volume resulted in a 3.2 percent decrease in revenue, even as unit revenue increased by 1.9 percent compared with FY 2021. Attributable cost followed a similar pattern to revenue, as it decreased by 1.8 percent in the aggregate and increased by 3.4 percent on a unit basis. Contribution to institutional cost decreased both in the aggregate and on a unit basis. In FY 2022, contribution to institutional cost decreased by $731 million, or 5.5 percent in the aggregate, and decreased 0.5 percent on a unit basis.

As shown in Figure III-3, Competitive products' share of total Postal Service revenue and attributable cost was about twice as large in FY 2022 as in FY 2013. While Competitive products' share of contribution to institutional cost decreased in FY 2022 compared with FY 2021, preceding that, it had increased steadily every year, but more rapidly during the height of the COVID-19 pandemic. In FY 2022, Competitive products' share of contribution to institutional cost was 39.5 percent, 6.6 percentage points less than in FY 2021, but 6.5 percentage points more than in FY 2019, before the COVID-19 pandemic began.

Figure III-3
Competitive Products' Percent Share of Total Postal Service Revenue, Cost, and Contribution to Institutional Cost, FY 2013–FY 2022

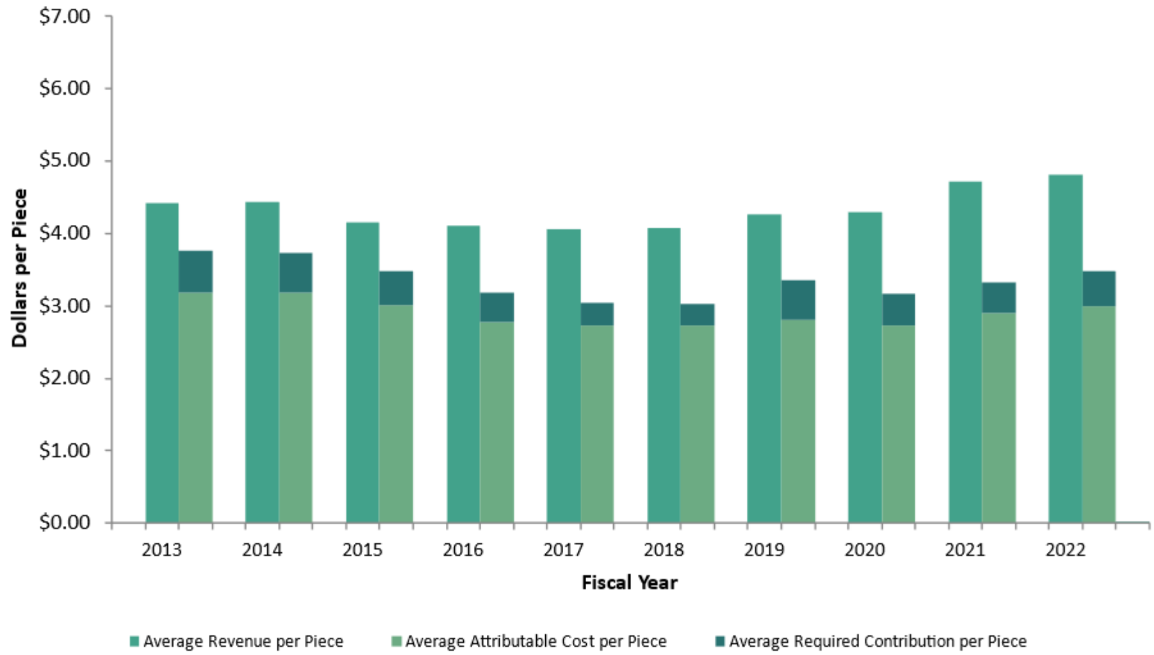


Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Figure III-4 illustrates the changes in average unit revenue and cost from FY 2013 to FY 2022. Competitive products must collectively cover their minimum required contribution to institutional costs.[45] Figure III-4 shows the minimum required contribution as an average amount per piece. Since FY 2013, average unit revenue for Competitive products and services exceeded the combined average unit attributable cost and minimum required contribution per piece.

45 *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. 6399 with respect to this issue, which left the formula prescribed in Order No. 4963 in place. *See* Docket Nos. RM2017-1 and RM2022-2, Order Finalizing Rule Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 9, 2023 (Order No. 6399).

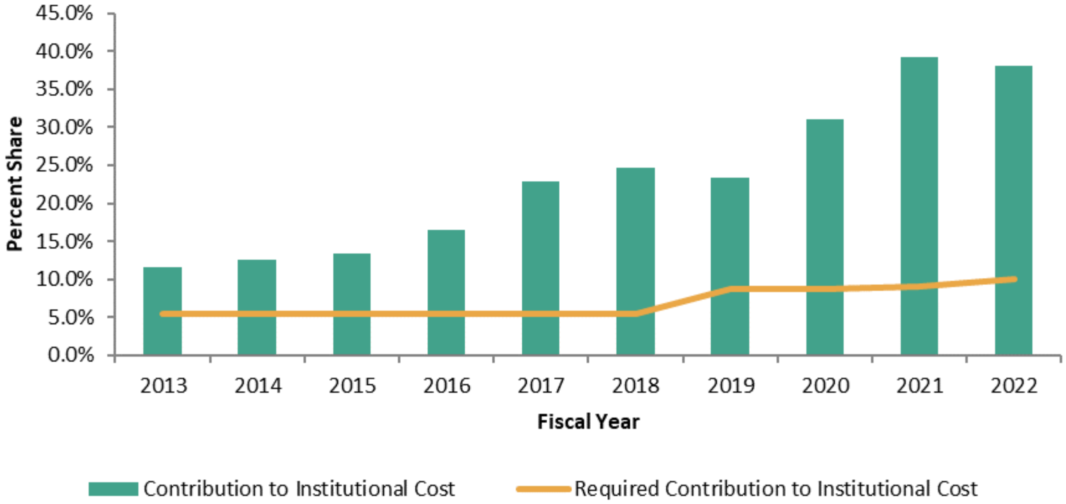
Figure III-4
Competitive Average Unit Revenue and Cost, FY 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

In FY 2022, just as in previous years, total contribution to institutional cost from Competitive products exceeded the minimum required contribution. As shown in Figure III-5, while the contribution from Competitive products decreased slightly in FY 2022, in general, contribution from Competitive products has increased significantly in recent years. The increases in FY 2020 and FY 2021 were particularly large due to the pandemic-related surge in package volume. Before the COVID-19 pandemic, 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 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

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."[46]

FIRST-CLASS MAIL LETTERS COMPARED WITH FY 2021

Table III-3 summarizes the FY 2022 change in total volume and revenue for First-Class Mail letters. First-Class Mail letters volume declined by 4.8 percent in FY 2022, representing an even larger decrease than during the COVID-19 pandemic (4.2 percent in FY 2021 and 4.5 percent in FY 2020). For single-piece letters, the rate of decline was 8.0 percent in FY 2022, compared to less than 6 percent in the years prior to the COVID-19 pandemic. Presorted letters volume decreased 3.5 percent in FY 2022, compared to 2.4 percent in FY 2021.

Total revenue for First-Class Mail letters increased by 1.8 percent in FY 2022 due to the price increase in August 2021.[47] Unit revenue increased from 45 cents per piece in FY 2021 to 48 cents in FY 2022. The sharp decline in single-piece letters volume resulted in a 3.6 percent decrease in total revenue for single-piece letters. In contrast, revenue for presorted letters increased by 4.8 percent.

46 "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).

47 Docket No. R2022-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, May 27, 2022 (Order No. 6188).

Table III-3
First-Class Mail Letters Volume and Revenue, FY 2021 and FY 2022

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Single-Piece	13,484	12,406	(1,079)	(8.0%)	7,471	7,199	(272)	(3.6%)
Presorted	33,344	32,170	(1,174)	(3.5%)	13,510	14,154	645	4.8%
Total Letters	**46,829**	**44,576**	**(2,253)**	**(4.8%)**	**20,980**	**21,353**	**373**	**1.8%**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

Table III-4 summarizes the FY 2022 change in total attributable cost for First-Class Mail letters. Total attributable cost for First-Class Mail letters decreased by $551 million in FY 2022 due to both a sizable decrease in volume and the Postal Service Reform Act (PSRA), which eliminated the prepayment requirements for retiree benefits. The attributable cost of single-piece letters decreased 7.0 percent, despite an increase of 1.1 percent on a unit basis. Presorted letters also experienced a decrease in total attributable cost (4.3 percent) in FY 2022. But unlike the unit attributable cost of single-piece letters, the unit attributable cost of presorted letters decreased in FY 2022, albeit by just 0.1 cent per piece, or 0.8 percent.

Table III-4
First-Class Mail Letters Attributable Cost and Average Unit Attributable Cost, FY 2021 and FY 2022

	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Single-Piece	4,960	4,614	(346)	(7.0%)	36.8	37.2	0.4	1.1%
Presorted	4,812	4,607	(205)	(4.3%)	14.4	14.3	(0.1)	(0.8%)
Total Letters	**9,772**	**9,221**	**(551)**	**(5.6%)**	**20.9**	**20.7**	**(0.2)**	**(0.9%)**

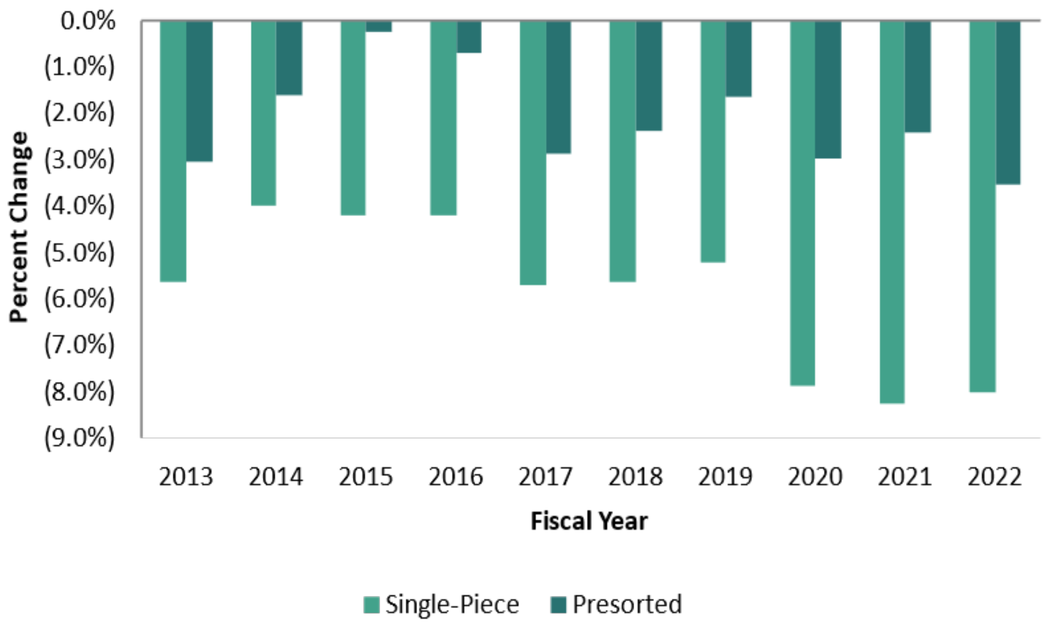
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

TRENDS IN FIRST-CLASS MAIL LETTERS

FIRST-CLASS MAIL VOLUME REMAINS LOWER THAN BEFORE THE COVID-19 PANDEMIC

First-Class Mail volume remains lower than before the COVID-19 pandemic. In fact, although First-Class 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 2022 Form 10-K at 21. Figure III-6 illustrates the rate of decline in volume for First-Class Mail letters. The volume for single-piece letters declined about 8 percent per year over the past three years, compared with a less than 6 percent decrease per year from FY 2013 to FY 2019. Over the last decade, the volume of First-Class Mail presorted letters has also decreased every year. The rate of decline in FY 2022 was the highest in over a decade, at 3.5 percent, even higher than in FY 2020 (3.0 percent), when the disruption caused by the COVID-19 pandemic peaked.

Figure III-6
First-Class Mail Letters Percent Change in Volume, FY 2013–FY 2022

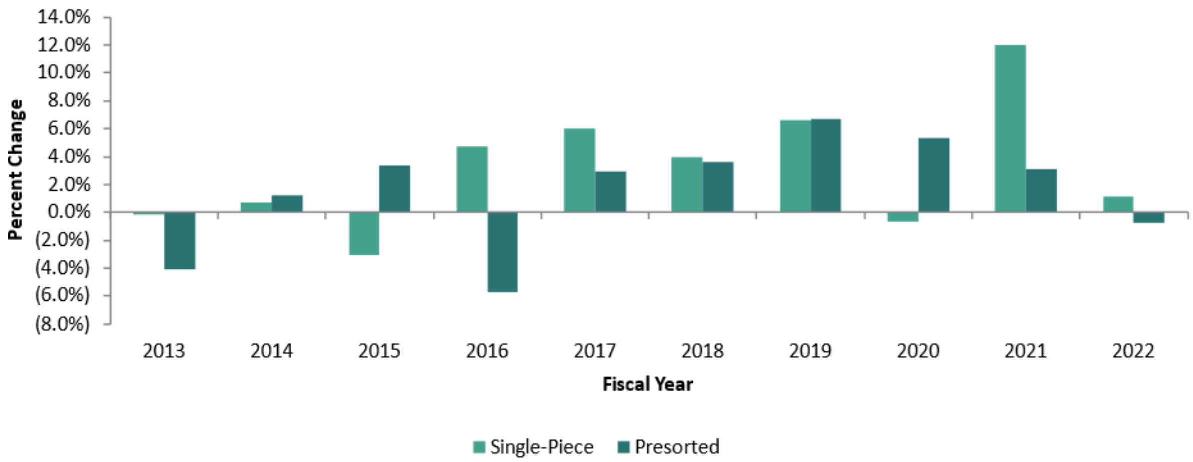


Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

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 minimally in FY 2022, following a substantial increase in FY 2021. With the exception of FY 2020, when a methodological change decreased the amount of city carrier costs attributed to letter-shaped mail, the unit attributable cost of First-Class Mail single-piece letters increased every year over the last seven years.

The average unit attributable cost for First-Class Mail presorted letters decreased in FY 2022, after increasing every year in the previous five years. From 2013 to 2016, unit attributable costs were more erratic, with unit attributable costs increasing in FY 2014 (1.2 percent) and FY 2015 (3.4 percent) and decreasing in FY 2013 (4.1 percent) and FY 2016 (5.7 percent).

Figure III-7
First-Class Mail Letters Percent Change in Average Unit Attributable Cost, FY 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Table III-5 compares the average unit attributable cost for First-Class Mail single-piece letters and First-Class Mail presorted letters by cost segment for FY 2021 and FY 2022. The unit attributable costs presented include all of the indirect cost that is piggybacked on the direct cost.[48] Transportation costs increased substantially in FY 2022, with unit transportation costs increasing by 20.8 percent for single-piece letters and 7.3 percent for presorted letters. 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 2022 Form 10-K at 36. The increase in highway transportation costs was even more consequential in FY 2022, as a change in service standards for First-Class Mail allowed the Postal Service to shift some volume from air to highway transportation.[49]

As previously discussed, the Postal Service Reform Act of 2022 eliminated the requirement to prefund retiree health benefits. Consequently, the cost of prefunding retiree health benefits, which was previously included piggybacked onto labor costs, no longer exists in FY 2022.

City carrier costs decreased for both First-Class Mail single-piece letters and First-Class Mail presorted letters in FY 2022. City carrier street unit cost decreased by 0.3 percent for single-piece letters and by 3.6 percent for presorted letters compared with FY 2021. City carrier in-office cost, which represents a mail processing activity because it is largely comprised of time spent sorting mail for delivery, decreased by even greater percentages, by 9.5 percent for single-piece letters and by 9.0 percent for presorted letters. While the elimination of the requirement to prefund retiree health benefits also had a downward effect on mail processing unit costs, for both single-piece letters and presorted letters, mail processing unit costs increased slightly in FY 2022, by 1.1 and 3.0 percent, respectively.

48 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.

49 *See* Revised Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 43,941 (Aug. 11, 2021) (codified at 39 C.F.R. part 121); *See* also Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021 (Docket No. N2021-1 Advisory Opinion). The Postal Service estimated that its proposed changes would impact 38.5 percent of First-Class Mail and 7 percent of Periodicals. *See* Docket No. N2021-1 Advisory Opinion at 1.

Table III-5
First-Class Mail Single-Piece and Presorted Letters Average Unit Attributable Cost by Segment, FY 2021 and FY 2022

	Attributable Cost					
	Single-Piece			Presort		
	(Cents per Piece)		% Change	(Cents per Piece)		% Change
	FY 2021	FY 2022		FY 2021	FY 2022	
Mail Processing	18.82	19.02	1.1%	5.90	6.07	3.0%
City Carrier In-Office	2.69	2.43	(9.5%)	1.72	1.56	(9.0%)
City Carrier Street	7.06	7.04	(0.3%)	3.14	3.03	(3.6%)
Rural Carriers	1.55	1.58	2.0%	1.13	1.12	(1.2%)
Transportation	2.68	3.24	20.8%	1.87	2.00	7.3%
All Other	3.98	3.88	(2.5%)	0.67	0.53	(21.3%)

Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

FIRST-CLASS MAIL FLATS COMPARED WITH FY 2021

Table III-6 shows the total volume and revenue for First-Class Mail Flats. The volume of First-Class Mail single-piece flats declined 11.1 percent in FY 2022, compared to an 8.8 percent decline in FY 2021. The volume of First-Class Mail presorted flats also decreased in FY 2022, although more modestly than its single-piece counterpart. Presorted flats decreased by 3.0 percent in FY 2022, a drastic reversal from FY 2021, when volume for presorted flats increased by 6.0 percent.

Total revenue for First-Class Mail Flats increased 3.0 percent in FY 2022, due to a 12.2 percent increase in revenue for presorted flats. Conversely, the revenue for single-piece flats decreased in FY 2022 (by 1.8 percent). On a unit basis, revenue increased significantly for both First-Class Mail single-piece flats (10.4 percent) and First-Class Mail presorted flats (15.7 percent), reflecting the 9.2 percent increase in First-Class Mail Flats prices that went into effect on July 10, 2022.

Table III-6
First-Class Mail Flats Volume and Revenue, FY 2021 and FY 2022

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Single-Piece	619	551	(69)	(11.1%)	1,006	988	(19)	(1.8%)
Presorted	557	540	(17)	(3.0%)	537	603	66	12.2%
Total Flats	**1,176**	**1,091**	**(85)**	**(7.2%)**	**1,544**	**1,591**	**47**	**3.0%**

Negative values denoted by ().

Numbers may not add due to rounding.
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

Table III-7 summarizes the FY 2022 change in attributable cost. Attributable costs for First-Class Mail Flats decreased 9.6 percent from FY 2021 for the single-piece category, and remained virtually unchanged for the presorted category. However, on a unit basis, attributable costs increased for both categories. In FY 2022, the unit attributable cost for First-Class Mail Flats increased 1.0 percent, with single-piece flats increasing 1.6 percent, and presorted flats increasing 3.2 percent.

Table III-7
First-Class Mail Flats Attributable Cost and Average Unit Attributable Cost, FY 2021 and FY 2022

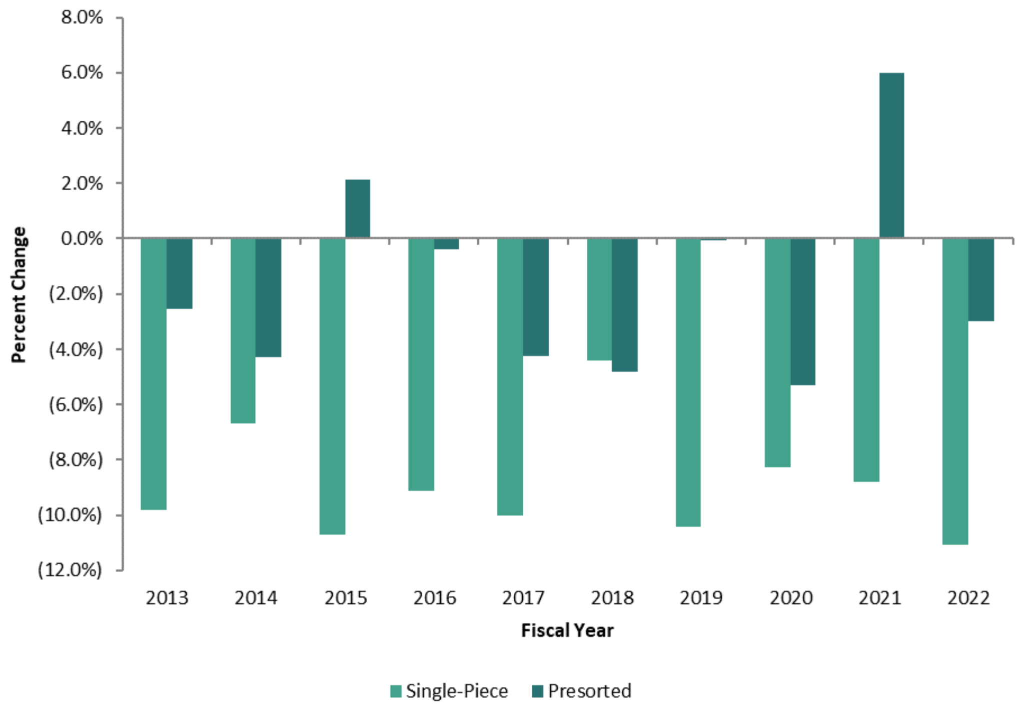
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Single-Piece	1,020	922	(98)	(9.6%)	164.7	167.4	2.7	1.6%
Presorted	537	538	0	0.1%	96.4	99.5	3.1	3.2%
Total Flats	**1,560**	**1,462**	**(98)**	**(6.3%)**	**132.6**	**134.0**	**1.4**	**1.0%**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

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 2013 to FY 2022. Over the past decade, the First-Class Mail Flats product lost nearly half its volume. The volume of single-piece flats continued its downward trend in FY 2022, 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 60.9 percent, compared to a 15.9 percent volume decrease for presorted flats. As Figure III-8 shows, volume decreased for First-Class Mail presorted flats in eight of the last 10 years, with the largest decrease occurring in FY 2020.

Figure III-8
Percent Change in First-Class Mail Flats Volume, FY 2013–FY 2022

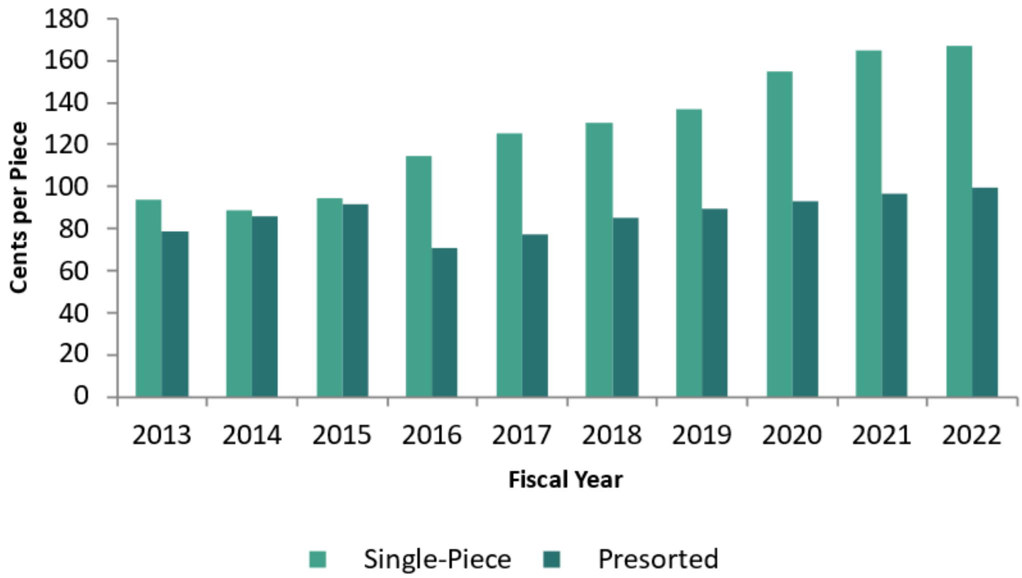


Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Figure III-9 compares the average unit attributable cost for First-Class Mail single-piece and presorted flats since FY 2013. The average unit attributable cost for First-Class Mail single-piece flats and presorted flats has steadily increased since FY 2016.[50] Over the last decade, the average unit attributable cost for First-Class Mail single-piece flats has increased more rapidly than for First-Class Mail presorted flats, 83.4 percent and 26.1 percent, respectively.

50 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 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Table III-8 compares the average unit attributable cost by cost segment of First-Class Mail single-piece and presorted flats for FY 2021 and FY 2022. For single-piece flats, the average unit attributable cost increased in two of the cost segments depicted, city carrier in-office and transportation. For presort flats, costs increased in every segment in FY 2022. 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. In addition, with the exception of rural carrier and city carrier in-office cost segments, the difference between the unit attributable cost for First-Class Mail single-piece flats and First-Class Mail presorted flats decreased from FY 2021.

Table III-8
First-Class Mail Flats Average Unit Attributable Cost by Segment, FY 2021 and FY 2022

	FY 2021			FY 2022		
	Cents per Piece			Cents per Piece		
	Single-Piece	Presort	Diff.	Single-Piece	Presort	Diff.
Mail Processing	93.4	53.8	39.6	92.8	54.5	38.2
City Carrier In-Office	14.6	15.3	(0.7)	15.3	15.7	(0.4)
City Carrier Street	8.8	4.9	3.9	8.7	5.5	3.1
Rural Carriers	4.9	5.0	(0.1)	4.8	5.9	(1.1)
Transportation	31.3	14.7	16.5	33.4	15.0	18.4
All Other	12.4	2.3	10.1	12.4	2.9	9.5
Total	**165.3**	**96.0**	**69.3**	**167.4**	**99.5**	**67.9**

Negative values denoted by ().
Source: PRC derived from Docket No. ACR2022, Library Reference USPS-FY22-2, December 29, 2022; Docket No. ACR2021, Library Reference USPS-FY21-2, December 29, 2021 (Collectively Postal Service CSC Report, FY 2021 and FY 2022).

OTHER FIRST-CLASS MAIL COMPARED WITH FY 2021

Table III-9 shows the volume and revenue for “all other” First-Class Mail. The volume of Cards and Outbound Single-Piece First-Class Mail International increased in FY 2022, while the volume of Inbound Letter Post decreased. There were no Inbound International NSAs in effect in FY 2022.

Similar to volume, revenue increased for Outbound Single-Piece First-Class Mail International and Cards compared with FY 2021, while Inbound Letter Post revenue decreased slightly.

Table III-9
All Other First-Class Mail Volume and Revenue, FY 2021 and FY 2022

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Total Cards	2,714	3,234	520	19.2%	791	1,071	281	35.5%
Outbound Single-Piece First-Class Mail International	105	111	7	6.2%	167	187	20	11.8%
Inbound Letter Post	82	78	(4)	(4.4%)	60	58	(2)	(3.7%)
Total Other First-Class Mail	**2,900**	**3,423**	**523**	**18.0%**	**1,018**	**1,316**	**298**	**29.3%**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

Table III-10 presents the changes in total attributable cost and average unit attributable cost for "all other" First-Class Mail between FY 2021 and FY 2022. In FY 2022, in the aggregate and on a unit basis, attributable costs decreased for Inbound Letter Post and Outbound Single-Piece First-Class Mail International. For Cards, attributable cost increased but unit attributable cost decreased in FY 2022.

Table III-10
Other First-Class Mail Attributable Cost and Average Unit Attributable Cost, FY 2021 and FY 2022

	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Total Cards	377	429	51	13.6%	13.9	13.3	(0.6)	(4.7%)
Outbound Single-Piece First-Class Mail International	109	109	(0)	(0.2%)	104.6	98.3	(6.3)	(6.0%)
Inbound Letter Post	49	45	(4)	(8.0%)	60.4	58.1	(2.3)	(3.8%)
Total Other First-Class Mail	**536**	**583**	**47**	**8.8%**	**18.5**	**17.0**	**(1.4)**	**(7.8%)**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

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.

REVENUE INCREASED FOR ALL LETTER-SHAPED USPS MARKETING MAIL IN FY 2022

USPS MARKETING MAIL LETTERS COMPARED WITH FY 2021

Table III-11 summarizes the FY 2022 change in volume and revenue of letter-shaped USPS Marketing Mail. USPS Marketing Mail Letters volume increased 6.0 percent in FY 2022 but remains below pre-pandemic levels. Conversely, High Density and Saturation Letters volume decreased 7.5 percent in FY 2022. Revenue increased for all letter-shaped USPS Marketing Mail in FY 2022. The price increase that went into effect on July 10, 2022,[51] and the increase in volume for USPS Marketing Mail Letters, resulted in significantly higher revenue in FY 2022 than in FY 2021. High Density and Saturation Letters revenue increased by just 0.3 percent, reflecting both a lower volume and higher prices than in FY 2021.

51 *See* Order No. 6188

Table III-11
USPS Marketing Mail Letters Volume and Revenue, FY 2021 and FY 2022

	Mail Volume (Millions)				Mail Revenue ($ in Millions)			
	FY 2021	FY 2022	Increase or Decrease	% Change	FY 2021	FY 2022	Increase or Decrease	% Change
Letters	41,222	43,682	2,461	6.0%	8,986	10,243	1,256	14.0%
High Density and Saturation Letters	6,532	6,045	(487)	(7.5%)	1,129	1,132	3	0.3%
Total Letters	**47,753**	**49,727**	**1,974**	**4.1%**	**10,115**	**11,375**	**1,260**	**12.5%**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

Table III-12 summarizes the FY 2022 change in attributable cost for USPS Marketing Mail letters. Overall, attributable cost increased 2.8 percent for USPS Marketing Mail letters in FY 2022. On a unit basis, attributable cost for both Letters and High Density and Saturation Letters decreased in FY 2022 by 1.7 percent and 0.6 percent, respectively. Since High Density and Saturation Letters is a relatively low-volume product compared with USPS Marketing Mail Letters, the average unit decrease (1.2 percent) for letter-shaped USPS Marketing Mail 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 2021 and FY 2022

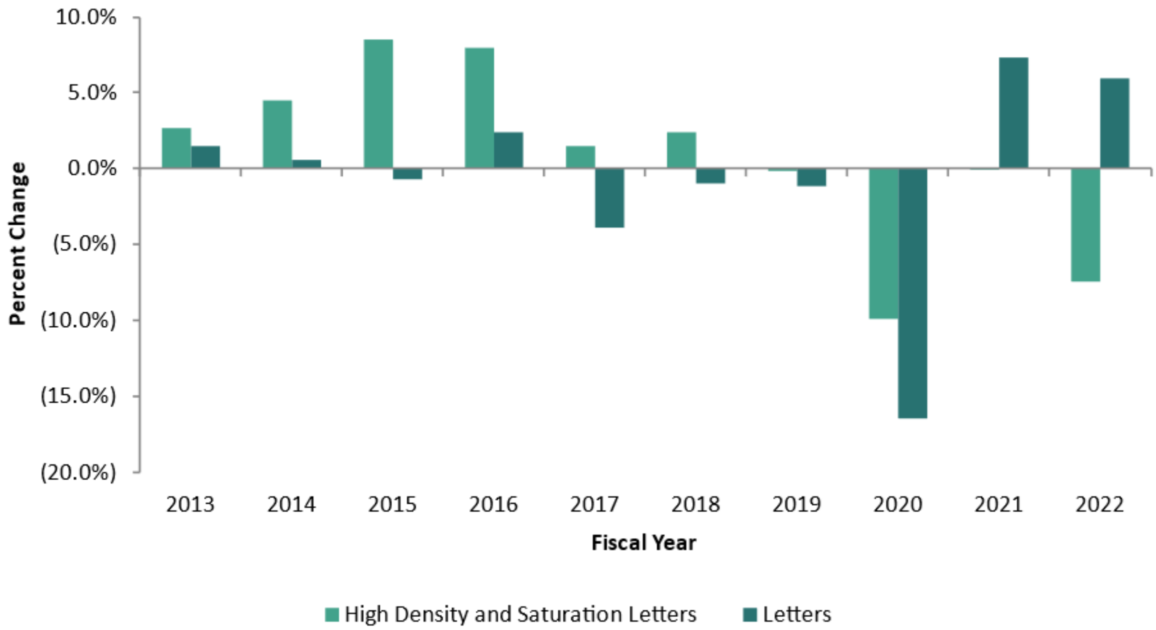
	Attributable Cost ($ in Millions)				Unit Attributable Cost (Cents per Piece)			
	FY 2021	FY 2022	Increase or Decrease	% Change	FY 2021	FY 2022	Increase or Decrease	% Change
Letters	5,143	5,356	213	4.1%	12.5	12.3	(0.2)	(1.7%)
High Density and Saturation Letters	619	569	(49)	(8.0%)	9.5	9.4	(0.1)	(0.6%)
Total Letters	**5,762**	**5,926**	**163**	**2.8%**	**12.1**	**11.9**	**(0.2)**	**(1.2%)**

Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

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 from FY 2020 to FY 2022. High Density and Saturation Letters volume has contracted since FY 2019, with particularly large decreases in FY 2020 and FY 2022. Annual changes in USPS Marketing Mail Letters volume were relatively small from FY 2013 to FY 2019. The decrease in volume at the peak of the COVID-19 pandemic in FY 2020 resulted in the lowest USPS Marketing Mail Letters volume in recent history. Since then, the volume of USPS Marketing Mail Letters has rebounded, increasing significantly in both FY 2021 and FY 2022, Nonetheless, there were 5.0 percent fewer USPS Marketing Mail Letters in FY 2022 than before the start of the COVID-19 pandemic.

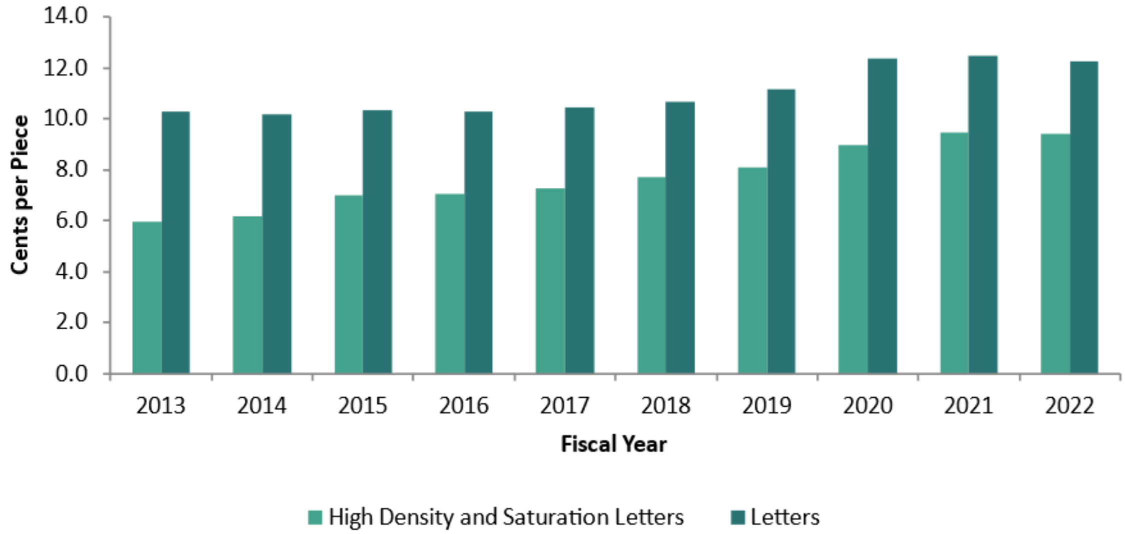
Figure III-10
Percent Change in USPS Marketing Mail Letters Volume, FY 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Figure III-11 shows the average unit attributable cost for USPS Marketing Mail letters since FY 2013. 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 4 of the last 5 years, while the average unit cost of High Density and Saturation Letters has increased from FY 2014 to FY 2021. In FY 2022, the average unit attributable cost for both products was slightly lower than in FY 2021, but remains well above pre-pandemic levels, 10.0 percent above for High Density and Saturation Letters and 16.9 percent above for USPS Marketing Mail Letters.

Figure III-11
USPS Marketing Mail Letters Average Unit Attributable Cost, FY 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

USPS MARKETING MAIL FLATS COMPARED WITH FY 2021

Despite the decrease in volume for flat-shaped USPS Marketing Mail, revenue for flat-shaped USPS Marketing Mail increased by 2.8 percent in FY 2022

Table III-13 summarizes the FY 2022 changes in volume and revenue for flat-shaped USPS Marketing Mail.[52] Volume for flat-shaped USPS Marketing Mail decreased by over a billion pieces in FY 2022. In fact, volume for all flat-shaped USPS Marketing Mail categories decreased in FY 2022, with decreases ranging from 5.5 percent to 6.4 percent. High Density and Saturation Flats/Parcels volume decreased by more than 500 million pieces in FY 2022, representing a 5.5 percent decrease in volume compared with FY 2021. Similarly, Carrier Route volume decreased by more than 300 million pieces, or 6.4 percent. Volume for EDDM-R and USPS Marketing Mail Flats decreased by 6.1 percent and 5.5 percent, respectively.

Despite the decrease in volume for flat-shaped USPS Marketing Mail, revenue for flat-shaped USPS Marketing Mail increased by 2.8 percent in FY 2022. Two USPS Marketing Mail products were responsible for the increase in revenue in FY 2022: Flats, with a 4.6 percent increase in revenue, and Carrier Route, with 5.2 percent increase in revenue. High Density and Saturation Flats/Parcels revenue remained unchanged in FY 2022, after experiencing the largest drops in revenue among flat-shaped products in FY 2021. EDDM-R revenue decreased by approximately $3 million in FY 2022.

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

Table III-13
USPS Marketing Mail Flat Volume and Revenue, FY 2021 and FY 2022

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
High Density and Saturation Flats/ Parcels	9,994	9,441	(554)	(5.5%)	1,790	1,791	0	0.0%
Carrier Route	5,042	4,718	(323)	(6.4%)	1,364	1,435	71	5.2%
Flats	2,869	2,694	(176)	(6.1%)	1,241	1,297	57	4.6%
Every Door Direct Mail – Retail	542	512	(30)	(5.5%)	104	102	(3)	(2.5%)
Total	**18,447**	**17,364**	**(1,082)**	**(5.9%)**	**4,500**	**4,625**	**125**	**2.8%**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

Table III-14 summarizes the FY 2022 change in attributable cost for USPS Marketing Mail flats. Total attributable cost for flat-shaped USPS Marketing Mail decreased 3.8 percent in FY 2022 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 2022 except EDDM-R.

Table III-14
USPS Marketing Mail Flats Attributable Cost and Average Unit Attributable Cost, FY 2021 and FY 2022

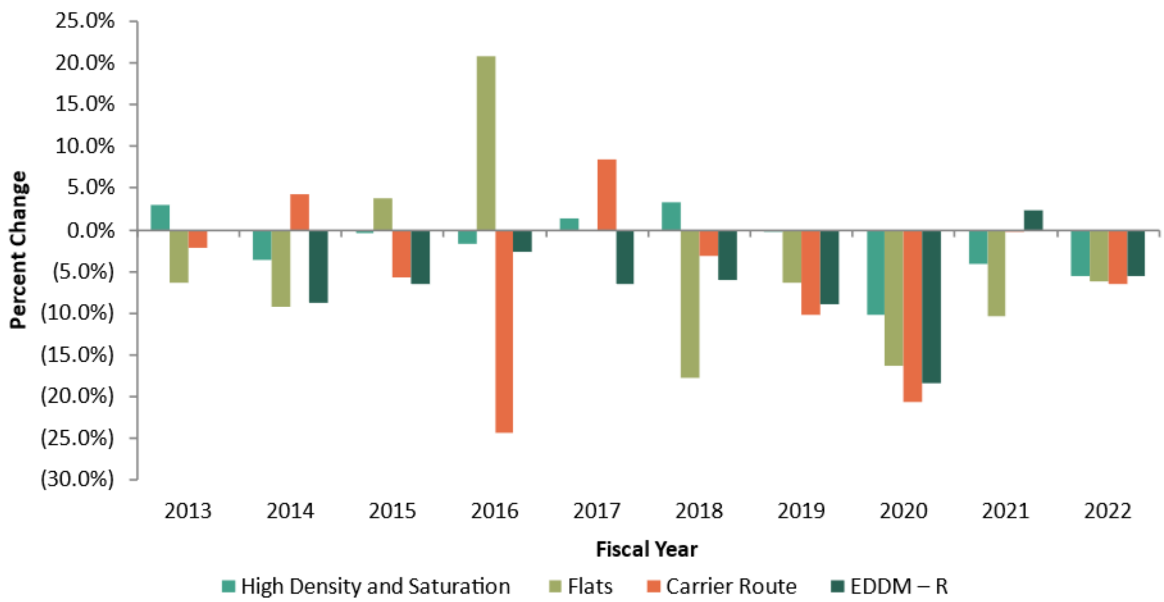
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
High Density and Saturation Flats/ Parcels	1,427	1,352	(76)	(5.3%)	14.3	14.3	0.0	0.3%
Carrier Route	1,442	1,443	2	0.1%	28.6	30.6	2.0	7.0%
Flats	2,058	1,946	(112)	(5.4%)	71.7	72.2	0.5	0.7%
Every Door Direct Mail – Retail	42	39	(3)	(8.2%)	7.8	7.5	(0.2)	(3.0%)
Total	**4,969**	**4,780**	**(189)**	**(3.8%)**	**26.9**	**27.5**	**0.6**	**2.2%**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

TRENDS IN USPS MARKETING MAIL FLATS

Flat-shaped USPS Marketing Mail has lost more than a third of its volume over the last decade. As shown in Figure III-12, volume changes have been more substantial in recent years.[53] For High Density and Saturation Flats/Parcels, USPS Marketing Mail Flats, and Carrier Route, the decline in volume in FY 2022 comes after even larger declines in FY 2020 and FY 2021, when the COVID-19 pandemic decimated mail volume for most market-dominant products. The volume for USPS Marketing Mail Flats and Carrier Route has decreased for the fifth year in a row. EDDM-R volume decreased in FY 2022, after a slight uptick in FY 2021, the only time volume increased for EDDM-R since it become a permanent product.

Figure III-12
USPS Marketing Mail Flats Percent Change in Volume, FY 2013–FY 2022

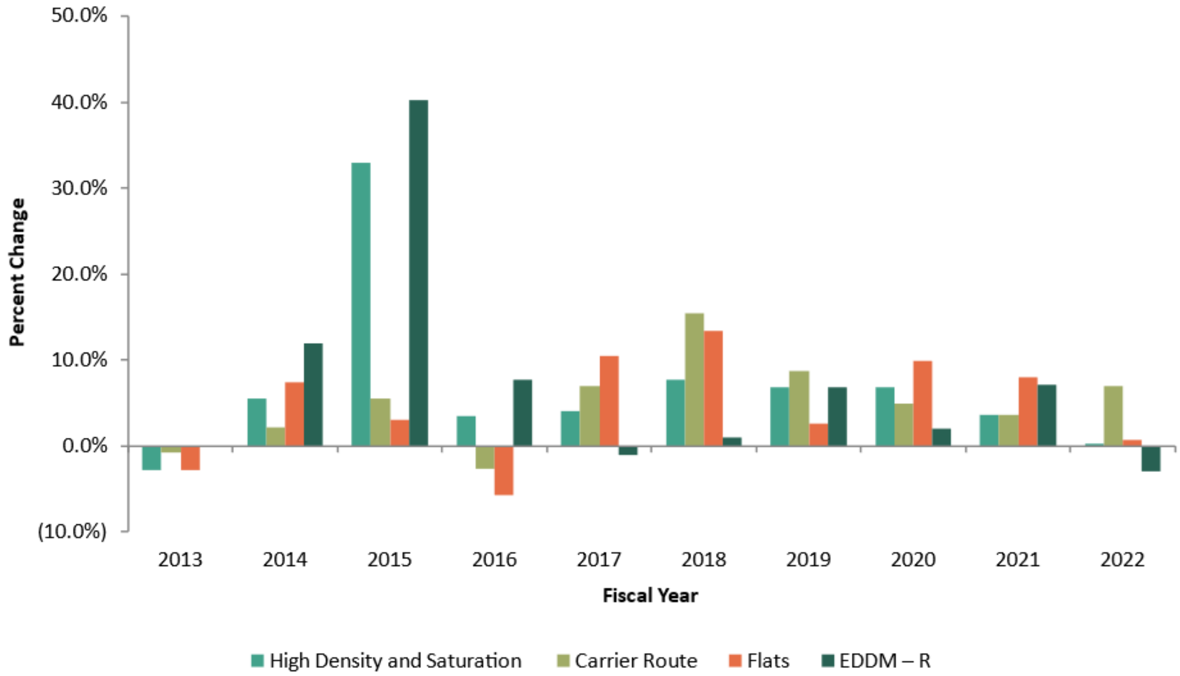


Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

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. For High Density and Saturation Flats/Parcels, and USPS Marketing Mail Flats, the FY 2022 increase in unit attributable cost was relatively small, with significantly higher increases in each of the previous five years. In FY 2022, unit attributable cost for EDDM-R decreased for the first time since FY 2017.

53 Large volume changes in FY 2016 and FY 2017 were due in large part to changes to the pricing structure of the Flats and Carrier Route products. *See* Docket No. ACR2017, Financial Analysis of United States Postal Service Financial Results and 10-K Statement, April 5, 2018, at 53-54.

Figure III-13
USPS Marketing Mail Flats Percent Change in Average Unit Attributable Cost, FY 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Table III-15 compares the change in the average unit attributable cost between FY 2021 and FY 2022 by cost segment. Rural carrier unit costs increased for all USPS Marketing Mail flats products. With the exception of Carrier Route, city carrier street unit costs also increased for flat-shaped USPS Marketing Mail. The cost of mail processing activities, including city carrier in-office, decreased for High Density and Saturation Flats/Parcels and EDDM-R.[54] Conversely, it increased for USPS Marketing Mail Flats.

54 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 2021 and FY 2022

	High Density and Saturation	Carrier Route	Flats	EDDM-R
Mail Processing (Cents per Piece)				
FY 2021	1.61	8.09	35.92	0.47
FY 2022	1.45	9.09	40.04	0.27
% Change	**(9.9%)**	**12.4%**	**11.5%**	**(43.2%)**
City Carrier In-Office (Cents per Piece)				
FY 2021	1.84	8.02	11.17	1.92
FY 2022	1.69	8.00	12.30	1.65
% Change	**(8.2%)**	**(0.2%)**	**10.2%**	**(13.8%)**
City Carrier Street (Cents per Piece)				
FY 2021	4.84	5.47	4.94	4.44
FY 2022	5.09	5.47	5.22	4.50
% Change	**5.1%**	**0.0%**	**5.7%**	**1.4%**
Rural Carriers (Cents per Piece)				
FY 2021	4.74	5.34	5.17	0.70
FY 2022	5.27	5.91	5.72	0.77
% Change	**11.2%**	**10.6%**	**10.6%**	**10.2%**

Source: PRC derived Docket No. ACR2022, Library Reference USPS-FY22-24, December 29, 2022; from Docket No. ACR2021, 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.

TOTAL REVENUE FOR PERIODICALS INCREASED BY $16 MILLION, OR 1.7 PERCENT IN FY 2022

PERIODICALS COMPARED WITH FY 2021

Table III-16 summarizes the FY 2022 changes in volume and revenue for Periodicals. In FY 2022, the volume of Periodicals declined by 279 million pieces, or 7.6 percent, with most of the decrease occurring in Outside County publications. In FY 2022, Outside County volume decreased 8.2 percent. Total revenue for Periodicals increased by $16 million, or 1.7 percent in FY 2022. On a unit basis, revenue increased by 10.5 percent for Outside County Periodicals and by 8.7 percent for In-County Periodicals.

Table III-16
Periodicals Volume and Revenue, FY 2021 and FY 2022

	Mail Volume (Millions) FY 2021	Mail Volume (Millions) FY 2022	Increase or Decrease	% Change	Mail Revenue ($ in Millions) FY 2021	Mail Revenue ($ in Millions) FY 2022	Increase or Decrease	% Change
In-County	447	435	(12)	(2.8%)	49	51	3	5.6%
Outside County	3,232	2,966	(266)	(8.2%)	895	908	13	1.4%
Total	**3,679**	**3,400**	**(279)**	**(7.6%)**	**944**	**959**	**16**	**1.7%**

Negative values denoted by ().

Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

Table III-17 compares total attributable cost and average unit attributable cost for Periodicals for FY 2021 and FY 2022. The total attributable cost of Periodicals decreased by $199 million, or 11.3 percent. While the decrease in attributable cost is in part due to the loss of Periodicals volume, the unit attributable cost of both In-County and Outside County Periodicals also decreased in FY 2022.

Table III-17
Periodicals Attributable Cost and Average Unit Attributable Cost, FY 2021 and FY 2022

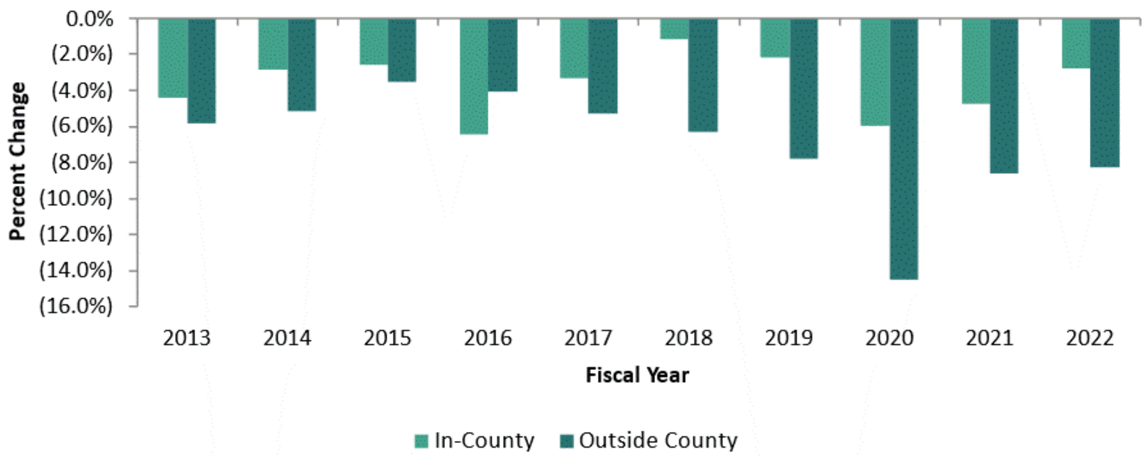
	Attributable Cost ($ in Millions) FY 2021	Attributable Cost ($ in Millions) FY 2022	Increase or Decrease	% Change	Unit Attributable Cost (Cents per Piece) FY 2021	Unit Attributable Cost (Cents per Piece) FY 2022	Increase or Decrease	% Change
In-County	108	105	(3)	(3.1%)	24.2	24.1	(0.1)	(0.3%)
Outside County	1,661	1,466	(196)	(11.8%)	51.4	49.4	(2.0)	(3.9%)
Total	**1,770**	**1,571**	**(199)**	**(11.3%)**	**48.1**	**46.2**	**(1.9)**	**(4.0%)**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

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 volume decline in FY 2022 was less severe than during the height of the COVID-19 pandemic but remained more significant than the years immediately preceding the pandemic. The volume losses for Outside County Periodicals were also more substantial in recent years. The cumulative decrease in volume for Outside County Periodicals from 2013 to 2017 was 1.3 billion pieces, compared with a volume loss of 1.8 billion pieces from FY 2018 to FY 2022.

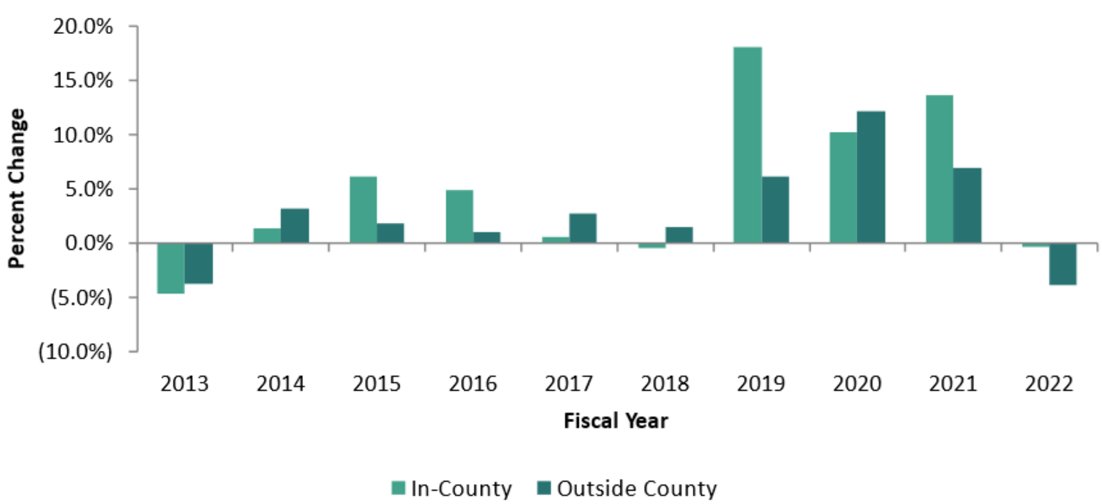
Figure III-14
Periodicals Percent Change in Volume, FY 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Figure III-15 shows the percent change in the average unit attributable cost for In-County and Outside County Periodicals. After substantial increases in average unit attributable cost for In-County and Outside County during the height of the COVID-19 pandemic, average unit attributable cost decreased in FY 2022 for both In-County Periodicals and Outside County Periodicals. Additionally, as Figure III-15 illustrates, changes in average unit attributable cost for In-County Periodicals exceeded those of Outside County Periodicals in the majority of fiscal years.

Figure III-15
Periodicals Percent Change in Average Unit Attributable Cost, FY 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Table III-18 disaggregates the average unit attributable cost of Outside County Periodicals for FY 2021 and FY 2022. As shown in Table III-18, unit attributable cost decreased for mail processing, all city carrier activities, and the "all other" category of costs. The decrease in unit costs is primarily due to the elimination of the requirement to pre-fund retiree health benefits. In previous years, a portion of the costs associated with retiree health benefits was piggybacked onto direct labor costs. Unit transportation cost increased significantly in FY 2022, by 21.6 percent. According to the Postal Service, “[h]igher average unit costs per mile, higher average diesel fuel prices, and higher average jet fuel prices” contributed to an increase in transportation costs that affected all classes of mail. FY 2022 Form 10-K at 19. The unit rural carrier unit cost also increased in FY 2022, albeit by a more modest amount.

Table III-18
Outside County Periodicals Average Unit Attributable Cost by Segment, FY 2021 and FY 2022

	Unit Attributable Cost (Cents per Piece)		% Change
	FY 2021	FY 2022	
Mail Processing	23.28	20.76	(10.8%)
City Carrier In-Office	10.29	9.41	(8.6%)
City Carrier Street	4.66	4.57	(1.9%)
Rural Carriers	6.19	6.53	5.4%
Transportation	5.53	6.73	21.6%
All Other	1.45	1.42	(2.1%)

Source: PRC derived from Postal Service CSC Report, FY 2021 and FY 2022.

OVERALL, PACKAGE SERVICES VOLUME DECREASED 8.1 PERCENT IN FY 2022. HOWEVER, BPM PARCELS AND ALASKA BYPASS SERVICE VOLUMES WERE HIGHER COMPARED WITH 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 2022 changes in volume and revenue for Package Services. Overall, Package Services volume decreased 8.1 percent in FY 2022. However, BPM Parcels and Alaska Bypass Service volumes were higher compared with FY 2021.

Except for BPM Flats, Package Services products had higher revenue in FY 2022 than in FY 2021, resulting in higher revenue for the Package Services class overall. On a unit basis, revenue increased substantially for all Package Services products in FY 2022.

Table III-19
Package Services Volume and Revenue, FY 2021 and FY 2022

	Mail Volume (Millions) FY 2021	Mail Volume (Millions) FY 2022	Increase or Decrease	% Change	Mail Revenue ($ in Millions) FY 2021	Mail Revenue ($ in Millions) FY 2022	Increase or Decrease	% Change
Alaska Bypass	1	1	0	0.3%	35	39	4	10.5%
Bound Printed Matter Flats	181	138	(44)	(24.1%)	140	120	(21)	(14.7%)
Bound Printed Matter Parcels	227	241	14	6.1%	260	298	38	14.8%
Media Mail/ Library Mail	107	95	(12)	(11.5%)	400	403	3	0.7%
Total	**517**	**475**	**(42)**	**(8.1%)**	**835**	**859**	**24**	**2.9%**

Negative values denoted by ().

* The Alaska Bypass volumes for FY 2021 and FY 2022 are 1.336 million and 1.340 million, respectively.

Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

As shown in Table III-20, attributable cost decreased in the aggregate for the Package Services class compared with FY 2021, even with an increase in the attributable cost of Alaska Bypass Service. Attributable cost for Alaska Bypass Service, which consists entirely of Cost Segment 14 transportation costs, increased 5.5 percent in the aggregate and 5.1 percent on a unit basis compared with FY 2021. Conversely, the attributable cost of BPM Parcels decreased 0.1 percent in the aggregate, and 5.8 percent on a unit basis. Unit costs for both Media Mail/Library Mail and BPM Flats increased in FY 2022 by 5.0 percent and 5.7 percent, respectively.

Table III-20
Package Services Attributable Cost and Average Unit Attributable Cost, FY 2021 and FY 2022

	Attributable Cost ($ in Millions) FY 2021	Attributable Cost ($ in Millions) FY 2022	Increase or Decrease	% Change	Unit Attributable Cost (Cents per Piece) FY 2021	Unit Attributable Cost (Cents per Piece) FY 2022	Increase or Decrease	% Change
Alaska Bypass	27	28	1	5.5%	2,012	2,115	103.5	5.1%
Bound Printed Matter Flats	119	96	(24)	(19.8%)	66	70	3.8	5.7%
Bound Printed Matter Parcels	275	275	(0)	(0.1%)	121	114	(7.1)	(5.8%)
Media/Library Mail	474	441	(33)	(7.0%)	442	464	22.2	5.0%
Total	**896**	**840**	**(56)**	**(6.2%)**	**173**	**177**	**3.6**	**2.1%**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

Table III-21 shows the FY 2022 percent change in unit attributable cost for selected cost segments. As shown in Table III-21, costs increased across all products for three cost segments: city carrier delivery, motor vehicle service, and transportation. However, the increase in transportation unit costs is, in part, due to a methodological change that updated the distribution key in the transportation cost model.

For BPM Flats, while unit attributable cost increased overall in FY 2022, unit costs decreased for the city carrier in-office, vehicle service driver, and transportation segments.

For BPM Parcels, unit attributable cost increased for most cost segments in FY 2022. The exceptions were city carrier in-office, vehicle service driver, and "all other."

With reductions in vehicle service driver, and "all other" unit costs, the unit attributable cost of BPM Parcels was lower than in FY 2021. Nonetheless, all other segment costs increased significantly in FY 2022.

The average unit attributable cost increased 5.0 percent for Media Mail/Library Mail in FY 2022, with only two of the cost segments depicted decreasing. Mail processing unit cost decreased by 5.8 percent compared with FY 2021, and rural carriers cost decreased 0.7 percent.

Table III-21
Package Services Percent Change in Average Unit Attributable Cost by Segment, FY 2022

	BPM Flats	BPM Parcels	Media Mail/ Library Mail
Mail Processing	11.0%	19.1%	(5.8%)
City Carrier In-Office	(5.1%)	28.1%	7.1%
City Carrier Street	1.9%	66.6%	0.7%
Vehicle Service Driver	(0.2%)	(2.8%)	4.4%
Rural Carriers	15.6%	28.7%	(0.7%)
Motor Vehicle Service	29.5%	79.4%	28.3%
Transportation	19.8%	42.0%	25.6%
All Other	(71.9%)	(44.8%)	2.8%
Total Attributable Cost	**5.7%**	**(5.8%)**	**5.0%**

Source: PRC derived from Postal Service CSC Report, FY 2021 and FY 2022.

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,[55] 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 increased by $127 million in FY 2022, though revenue for some products decreased.

55 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 2021 and FY 2022

	Revenue			
	($ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022		
Certified Mail	569	653	84	14.7%
COD	3	4	1	29.5%
Insurance	105	88	(18)	(16.7%)
Registered Mail	21	23	2	8.0%
Stamped Envelopes & Cards	12	7	(5)	(43.6%)
Other Ancillary Services	384	396	12	3.1%
Money Orders	147	172	25	16.9%
Post Office Box	299	311	12	3.9%
Other Services	143	159	16	11.3%
Total Services	**1,686**	**1,813**	**127**	**7.5%**

Negative values denoted by ().

Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

Table III-23 shows that attributable cost for Special Services decreased by $30 million in FY 2022. Although most services contributed to that decrease, attributable cost for Collect on Delivery (COD) and Money Orders increased.

Table III-23
Market Dominant Ancillary Services and Special Services Attributable Cost, FY 2021 and FY 2022

	Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022		
Certified Mail	492	479	(13)	(2.6%)
COD	2	4	2	81.7%
Insurance	27	23	(4)	(14.7%)
Registered Mail	17	16	(1)	(5.1%)
Stamped Envelopes & Cards	9	7	(2)	(21.5%)
Other Ancillary Services	272	268	(3)	(1.2%)
Money Orders	166	174	7	4.3%
Post Office Box	137	131	(5)	(4.0%)
Other Services	51	43	(8)	(15.4%)
Total Services	**1,196**	**1,166**	**(30)**	**(2.5%)**

Negative values denoted by ().

Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

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 575 Domestic Competitive NSA products in effect during FY 2022. 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 2022, there were also 293 International Outbound NSAs and 16 International Inbound NSAs.

TOTAL VOLUME FOR COMPETITIVE PRODUCTS DECREASED IN FY 2022, AS THE EFFECTS OF THE COVID-19 PANDEMIC CONTINUED TO SUBSIDE

The products are grouped into several broad categories to facilitate comparisons. Table III-24 summarizes the FY 2022 changes in volume and revenue for Competitive products and services. Total volume for Competitive products decreased in FY 2022, as the effects of the COVID-19 pandemic continued to subside. Postal Service FY 2022 Form 10-K at 22. Volume for Competitive products decreased by 5.0 percent overall in FY 2022, but volume for ground parcels increased by 0.2 percent. International volume decreased by 28.1 percent in FY 2022, as COVID-19 pandemic-related disruptions and other global economic factors continued to negatively impact international mail flows. *Id.* at 18. Priority Mail had a double digit decrease in volume in FY 2022, while Priority Mail Express and First-Class Package Service experienced more moderate decreases in comparison.

Total Competitive product revenue decreased by 3.2 percent, or $1.1 billion, in FY 2022. On a unit basis, for domestic Competitive products overall, revenue increased by approximately 2.5 percent. International revenue decreased by 25.8 percent in the aggregate in FY 2022, even as unit revenue increased by 3.2 percent due to the January 2022 price increase.

Table III-24
Competitive Products Volume and Revenue, FY 2021 and FY 2022

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Priority Mail Express	29	27	(1)	(5.0%)	820	770	(50)	(6.1%)
First-Class Package Service	2,056	1,960	(96)	(4.7%)	7,388	7,809	421	5.7%
Priority Mail	1,394	1,184	(210)	(15.1%)	13,212	11,958	(1,254)	(9.5%)
Ground Parcels	3,546	3,553	8	0.2%	9,709	9,867	158	1.6%
International	230	166	(65)	(28.1%)	1,965	1,459	(507)	(25.8%)
Domestic Services					1,139	1,266	127	11.2%
Total Competitive	**7,256**	**6,891**	**(365)**	**(5.0%)**	**34,233**	**33,129**	**(1,104)**	**(3.2%)**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

Table III-25 summarizes the FY 2022 changes in attributable cost. Total attributable cost for Competitive products decreased by 1.8 percent, or approximately $372 million, in FY 2022. However, on a unit basis, attributable costs increased for all categories.

Table III-25
Competitive Products Attributable Cost and Unit Attributable Cost, FY 2021 and FY 2022

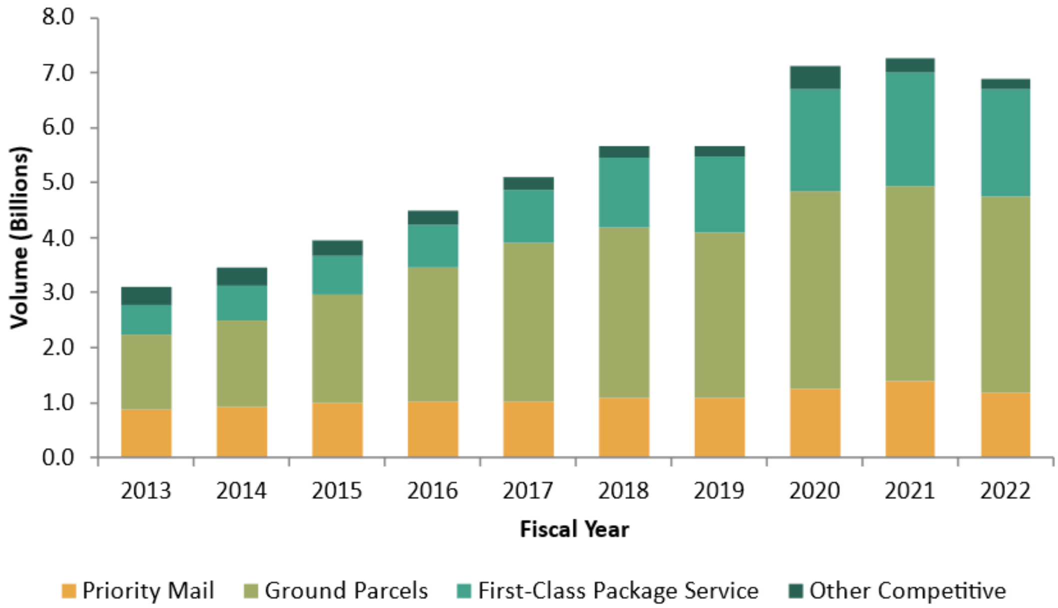
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2021	FY 2022			FY 2021	FY 2022		
Priority Mail Express	312	304	(8)	(2.5%)	1,085	1,113	28	2.6%
First-Class Package Service	4,614	4,625	11	0.2%	224	236	12	5.2%
Priority Mail	9,006	8,742	(263)	(2.9%)	646	738	92	14.3%
Ground Parcels	4,791	5,024	233	4.9%	135	141	6	4.6%
International	1,343	1,079	(264)	(19.7%)	583	651	69	11.8%
Domestic Services	364	343	(21)	(5.8%)				
Total Competitive	**21,040**	**20,667**	**(372)**	**(1.8%)**	**290**	**300**	**10**	**3.4%**

Negative values denoted by ().
Source: PRC-LR-ACR2021-1; PRC-LR-ACR2022-1.

Trends in Competitive Products

After many years of significant increases, Competitive product volume contracted slightly in FY 2022. Figure III-16 highlights the growth in Competitive categories since FY 2013. It illustrates the effect of the COVID-19 pandemic on Competitive volume in FY 2020 and FY 2021.

Figure III-16
Competitive Products Volume by Category, FY 2013–FY 2022



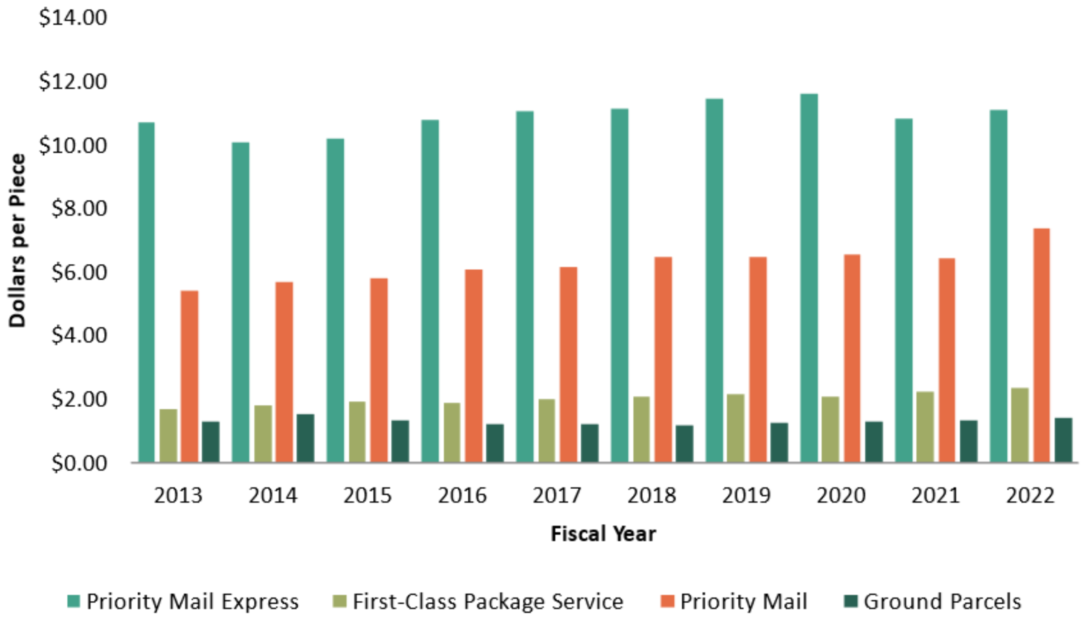
Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

The attributable cost of Competitive products has grown rapidly over the last decade and now comprises 43.9 percent of total attributable cost. However, analysis of total attributable cost over the last decade 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 single-piece Parcel Post from Market Dominant products to the Competitive Standard Post product, and the Market Dominant First-Class Mail single-piece retail Parcels to the Competitive First-Class Package Service product.[56]

Figure III-17 shows the average unit attributable cost by category from FY 2013 to FY 2022. 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. Overall, the average unit attributable cost of Competitive products has been significantly higher 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.

56 *See* 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).

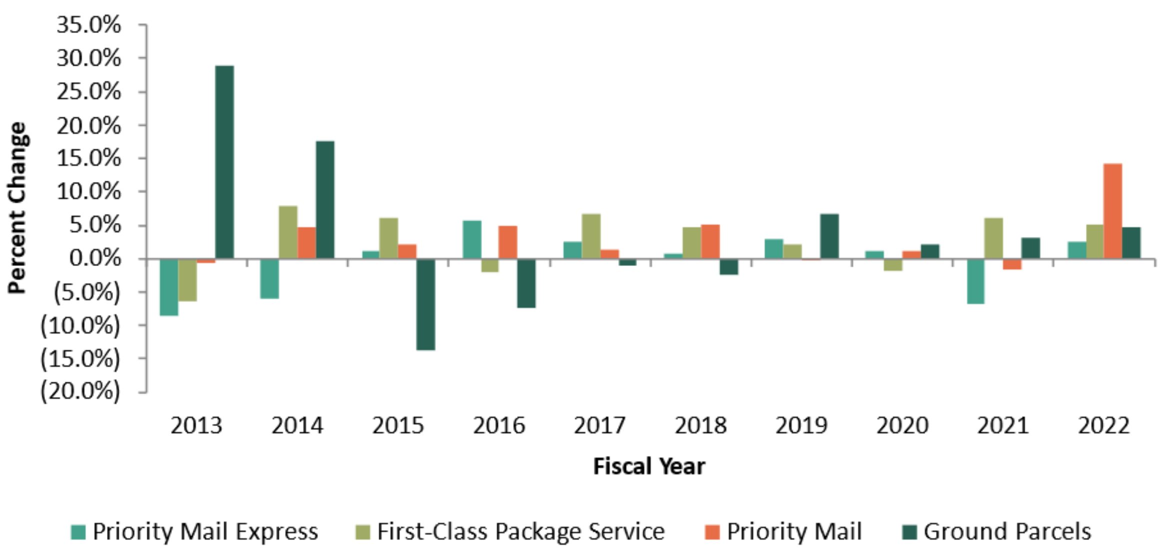
Figure III-17
Competitive Products Average Unit Attributable Cost by Category, FY 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

Figure III-18 shows the percent change in average unit attributable cost by category from FY 2013 to FY 2022. From FY 2016 to FY 2021, unit attributable costs were generally stable. Larger swings before FY 2016 were generally caused by product transfers from the Market Dominant to the Competitive product list, while more recent volatility was caused by the COVID-19 pandemic and related adverse economic conditions.

Figure III-18
Competitive Products Percent Change in Average Unit Attributable Cost by Category, FY 2013–FY 2022



Source: FY 2013 ACD; Library Reference PRC-LR-1, FY 2014-FY 2022.

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 Form 10-K, 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 2022 Form 10-K. Postal Service FY 2022 Form 10-K at 19. The Postal Service defines controllable loss, a non-GAAP measure, as the excess of revenue over costs for normal business operations. To calculate controllable loss, the Postal Service adjusts total net loss by adding to it 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 in FY 2022, the one-time impact of the PSRA legislation cancelling the unpaid PSRHBF obligations.[57]

Table IV-1 presents a high-level view of the contribution margin income statement, highlighting total attributable and institutional costs. From FY 2021 to FY 2022, total revenue, excluding the one-time impact of the PSRA, increased by 2.3 percent, and total attributable costs decreased by 2.7 percent. Total institutional costs decreased by 2.8 percent.

57 Section 102(c)(1) of the PSRA repealed payments "required from the Postal Service under section 8909a of title 5, United States Code, as in effect on the day before the date of enactment of this Act that remains unpaid as of such date of enactment." Postal Service Reform Act of 2022, Pub. L. 117-108, 136 Stat. 1127 (2022).

Table IV-1
Condensed Contribution Margin Income Statement[58]

	FY 2021	FY 2022	FY 2022 over FY 2021	
			$ Change	% Change
Total Revenue excluding impact of PSRA	**$ 77,068**	**$ 78,811**	**$ 1,743**	**2.3%**
Total Attributable Costs	48,364	47,035	(1,330)	(2.7%)
Contribution Margin	28,704	31,776	3,072	10.7%
Total Institutional Costs excluding impact of PSRA	33,634	32,706	(928)	(2.8%)
Net Loss (Excluding PSRA Adjustment)	**$ (4,930)**	**$ (929)**	**$ 4,000**	**81.1%**
PSRA Adjustment for Reversal of Unpaid RHBF Expenses	0	56,975	56,975	NMF
Net Loss	**$ (4,930)**	**$ 56,046**	**$ 60,976**	**NMF**
Total All Mail and Services Volume (in Millions)	**$ 128,895**	**$ 127,263**	**$ (1,632)**	**(1.3%)**

Decrease in expenses is denoted by (). NMF denotes not meaningful. Numbers may not add across due to rounding
Source: Docket No. ACR2021, Library Reference USPS-FY21-1, December 29, 2021; Docket No. ACR2022, Library Reference USPS-FY22-1, December 29, 2022, REVISED March 24,2023 (Collectively Postal Service CRA Report, FY 2021 and FY 2022).

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 initially records costs 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.[59]

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. Institutional costs include costs for carrier network travel time, amortization of unfunded retirement-related liabilities apportioned to prior years, and various administrative costs.

58 The Postal Service CRA Report includes inframarginal and group-specific costs in attributable costs. Table IV-3 is calculated using the Postal Service's Cost and Component Reports which reallocates inframarginal and group-specific costs as institutional costs.

59 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.

In FY 2021 and FY 2022, 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 2021 and FY 2022, the net loss excluding the impact of the PSRA decreased by 81.1 percent. Total volume declined 1.3 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 2021 AND FY 2022, THE NET LOSS DECREASED BY 81.1 PERCENT. TOTAL VOLUME DECLINED 1.3 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 decrease in institutional cost in FY 2022, the Commission analyzes individual cost segment changes. Table IV-2 presents the underlying changes in institutional cost by year, beginning in FY 2018. Apart from FY 2022, the largest changes have been in workers' compensation. In FY 2022, the impact of the elimination of the required annual retiree health benefit payments[60] is seen in the large comparative decrease when compared to the prior fiscal year, resulting in the largest change in Other Costs.

Table IV-2
Change in Other Cost by Segment, FY 2018–FY 2022 ($ in Millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Annuitant Health Benefits	$ 14	$ 9	$ 71	$ 255	$ (2,765)
CSRS Supplemental Liability	(270)	204	225	64	445
City Carriers	167	157	227	367	405
Rural Carriers	187	218	179	284	391
FERS Supplemental Liability	42	102	283	57	226
Transportation	99	112	92	142	(114)
Supplies and Services	3	(35)	188	16	486
Clerks and Mailhandlers	54	(25)	39	147	97
Other	(435)	349	422	(8)	1,259
Subtotal	**$ (140)**	**$ 1,091**	**$ 1,725**	**$ 1,323**	**$ 432**
Workers' Compensation	1,002	3,495	(657)	(3,431)	(1,463)
Total Change	**$ 862**	**$ 4,585**	**$ 1,069**	**$ (2,108)**	**$ (1,031)**

Decrease in expenses is denoted by ().

Source: Postal Service CSC Report, FY 2021 and FY 2022; Docket No. ACR2020, Library Reference USPS-FY20-2, December 29, 2020; Docket No. ACR2019, Docket No. ACR2019, Library Reference USPS-FY19-2, December 27, 2019; Docket No. ACR2018, Library Reference USPS-FY18-2, FY 2018, December 28, 2018 (Collectively Postal Service CSC Report, FY 2018–FY 2022).

60 Section 102 of the PSRA repealed former 5 U.S.C. 8909a(d).

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" now include inframarginal costs and group-specific costs that are 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 2021 and FY 2022 ($ in Millions)

	FY 2021	FY 2022	FY 2022 over FY 2021	
			$ Change	% Change
Total Revenue excluding impact of PSRA	**$ 77,068**	**$ 78,811**	**$ 1,743**	**2.3%**
Volume Variable and Product Specific Costs:				
Postmasters	$ 308	$ 55	$ (253)	(82.1%)
Supervisors and Technicians	1,963	1,915	(48)	(2.4%)
Clerks and Mailhandlers	13,016	13,257	241	1.9%
City Delivery Carriers – Office Activity	3,384	3,338	(45)	(1.3%)
City Delivery Carriers – Street Activity	5,168	5,199	31	0.6%
Vehicle Service Drivers	552	590	37	6.8%
Rural Carriers	3,363	3,553	190	5.7%
Custodial and Maintenance Services	2,115	2,119	4	0.2%
Motor Vehicle Service	667	797	130	19.5%
Miscellaneous Local Operations	313	291	(21)	(6.9%)
Purchased Transportation	7,702	8,433	732	9.5%
Building Occupancy	1,517	1,643	126	8.3%
Supplies and Services	1,494	1,601	107	7.1%
Research and Development	0	0	0	n/a
Servicewide Personnel Benefits and HQ/Area Operations	3,336	872	(2,464)	(73.9%)
General Management Systems	0	0	0	49.4%
Other Accrued Expenses (Servicewide)	1,394	1,400	5	0.4%
Total Volume Variable and Product Specific Costs	**$ 46,291**	**$ 45,064**	**$ (1,227)**	**(2.7%)**
Contribution Margin	**$ 30,778**	**$ 33,747**	**$ 2,970**	**9.6%**
Other Costs:				
Postmasters	$ 1,446	$ 1,759	$ 312	21.6%
Supervisors and Technicians	1,583	1,451	(131)	(8.3%)
Clerks and Mailhandlers	2,889	2,987	97	3.4%
City Delivery Carriers – Office Activity	469	474	6	1.2%
City Delivery Carriers – Street Activity	8,829	9,228	399	4.5%
Vehicle Service Drivers	361	386	25	6.8%
Rural Carriers	5,923	6,314	391	6.6%
Custodial and Maintenance Services	1,104	1,146	42	3.8%
Motor Vehicle Service	1,107	1,340	232	21.0%
Miscellaneous Local Operations	470	525	55	11.7%
Purchased Transportation	1,951	1,837	(114)	(5.8%)
Building Occupancy	588	645	57	9.7%
Supplies and Services	1,821	2,307	486	26.7%
Research and Development	15	14	(2)	(11.3%)
Servicewide Personnel Benefits and HQ/Area Operations	6,549	3,596	(2,953)	(45.1%)
General Management Systems	12	17	5	40.2%
Other Accrued Expenses (Servicewide)	589	650	61	10.4%
Total Other Costs	**$ 35,707**	**$ 34,677**	**$ (1,031)**	**(2.9%)**
Total Costs	**$ 81,998**	**$ 79,741**	**$ (2,258)**	**(2.8%)**
Net Loss excluding impact of PSRA	**$ (4,930)**	**$ (929)**	**$ 4,000**	**(81.1%)**
Total All Mail and Services Volume (in Millions)	**128,895**	**127,263**	**(1,632)**	**(1.3%)**

Decrease in expenses is denoted by (). Numbers may not add across due to rounding.

Source: Postal Service CSC Report, FY 2021 and FY 2022.

As seen in Table IV-3, certain cost segments show large absolute increases from FY 2021. The three largest absolute changes from the prior year, which occur in the cost segments for Service-wide Personnel Benefits and HQ/Area Operations, Purchased Transportation, and Supplies and Services, are discussed below.

Service-wide Personnel Benefits and HQ/Area Operations consists of compensation and benefits costs of Headquarters, Field Service Units, Inspection Service, Security Force, and Area Offices, as well as 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 208 (Retiree Health Benefits) largely accounted for the decrease in this cost segment. This component contains the normal cost associated with retirement health benefits of active employees and accrued expenses to amortize PSRHBF unfunded liability expense, calculated by OPM. As a result of the PSRA, there are no retiree health benefits expenses for FY 2022. The FY 2021 amount includes $5.1 billion in RHB amortization and normal cost expenses that were repealed by the PSRA.

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 2021 to FY 2022 occurred in Domestic Highway. Total accrued costs in this component increased by 12.5 percent, slightly lower than the 14.2 percent increase in the prior year. The Postal Service explains that an increase in the average unit costs per mile and average diesel fuel prices, along with the shift of package volume from air to highway transportation resulted in a comparatively higher increase in Domestic Highway costs. Postal Service Form 10-K at 36. Domestic Air costs increased 1.9 percent in the current fiscal year, comparatively lower than the 4.3 percent increase in the prior year.

Table IV-4 shows the percentage change from the prior-year quarter in accrued Domestic Air and Domestic Highway costs. Costs for the third and fourth quarters, which historically have been lower than for 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.

Highway transportation costs in all quarters in FY 2022 were impacted by higher average diesel fuel prices, an increase in miles driven, and higher average unit costs per mile. Similarly, in all quarters of FY 2022, comparatively higher average jet fuel prices increased air transportation costs despite the shift of volume to highway transportation. The decrease in air transportation costs in Quarter 2 of FY 2022 compared to the SPLY was primarily because there was no longer any usage of expensive charter flights, which was due to the limited availability of commercial flights.

Table IV-4
Percent Change from Same Period Last Year (SPLY)
in Purchased Transportation Accrued Cost, FY 2020-FY 2022

	Percent Change from SPLY			
FY 2020 over FY 2019	**Q1**	**Q2**	**Q3**	**Q4**
Domestic Air	(4.5%)	3.9%	20.3%	34.3%
Domestic Highway	7.3%	(1.7%)	7.3%	7.8%
Purchased Transportation Total Cost	**2.4%**	**0.4%**	**10.8%**	**18.9%**
FY 2021 over FY 2020				
Domestic Air	13.7%	18.4%	(4.4%)	(6.1%)
Domestic Highway	7.2%	16.7%	16.2%	18.5%
Purchased Transportation Total Cost	**8.5%**	**16.7%**	**8.4%**	**5.2%**
FY 2022 over FY 2021				
Domestic Air	4.7%	(9.6%)	0.3%	11.6%
Domestic Highway	14.1%	11.8%	9.9%	14.0%
Purchased Transportation Total Cost	**9.2%**	**0.5%**	**3.5%**	**12.1%**

Decrease in expenses is denoted by (). Numbers may not add across due to rounding
Source: PRC derived from Docket No. ACR2022, Library Reference USPS-FY22-32, December 29, 2022, tab "Input-Costs."; Docket No. ACR2021, Library Reference USPS-FY21-32, December 29, 2021, tab "Input-Costs."; Docket No. ACR2020, Library Reference USPS-FY20-32, December 29, 2020, tab "Input-Costs."; Docket No. ACR2019, Library Reference USPS-FY19-32, December 27,2019, tab "Input-Costs."

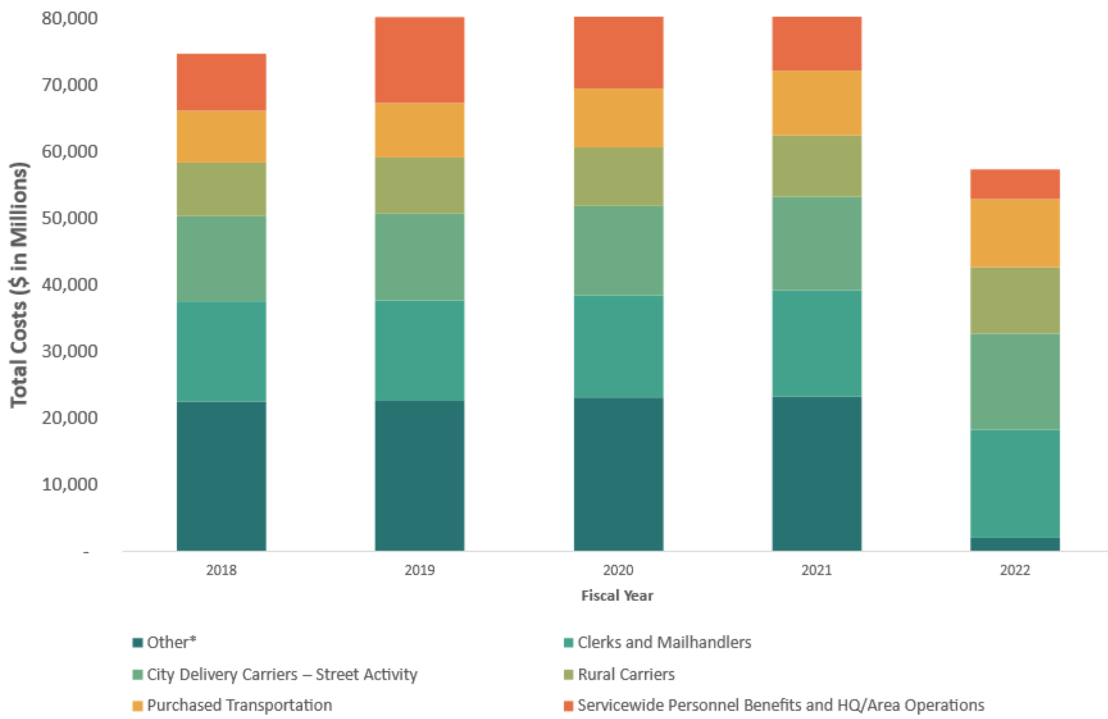
Supplies and Services consist of labor-related costs for non-administrative supplies, procurement costs of purchased stamps and accountable paper, and commercial services other than contract cleaners. Changes from prior year in components 189 and 177 accounted for almost 80 percent of the total increase in this cost segment. Component 189, "Reimbursements," are costs associated with reimbursements for damages to property and discounts earned. Also included in the costs for this component are costs for COVID-19 Test Kit Fulfillment.[61] Component 177, "Miscellaneous Postal Supplies and Services," are costs for supplies and services purchased with credit cards; contractual services other than repairs and maintenance; and miscellaneous postal supplies and services. Costs for Professional and other miscellaneous service increased by 28 percent from the prior year. These costs include miscellaneous nongovernment contractual services, including (a) market research studies for postal rate making; (b) ADP contractual services; (c) stenographic services; and (d) architectural and engineering support to the areas for design of postal facilities. Also included are charges for safety programs personnel tests and examinations training, film production services, uniform quality control, quality control tests, exhibits and displays, and other contractual services.

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 Service-wide Personnel Benefits and HQ/Area Operations (CS18). *See* Table IV-2.

61 Responses of the United States Postal Service to Questions 1-17 of Chairman's Information Request No. 2, January 13, 2023, question 7 (Response to CHIR No. 2). The Postal Service states that these costs include preparation for entering the test kits into the mailstream and what can loosely be referred to as the "delivery" component.

Figure IV-1
Share of Total Costs by Major Cost Segment, FY 2018–FY 2022



* 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 2021 and FY 2022; Docket No. ACR2020, Library Reference USPS-FY20-1, December 28, 2020; Docket No. ACR2019, Library Reference USPS-FY19-1, December 28, 2019; Docket No. ACR2018, Library Reference USPS-FY18-1, December 28, 2018 (Collectively Postal Service CRA Report, FY 2018-FY 2022)

From FY 2018 to FY 2022, the rate of growth in total costs in these five cost segments (5.9 percent) was lower than the rate of growth in the Postal Service's total costs (6.8 percent). This is the result of the PSRA eliminating the retiree health benefit costs until the top up payment.[62] The impact of the PSRA is seen in a significantly lower costs in Service-wide Personnel Benefits and HQ/Area Operations and Other.

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

62 Section 102 of the PSRA repealed former 5 U.S.C. 8909a(d), thus eliminating the required annual retiree health benefit payments. Under the requirements of the PSRA, the Postal Service will instead be required to pay into the PSRHBF for current retiree health care costs equal to the excess of the cost of annual claims over premiums. The Postal Service will not, however, be required to make these payments until OPM computes whether "top up" payments are due (which will occur not later than June 30, 2026) or the PSRHBF is exhausted. Thus, no retiree health benefit payments were due in FY 2022.

Table IV-5
Other Cost Share of Total Costs, FY 2018–FY 2022

Cost Segments		Other Costs Share of Total Accrued Costs				
		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
CS1	Postmasters	82.4%	82.4%	82.4%	82.4%	97.0%
CS2	Supervisors and Technicians	45.9%	45.5%	45.2%	44.6%	43.1%
CS3	**Clerks and Mailhandlers**	18.2%	18.0%	18.0%	18.2%	18.4%
CS6	City Delivery Carriers – Office Activity	16.5%	16.6%	12.7%	12.2%	12.4%
CS7	**City Delivery Carriers – Street Activity**	62.3%	62.2%	63.0%	63.1%	64.0%
CS8	Vehicle Service Drivers	39.6%	39.6%	39.6%	39.6%	39.6%
CS10	**Rural Carriers**	64.9%	64.1%	64.0%	63.8%	64.0%
CS11	Custodial and Maintenance Services	31.9%	26.4%	33.3%	34.3%	35.1%
CS12	Motor Vehicle Service	61.0%	61.5%	62.5%	62.4%	62.7%
CS13	Miscellaneous Local Operations	59.2%	53.8%	50.3%	60.1%	64.3%
CS14	**Purchased Transportation**	20.4%	21.0%	20.5%	20.2%	17.9%
CS15	Building Occupancy	29.0%	29.1%	29.2%	27.9%	28.2%
CS16	Supplies and Services	50.8%	52.5%	54.2%	54.9%	59.0%
CS17	Research and Development	100.0%	100.0%	100.0%	99.6%	98.5%
CS18	**Servicewide Personnel Benefits and HQ/Area Operations**	64.1%	76.0%	75.5%	66.3%	80.5%
CS19	General Management Systems	99.9%	99.9%	99.5%	99.7%	99.6%
CS20	Other Accrued Expenses (Servicewide)	28.3%	30.2%	30.4%	29.7%	31.7%

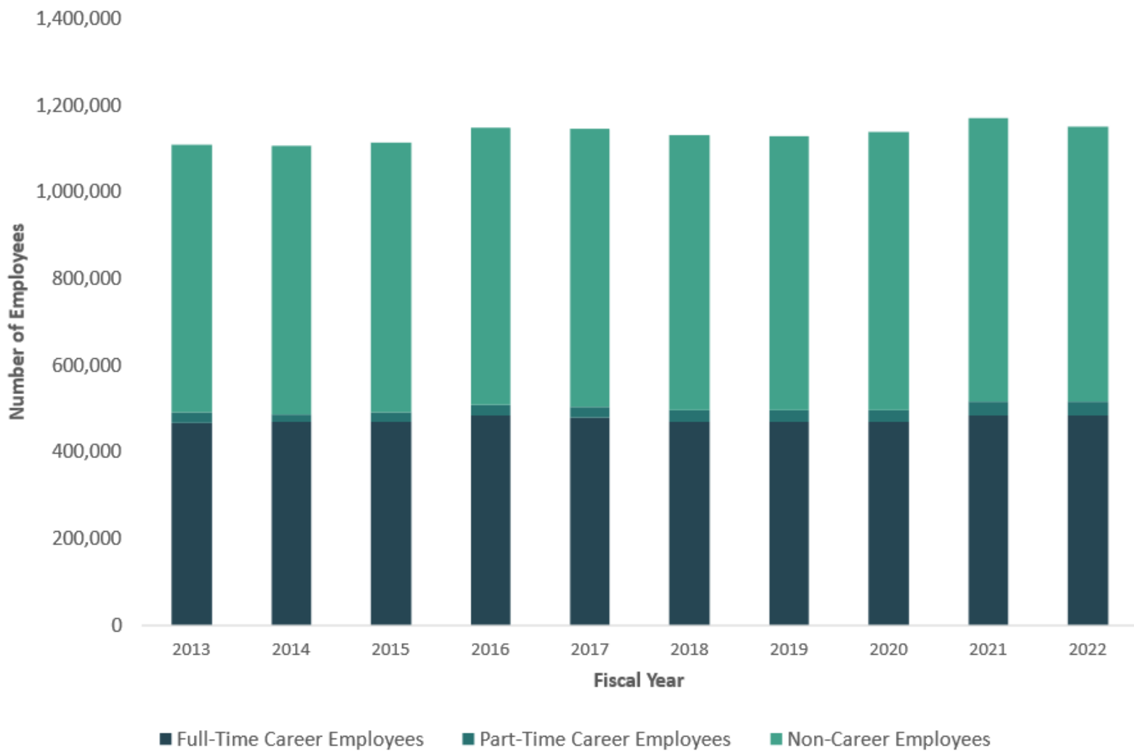
Source: Postal Service CRA Report, FY 2018–FY 2022.

Analysis of Employee Labor Cost

OVER THE PAST DECADE (FY 2013–FY 2022), THE POSTAL SERVICE HAS ADDED APPROXIMATELY 26,000 FULL-TIME AND PART-TIME EMPLOYEES AND REDUCED APPROXIMATELY 8,000 NON-CAREER EMPLOYEES.

Employee labor costs, including compensation and benefits, are 72.6 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 2013–FY 2022), the Postal Service has added approximately 26,000 full-time and part-time employees and reduced its workforce by approximately 8,000 non-career employees. *See* Figure IV-2.

Figure IV-2
Breakdown of Workforce, FY 2013–FY 2022

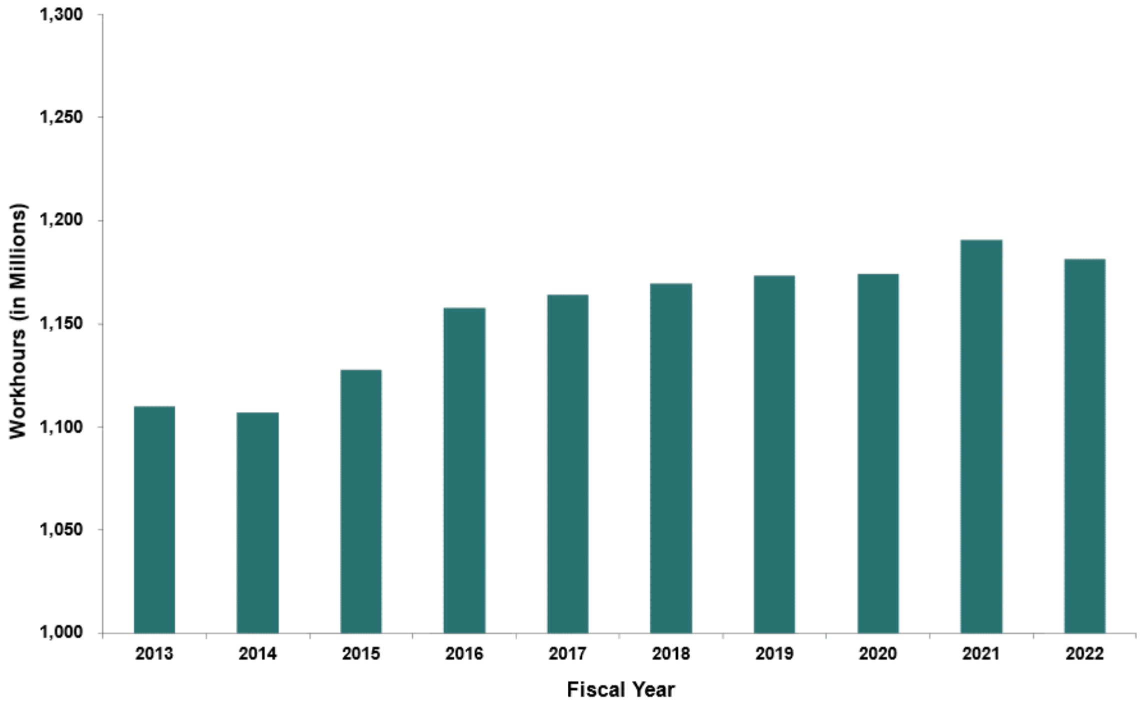


Source: Postal Service ORPES Report PP 20, FY 2020-FY 2022; United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2019, October 15, 2019; United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2018, October 11, 2018; United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2017, October 6, 2017; United States Postal Service, On-Roll and Paid Employee Statistics September 2016 (FY 2016), October 6, 2016; United States Postal Service, On-Roll and Paid Employee Statistics September FY 2015, September 24, 2015; United States Postal Service, On-Roll and Paid Employee Statistics September FY 2014, September 26, 2014; United States Postal Service, On-Roll and Paid Employee Statistics September FY 2013, September 27, 2013 (Collectively Postal Service September ORPES Report PP 20, FY 2013-FY 2022).

In FY 2013 and FY 2014, the Postal Service reduced workhours each year. That trend changed in FY 2015, and workhours increased annually through FY 2021. 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 increase in the past 5 years. This trend reversed in FY 2022, the first annual decrease in 8 years. Figure IV-3 depicts annual workhours during the past 10 years.

DURING FY 2022, WORKHOURS DECREASED 0.8 PERCENT COMPARED TO THE PRIOR YEAR, THE FIRST ANNUAL RATE DECREASE SINCE FY 2014.

Figure IV-3
Total Workhours ($ in Millions), FY 2013–FY 2022

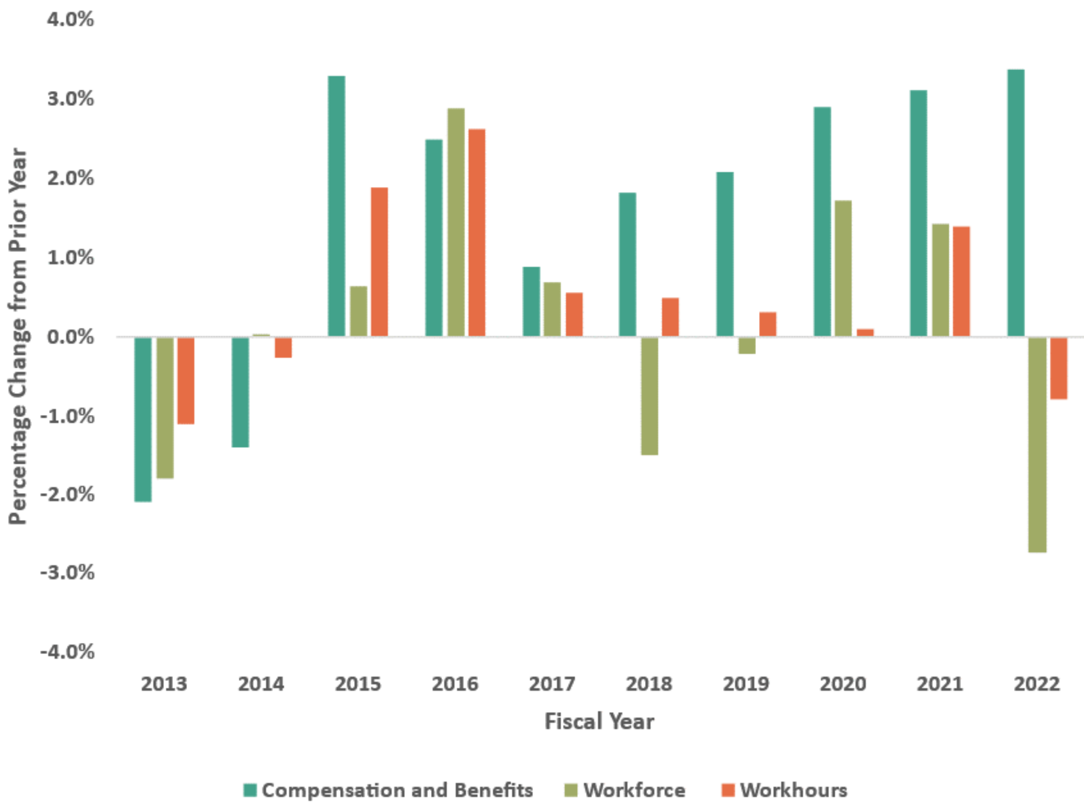


Source: Docket No. ACR2022, Library Reference USPS-FY22-17, December 29, 2022, compressed folder “FY22.17.Annual Report.zip”, File folder “TFP Materials,” Excel file “Table Annual 2022 ACR (Public).xls” Postal Service FY 2022 TFP, tab “Lab-13b.”

As illustrated in Figure IV-4, the Postal Service reduced its workforce and workhours in FY 2013 and 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.

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-4
Percent Change from Prior Year in Compensation and Benefits, Workforce and Workhours, FY 2013–FY 2022



Source: Postal Service FY 2022 Form 10-K at 24; Postal Service FY 2021 Form 10-K at 30; Postal Service FY 2020 Form 10-K at 34, 31; Postal Service FY 2019 Form 10-K at 25; Postal Service FY 2016 Form 10-K at 20; Postal Service FY 2013 Form 10-K at 28; 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."; Docket No. ACR2020, Library Reference USPS-FY20-17, December 29, 2020, compressed folder "FY20.17.Annual Report.zip", Excel file "TFP Table Annual 2020 ACR Public.xls", tab""Lab-13b."; Postal Service September ORPES Report PP 20, FY 2013-FY 2021.

The composition of the postal workforce is a significant factor in compensation and benefits costs. 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, Thrift Savings Plan (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.

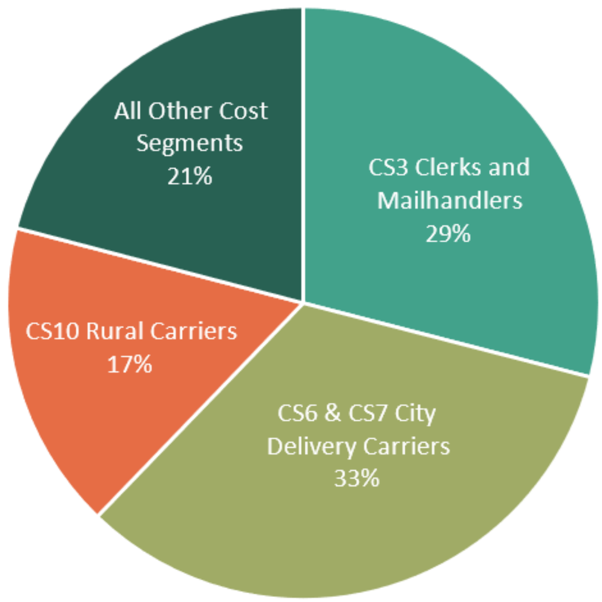
During FY 2022, the postal workforce decreased by 17,750, or 2.7 percent. The reductions in non-career employees by 13.2 percent (approximately 17,900), and part-time career employees by 2.3 percent (approximately 770 employees) fully offset the slight increase (0.2 percent) in the full-time career headcount. Compared to the prior year, during FY 2022, total work hours decreased by 10 million, or 0.8 percent, compared to FY 2021, including a decrease in overtime work hours of 16 million, partially offset by an increase of straight-time hours of 6 million.

The impact of inflation is seen in the higher compensation expense, 3.4 percent ($1.4 billion) in FY 2022 compared to the prior year. This increase is primarily due to contractual wage increases and related cost-of-living adjustments (COLA) in August 2021, February 2022, and August 2022. Postal Service contributions for Social Security, TSP matching contributions and FERS and FERS-FRAE increased by 6.1 percent due to the impact of increased inflation on salaries. Postal Service contributions for health benefits decreased slightly (0.9 percent) compared to the prior year, reflective of the decreasing workforce.

This section examines changes in compensation in FY 2022 across the three cost segments where labor costs are highest by comparing compensation costs (salary before benefits) in FY 2022 to the prior year.

Three 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.

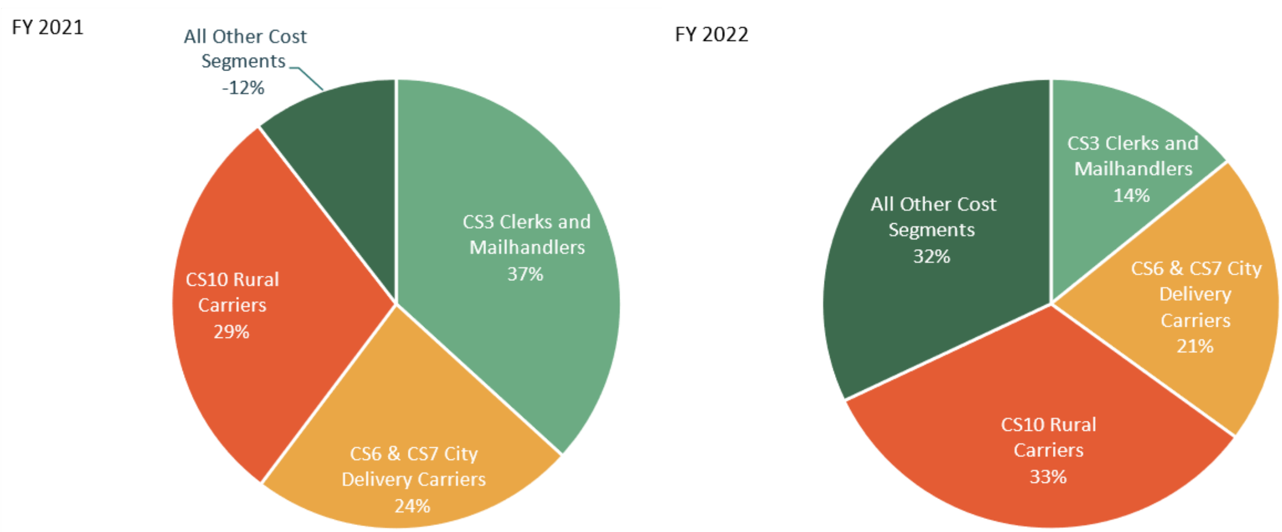
Figure IV-5
Cost Segment Share of Total Compensation Cost, FY 2022



Source: PRC derived from USPS-FY22-7, Excel file “Wkyrcalc.xls,” tab "Calculations."

Figure IV-6 presents the relative shares of the growth in compensation for FY 2021 and FY 2022. 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 decreased by almost a quarter and Rural Carriers and City Delivery Carriers changed slightly.

Figure IV-6
Cost Segment Shares of Growth Rate of Total Compensation Cost, FY 2021-FY 2022

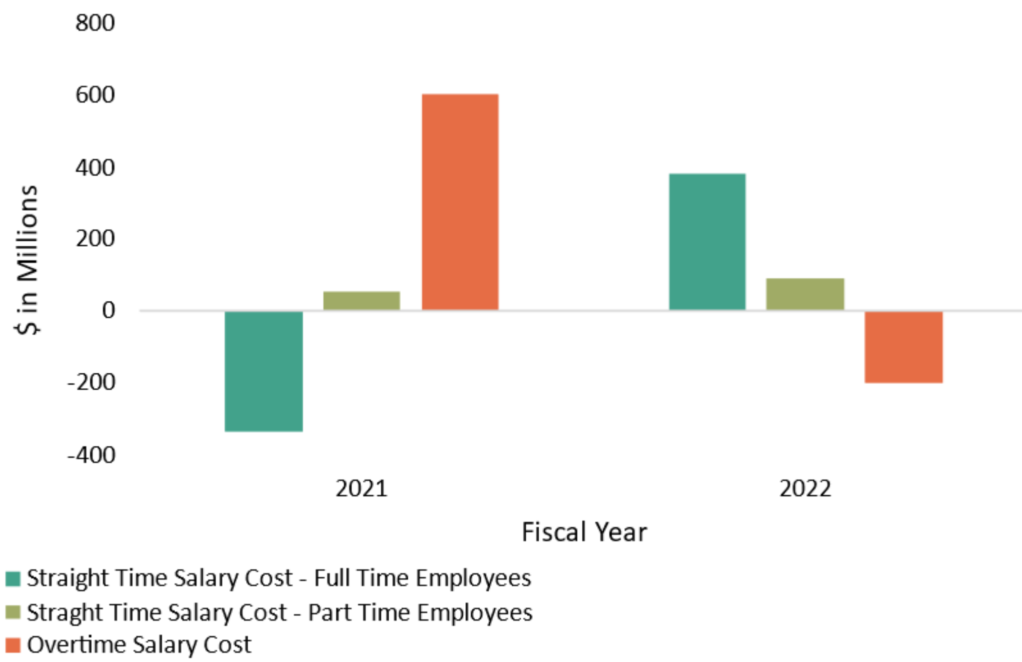


Source: PRC derived from USPS-FY22-7, Excel file “Wkyrcalc.xls,” tab "Calculations."

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 2021 and FY 2022. The result was a change in each segment's share of total compensation costs.

In FY 2022, the total compensation cost for City Delivery Carrier increased by the same rate as the prior year, 2 percent ($273 million). As shown in Figure IV-7, compensation costs for overtime decreased by 6 percent ($198 million), compared to an increase of 22 percent ($602 million) in FY 2021. Straight-time compensation for full-time employees increased by 4 percent, reversing the 4-percent decrease in the prior year. Straight-time compensation for part-time employees increased by 6 percent ($89 million), higher than the prior year increase of 4 percent ($52 million).

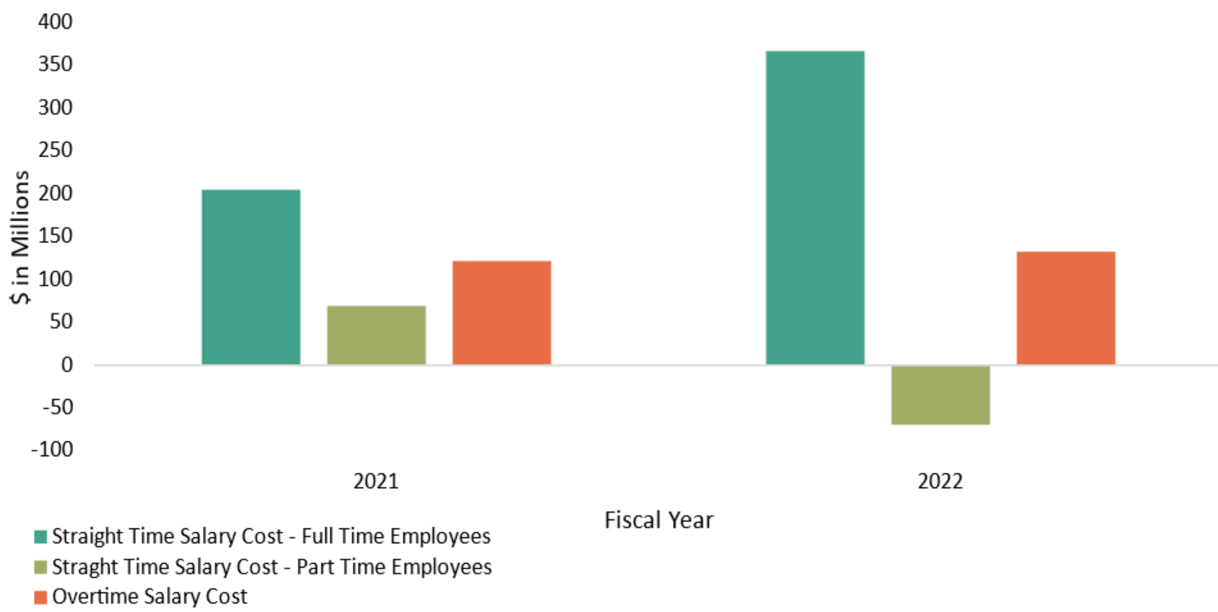
Figure IV-7
Composition of Cost Segments 6 & 7 City Delivery Carriers Change from Prior Year
FY 2021 and FY 2022



Source: PRC derived from USPS-FY22-7, Excel file "Wkyrcalc.xls," tab "Calculations."

In FY 2022 and FY 2021, total compensation costs for Rural Carriers increased by 7 percent ($426 million) and 6 percent ($395 million), respectively. In both years, compensation costs for overtime increased; by 25 percent ($132 million) in FY 2022 and by 31 percent ($121 million) in FY 2021. Straight-time compensation for full-time employees increased by 8 percent ($365 million), higher than the prior year's increase of 5 percent ($205 million). Straight-time compensation for part-time employees decreased by 4 percent ($71 million) in FY 2022 and increased by 5 percent ($69 million) in the prior year.

Figure IV-8
Composition of Cost Segment 10 Rural Carriers Change from Prior Year, FY 2021 and FY 2022



Source: PRC derived from USPS-FY22-7, Excel file “Wkyrcalc.xls,” tab "Calculations."

In FY 2022 and FY 2021, total compensation costs for Clerks and Mailhandlers increased by 2 percent ($182 million) and 4 percent ($497 million), respectively. Compensation costs for overtime decreased by 18 percent ($393 million) in FY 2022, reversing the increase of 10 percent ($194 million) in FY 2021. Straight-time compensation for full-time employees increased in both years, by 7 percent ($517 million) in FY 2022 and slightly by 0.2 percent ($11 million) in FY 2021. Straight-time compensation for part-time employees increased in both years, by 2 percent ($58 million) lower than the increase of 14 percent ($291 million) in FY 2021.

Figure IV-9
Composition of Cost Segment 3 Clerks and Mailhandlers Change from Prior Year, FY 2021 and FY 2022

Source: PRC derived from USPS-FY22-7, Excel file “Wkyrcalc.xls,” tab "Calculations."

As shown in Figures IV-7, IV-8, and IV-9, compensation costs for overtime[63] reduced by more than half in FY 2022 compared with the prior year. Straight-time compensation costs for part-time employees were lower in comparison with prior year. However, straight-time compensation costs for full-time employees increased significantly from the prior year. This is consistent with the hiring of over 50,000 career employees during FY 2022. Postal Service FY 2022 Form 10-K at 25.

In addition to the decreased use of overtime in FY 2022, there were notable changes to the mix of postal career and non-career employees. In FY 2022, non-career headcount decreased by 2 percent and full-time career headcount increased by the same percentage.

63 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.

Appendixes

Appendix A: Fiscal Year 2022 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	27,292	770,334	303,762	466,573	2,822.599	1,113.019	1,709.580	253.6%
Priority Mail	1,184,348	11,958,024	8,742,129	3,215,895	1,009.671	738.139	271.533	136.8%
Total Ground	3,553,356	9,866,818	5,024,151	4,842,667	277.676	141.392	136.284	196.4%
First-Class Package Service	1,960,388	7,809,357	4,625,400	3,183,957	398.358	235.943	162.415	168.8%
Competitive Domestic Services		1,266,096	342,920	923,176				152.0%
Competitive International Mail & Services	165,623	1,458,587	1,078,734	379,853	880.666	651.319	229.348	135.2%
Total Competitive Group Specific & Non-Product Inframarginal Costs			550,296					
Total Competitive Mail and Services	**6,891,006**	**33,129,215**	**20,667,391**	**12,461,824**	**480.760**	**299.918**	**180.842**	**160.3%**
MARKET DOMINANT MAIL								
First-Class Mail								
Single-Piece Letters and Cards	12,817,615	7,375,039	4,775,455	2,599,584	57.538	37.257	20.281	154.4%
Presort Letters and Cards	34,992,301	15,049,398	4,901,521	10,147,876	43.008	14.007	29.000	307.0%
Flats	1,091,016	1,590,636	1,461,958	128,678	145.794	134.000	11.794	108.8%
First-Class Non-Product Inframarginal Costs			218,947					
Total Domestic First-Class Mail	**48,900,933**	**24,015,072**	**11,357,881**	**12,657,191**	**49.110**	**23.226**	**25.883**	**211.4%**
Marketing Mail								
High Density & Saturation Letters	6,044,841	1,132,194	569,481	562,713	18.730	9.421	9.309	198.8%
High Density & Saturation Flats & Parcels	9,440,571	1,790,794	1,351,756	439,038	18.969	14.319	4.651	132.5%
Carrier Route	4,718,228	1,434,929	1,443,430	(8,501)	30.412	30.593	(0.180)	99.4%
Letters	43,682,480	10,242,549	5,356,276	4,886,272	23.448	12.262	11.186	191.2%
Flats	2,693,530	1,297,091	1,945,796	(648,705)	48.156	72.240	(24.084)	66.7%
Parcels	29,415	52,477	60,002	(7,525)	178.400	203.983	(25.583)	87.5%
Every Door Direct Mail - Retail	512,153	101,784	38,574	63,210	19.874	7.532	12.342	263.9%
Marketing Mail Non-Product Inframarginal Costs			422,179					
Total Marketing Mail	**67,121,219**	**16,051,818**	**11,187,494**	**4,864,324**	**23.915**	**16.668**	**7.247**	**143.5%**
Periodicals								
Within County	434,754	51,399	104,713	(53,315)	11.823	24.086	(12.263)	49.1%
Outside County	2,965,610	907,718	1,465,619	(557,901)	30.608	49.420	(18.812)	61.9%
Periodicals Non-Product Inframarginal Costs			439					
Total Periodicals	**3,400,364**	**959,116**	**1,570,772**	**(611,655)**	**28.206**	**46.194**	**(17.988)**	**61.1%**

Package Services								
Alaska Bypass	1,340	38,538	28,339	10,198	2,876.380	2,115.190	761.190	136.0%
Bound Printed Matter Flats	137,776	119,546	95,852	23,694	86.768	69.571	17.197	124.7%
Bound Printed Matter Parcels	241,140	298,396	274,583	23,813	123.744	113.869	9.875	108.7%
Media and Library Mail	94,975	402,501	440,899	(38,398)	423.794	464.224	(40.430)	91.3%
Package Services Non-Product Inframarginal Costs			629					
Total Package Services	**475,232**	**858,981**	**840,302**	**18,678**	**180.750**	**176.819**	**3.930**	**102.2%**
U.S. Postal Service Mail	266,431							
Free Mail	18,287		27,141	(27,141)		148.418		
Total Market Dominant Mail	**120,182,465**	**41,884,987**	**24,983,590**	**16,901,398**	**34.851**	**20.788**	**14.063**	**167.6%**
MARKET DOMINANT SERVICES								
Ancillary Services								
Certified Mail		652,869	478,819	174,050				136.3%
COD		4,500	4,348	152				103.5%
Insurance		87,640	23,413	64,227				374.3%
Registered Mail		22,686	16,321	6,366				139.0%
Stamped Envelopes		6,689	6,685	4				100.1%
Stamped Cards		302	96	206				314.2%
Other Ancillary Services		395,627	268,456	127,171				147.4%
Money Orders		172,179	173,652	(1,473)				99.2%
Post Office Box Service		310,938	131,228	179,709				236.9%
Caller Service		91,257	22,574	68,683				404.3%
Other Special Services		59,128	16,468	42,660				359.1%
Market Dominant Services Non-Product Inframarginal Costs			19,645					
Total Market Dominant Domestic Services		**1,803,815**	**1,161,704**	**642,111**				
Outbound Single-Piece Mail Intl	111,125	186,942	109,247	77,695				
Inbound Single-Piece Mail Intl	78,060	58,049	45,363	12,687				
International Services		8,686	4,268	4,418				
Market Dominant Intl Non-Product Inframarginal Costs			8	(8)				
Market Dominant International Mail & Services	**189,185**	**253,678**	**158,886**	**94,792**				
Other Income		1,507,181		1,507,181				
Other International Mail Attributable			63,302	(63,302)				
Total Mail and Services	**127,262,656**	**78,574,413**	**47,034,873**	**31,539,541**	**61.742**	**36.959**	**24.783**	**167.1%**
Institutional Costs			32,705,642					
Impact of Postal Reform Legislation (Gain)		56,975,094						
Appropriations: Revenue Forgone		45,037						
Investment Income		191,744						
Total Revenues		**135,786,288**						
Total Costs			**79,740,514**					
Net Income (Loss)		**56,045,773**						

Source: Library Reference PRC-ACR2022-LR1

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 (resource 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 73 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.

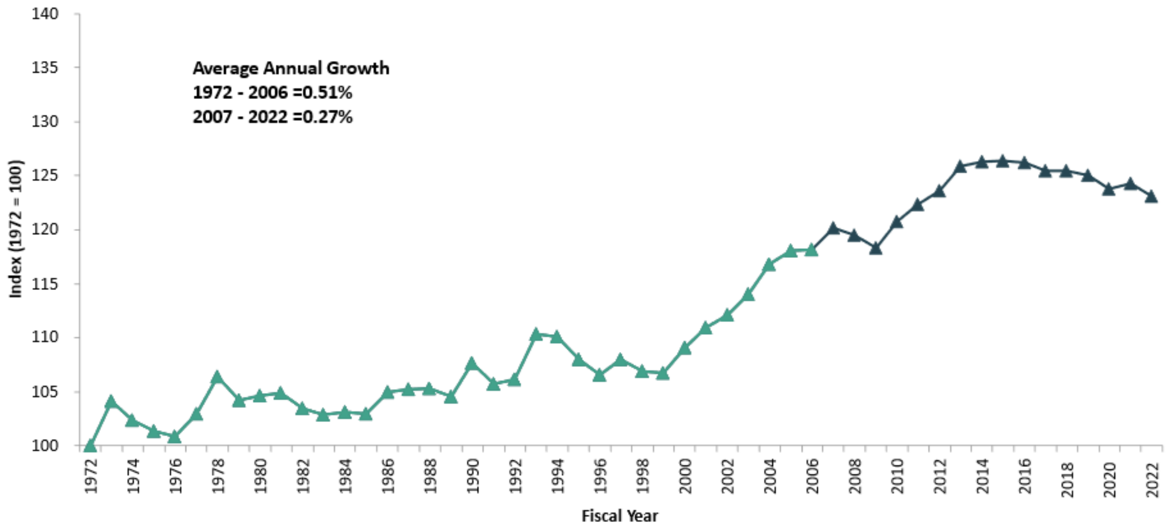
In FY 2019 and FY 2020, TFP decreased by 0.3 percent and 1.0 percent, respectively. Total workload increased by 0.3 percent in FY 2020, less than the 1.3 percent increase in resources for the same period. The growth rate of resources used, specifically materials (domestic air transportation, highway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

In FY 2022, TFP declined 0.9 percent, largely reflecting the impact of inflation. During FY 2022, the price of labor and materials increased by 6.5 percent and 14.6 percent, respectively, fully offsetting the decrease in the price of capital of 11.3 percent.

Figure B-1 shows the trend in TFP from FY 1972 through FY 2022.

Figure B-1
Postal Service Total Factor Productivity, FY 1972–FY 2022



Source: Postal Service FY 2022 TFP, tab “Tfp-52.”