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POSTAL REGULATORY COMMISSION

# FINANCIAL ANALYSIS

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

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# CHAPTER I

## Report Overview

## Financial Changes

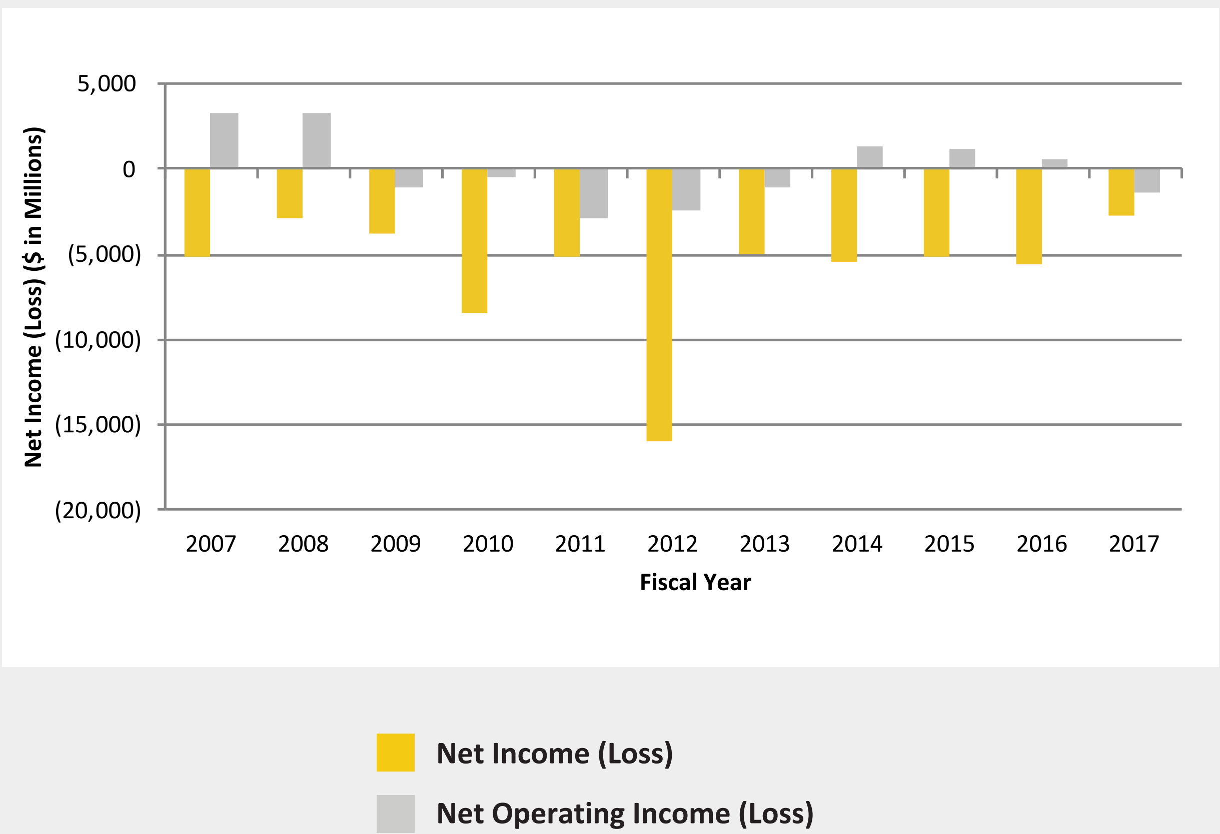
In FY 2017, the Postal Service recorded its first net loss from operations[1] since FY 2013. The net loss from operations is largely due to the expiration of the exigent surcharge, declining Market Dominant volume, and higher operating expenses. The $1.3 billion net loss from operations is nearly $2.0 billion less than the FY 2016 $0.6 billion net income from operations. However, when the Non-operating Expenses (NOEs) are included,[2] the FY 2017 total net loss is $2.7 billion—an improvement of $2.8 billion compared to FY 2016.

[1] Net income or loss from operations is also referred to as net operating income (loss).
[2] NOEs include all non-cash workers' compensation costs, accruals to retirement accounts, and one-time adjustments.

This improvement results from a $4.8 billion decrease in the retiree health benefits (RHB) expense and a $3.4 billion decrease in the workers' compensation expense, offset by $2.4 billion in increased expenses that resulted from Postal Accountability and Enhancement Act (PAEA) provisions for unfunded retirement benefit costs.[3]

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

**Figure I-1**
**Postal Service Income/(Loss), FY 2007 – FY 2017**
**($ in Millions)**



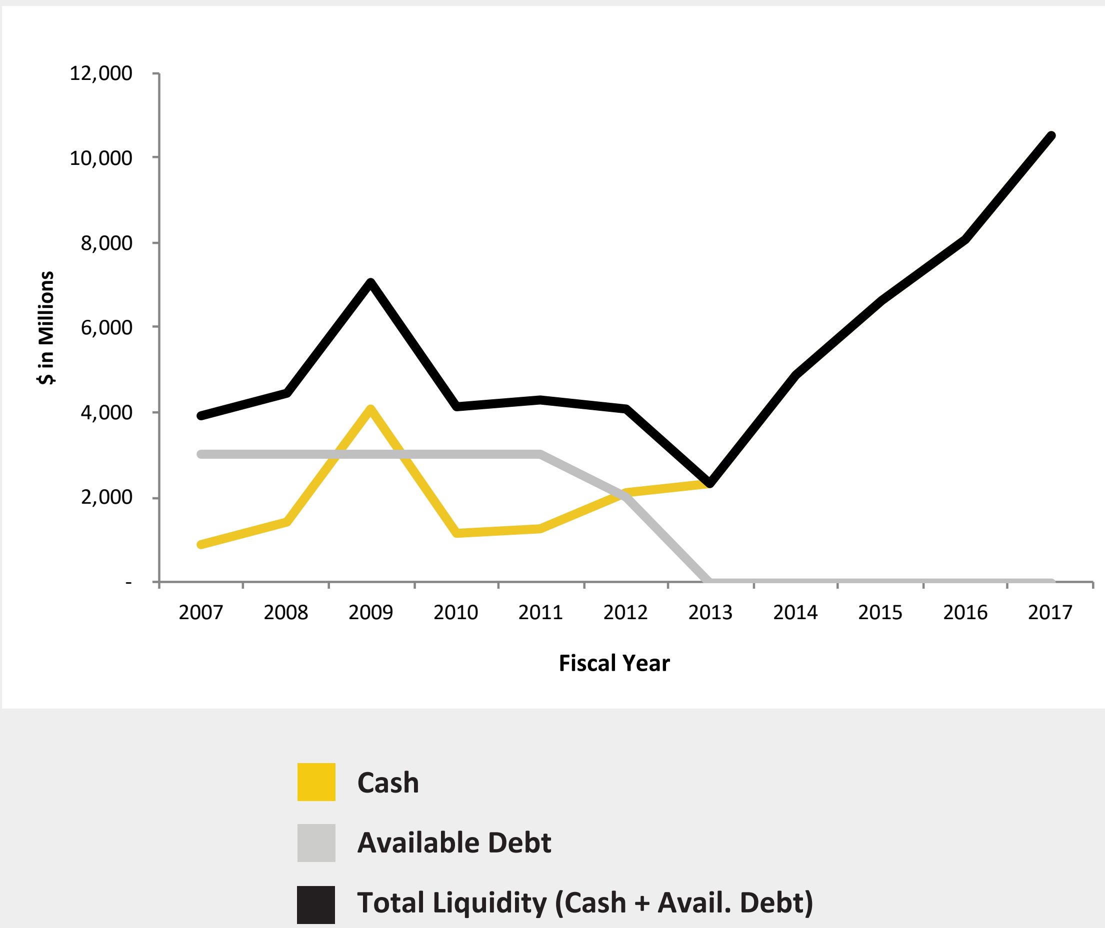

*Source: Postal Service Form 10-K and USPS Annual Report, FY 2007-FY 2017.*

[3] United States Postal Service, 2017 Report on Form 10-K, November 14, 2017, at 16 (Postal Service FY 2017 Form 10-K).

The Postal Service's liquidity continued to improve in FY 2017. Figure I-2 illustrates the overall liquidity, along with cash and debt trends, since FY 2007. The Postal Service reached its statutory debt limit of $15 billion at the end of FY 2012.[4]

The recent improvements in its cash balance have allowed the Postal Service to increase its capital investment plans. The FY 2017 Integrated Financial Plan (IFP) included a capital investment budget of $1.9 billion for facilities, mail processing equipment, vehicles, and information technology.[5]

**Figure I-2**
**Postal Service Liquidity, FY 2007 – FY 2017**
**($ in Millions)**




*Source: Postal Service Form 10-K and USPS Annual Report, FY 2007-FY 2017.*

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[4] *Id.* at 10.
[5] United States Postal Service, 2017 Integrated Financial Plan, December 2, 2016, at 7 (FY 2017 IFP).

Significant highlights of FY 2017 include:

- Consumer price index (CPI)-based price increases were not enough to offset revenue lost from declining volumes and the expiration of the exigent surcharge.
- Total Market Dominant revenue decreased 7.7 percent compared to FY 2016.
- Market Dominant products average unit revenue decreased by 0.9 cents while average unit attributable cost increased by 1.0 cent.
- Competitive products attributable cost grew 11.2 percent and contribution to institutional cost grew 13.3 percent.
- Competitive products share of total Postal Service revenue, attributable cost, and contribution to institutional cost has nearly tripled since FY 2007.
- Total Factor Productivity (TFP) declined slightly for the second year in a row.
- Accumulated net deficit is $58.7 billion, resulting from several years of net losses starting in FY 2007.
- Financial sustainability continues to erode due to large personnel related liabilities and the slow replacement of fully depreciated capital assets. Overall financial condition is adversely impacted by insufficient current assets (44 percent of total assets) to cover current liabilities (72 percent of total liabilities).
- The Retiree Health Benefits expense decreased by $4.8 billion due to the expiration of the PAEA mandated statutory obligation, but this was partly offset by increases in unfunded retirement benefit costs of $2.4 billion.
- The Postal Service's FY 2017 working capital was negative $49.8 billion.
- The Postal Service cash position is at the highest level since FY 2007; however, significant balance sheet liabilities and off-balance sheet unfunded liabilities for pension and annuitant health benefits threaten the improvements in liquidity.


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# CHAPTER II

# Postal Service Financial Status

## Introduction

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

The Commission's analysis is primarily based upon the Postal Service's Form 10-K financial statements for FY 2017 and FY 2016. To provide a basis for comparison, the Commission also incorporates select key financial data from the past ten years.

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

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

This chapter is divided into the following sections:

*Analysis of Income Statements*. This section reviews overall income and loss, and compares current revenue and expenses with those forecasted for the current year and reported during the prior fiscal year. This section includes a summary of specific retirement funding changes for FY 2017. It also compares changes in Postal Service productivity between FY 2016 and FY 2017.

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

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

# Analysis of Income Statements

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

Net operating revenue includes mail and services revenue as well as government appropriations revenue. In FY 2016, the Postal Service made a $1.0 billion adjustment to total Market Dominant products revenue.[1] For purposes of this comparative analysis, the adjustment is shown separately in Table II-1 as "Adjustment for postage related to Forever Stamps."

Table II-1 illustrates the Commission's disaggregated version of the Income Statements.

**Table II-1**
**Postal Service Income Statements Restated to Facilitate Analysis, FY 2017 and FY 2016**
**($ in Millions)**

| | FY 2017 | FY 2016 | Variance | FY 2017 Plan | Variance from Plan |
|---|---|---|---|---|---|
| Total Revenue as Reported by the Postal Service | $69,636 | $71,498 | $(1,862) | $70,665 | $(1,029) |
| Less: Adjustment for Postage Related to Forever Stamps | - | (1,061) | 1,061 | - | - |
| **Net Operating Revenue** | **$69,636** | **$70,437** | **$(801)** | **$70,665** | **$(1,029)** |
| Operating Expense as Reported by the Postal Service | 72,210 | 76,899 | (4,689) | 74,725 | (2,515) |
| Less: Amortization of Unfunded RHB FY 2017; Statutory Accrual FY 2016 | (955) | (5,800) | 4,845 | (2,840) | 1,885 |
| Amortization of CSRS Unfunded Liability | (1,741) | - | (1,741) | (1,232) | (509) |
| Amortization of FERS Unfunded Liability | (917) | (248) | (669) | (248) | (669) |
| Non-Cash Change to Workers' Compensation Liability | 2,212 | (1,214) | 3,426 | - | 2,212 |
| **Net Operating Expense** | **$70,809** | **$69,637** | **$1,172** | **$70,405** | **$404** |
| Interest Income | 58 | 32 | 26 | 48 | 10 |
| Interest Expense | 226 | 222 | 4 | 237 | (11) |
| **Net Income (Loss) from Operations** | **$(1,341)** | **$610** | **$(1,951)** | **$71** | **$(1,412)** |
| Adjustment for Postage Related to Forever Stamps | - | 1,061 | (1,061) | - | - |
| Amortization of Unfunded RHB FY 2017; Statutory Accrual FY 2016 | 955 | 5,800 | (4,845) | 2,840 | (1,885) |
| Amortization of CSRS Unfunded Liability | 1,741 | - | 1,741 | 1,232 | 509 |
| Amortization of FERS Unfunded Liability | 917 | 248 | 669 | 248 | 669 |
| Non-Cash Change to Workers' Compensation Liability | (2,212) | 1,214 | (3,426) | - | (2,212) |
| **Net Loss** | **$(2,742)** | **$(5,591)** | **$2,849** | **$(4,249)** | **$1,507** |

*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. ACR2017, Library Reference USPS-FY17-5, December 29, 2017; Docket No. ACR2016, Library Reference USPS-FY16-5, December 29, 2016 ; FY 2017 Plan data from USPS Preliminary Financial Information (Unaudited), September 2017, November 14, 2017 (November 14, 2017, Preliminary Financial Information); file "2017.11.14 September FY 2017 Report to the PRC--Report.pdf."*

[1] Estimated revenue recognized for postage sold but not used (deferred revenue) was increased to record omitted revenue from a recalculation of Forever Stamps usage included in Postage in the Hands of the Public (PIHOP) during the past years.

The Postal Service incurred a net operating loss of $1.3 billion in FY 2017. In FY 2016, the Postal Service had a net operating income of $0.6 billion so the FY 2017 loss represents a nearly $2 billion decline.[2] The net loss is largely due to the expiration of the exigent surcharge, declining Market Dominant volume, and higher operating expenses. Net operating expense was $1.2 billion higher than in FY 2016, primarily driven by increases in compensation and benefits costs.

After all adjustments are included, the net operating loss of $1.3 billion becomes a total net loss of $2.7 billion. This is an improvement of $2.8 billion compared to FY 2016. The improvement in the total net loss is largely driven by lower overall retirement expenses[3] and a $3.4 billion decrease in the workers' compensation expense resulting from a higher discount rate.

The Postal Service's funding requirements for retirement benefits changed significantly in FY 2017 in five material aspects. These changes are shown in Table II-2. As stated above, although the retirement expenses are disaggregated by the Commission as accrual entries, they are discussed in this section because they have an impact on total net income (loss).

**Table II-2**
**Postal Service Changes in Retirement Funding Requirements, FY 2017 – FY 2016**
**($ in Millions)**

| | FY 2017 | FY 2016 | $Variance |
|---|---|---|---|
| Annual Amortization of CSRS Unfunded Liability | $1,741 | $- | $1,741 |
| Annual Amortization of FERS Unfunded Liability | 917 | 248 | 669 |
| RHBF Statutory Prefunding Amount | - | 5,800 | (5,800) |
| Amortization of RHBF Unfunded Liability | 955 | - | 955 |
| Normal Costs of Retiree Health Benefits | 3,305 | - | 3,305 |
| Retiree Health Benefit Premiums | - | 3,305 | (3,305) |
| **Total Retirement Expense** | **$6,918** | **$9,353** | **$(2,435)** |

*Source: Postal Service FY 2017 Form 10-K at 17; Docket No. RM2017-3, Notice of Supplemental Information, August 10, 2017 (August 10, 2017 Notice of Supplemental Information).*

First, the PAEA suspended the Postal Service's contributions to the Civil Service Retirement System (CSRS) until after FY 2016. In June 2017, OPM revalued the FY 2016 CSRS unfunded liability at $26.9 billion and assessed an annual amortization payment of $1.7 billion, due September 30, 2017, to liquidate the unfunded obligation by FY 2043.[4]

Second, OPM determined the FY 2016 supplemental liability for Federal Employees Retirement System (FERS) to be $10.9 billion, excluding unpaid prior-year balances of $4.4 billion, and assessed an annual amortization payment of $917 million due September 30, 2017, to liquidate the unfunded obligation by FY 2046.[5]

[2] The Commission's calculation of net operating income (loss) differs from the controllable net income (loss) reported in Postal Service Form 10-K by $527 million. The Postal Service excludes the difference in the normal cost of Retiree Health Benefits ($527 million) from its controllable income because it is the result of actuarial changes. Postal Service FY 2017 Form 10-K at 17.
[3] Retirement-related benefits costs are lower than the prior year because of changes in retirement funding requirements. See Table II-2.
[4] See August 10, 2017 Notice of Supplemental Information at 2.
[5] See 5 U.S.C. § 8423(b)(2).

The FY 2017 amortization payment of $917 million was $669 million more than the prior year due to actuarial assumptions revised on June 1, 2017, and used in calculating the obligation.[6]

Third, the PAEA 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. By law, the fixed annual payments were replaced in FY 2017 with an amortization of the unfunded obligation. As shown in Table II-2, the mandated prefunding fixed payments into the RHBF ceased in FY 2017. OPM revalued the FY 2016 RHB unfunded liability at $56.9 billion[7] and assessed an annual amortization payment of $955 million due September 30, 2017, to liquidate the unfunded obligation by FY 2056.[8]

Fourth, the change in the funding mechanism for Postal Service retiree health benefits in FY 2017 no longer requires the Postal Service to pay its annual government share of retiree health benefit premiums. Beginning in FY 2017, the Postal Service funds normal costs determined annually by OPM. "Normal costs" are the present value of the estimated retiree health benefits based on active employees' current year of service.[9] OPM assessed a FY 2016 normal cost of $3.3 billion payable by September 30, 2017.

Fifth, starting in FY 2017, the Postal Service's share of annual retiree health benefit premiums are paid from the RHBF. As shown above in Table II-2, the Postal Service's contribution for retiree health benefit premiums dropped to zero in FY 2017.

The Postal Service defaulted on its FY 2017 payment of Retiree Health Benefit (RHB) normal costs and the amortization of its retirement-related unfunded obligations. On November 13, 2017, the Postal Service filed a request with the Commission under section 802(c) of the PAEA.[10] In its request, the Postal Service asks the Commission to examine the actuarial appropriateness and accuracy of OPM using government-wide demographic and salary-growth assumptions rather than those specific to Postal Service CSRS employees and annuitants. On January 30, 2018, the Postal Service filed a request under 5 U.S.C. § 8909a(d)(5)(A).[11] In its request, the Postal Service asks the Commission to examine the actuarial appropriateness and accuracy of OPM using government-wide assumptions rather than those specific to Postal Service employees and annuitants in the determination of the RHB obligation. It also observes that the propriety of full use of postal-specific assumptions has been recognized by the Postal Service's Office of Inspector General.

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[6] See Docket No. RM2017-3, Notice of Supplemental Information, October 3, 2017, at 1.
[7] RHB unfunded liability as of September 30, 2016, calculated as "Accrued Liability" $108.8 billion less "Value of invested PSRHBF Assets" $51.9 billion. August 10, 2017 Notice of Supplemental Information, Attachment at 1.
[8] *See id.*
[9] Postal Service FY 2017 Form 10-K at 5.
[10] Docket No. SS2018-1, Request of the United States Postal Service for Review of the Office of Personnel Management's Determination Regarding Civil Service Retirement System Liability, November 13, 2017.
[11] Docket No. SS2018-2, Request of the United States Postal Service for the Commission to Conduct a Review of the Office of Personnel Management's Determination Regarding Retiree Health Benefits Liability, January 30, 2018.

## MARKET DOMINANT REVENUE COMPARED TO PRIOR YEAR

The discussion in this section summarizes the overall revenue by class for Market Dominant products. Chapter 3 presents a more detailed discussion of revenue by class and product.

Table II-3 shows FY 2017 and FY 2016 revenue by class.

Total Adjusted Market Dominant Mail and Services Revenue declined 7.7 percent from the prior year.[12] First-Class Mail revenue declined by 6.7 percent, and Marketing Mail revenue declined by 5.7 percent. Periodicals revenue declined by 8.8 percent. The only Market Dominant product with increased revenue was Package Services, which increased by 0.3 percent compared to FY 2016. Two factors are principally responsible for these declines: (1) consumer price index (CPI)-based price increases were not enough to offset revenue lost from declining volumes, and (2) FY 2017 was the first full fiscal year after the expiration of the exigent surcharge.[13]

**Table II-3**
**Revenue by Market Dominant Class, FY 2017 and FY 2016**
**($ in Millions)**

| | FY 2017 | FY 2016 | $ Variance | % Variance |
|---|---|---|---|---|
| **First-Class Mail** | $27,122 | $29,059 | $(1,937) | (6.7%) |
| **Marketing Mail** | 16,672 | 17,675 | (1,003) | (5.7%) |
| **Periodicals** | 1,375 | 1,507 | (132) | (8.8%) |
| **Package Services** | 801 | 799 | 2 | 0.3% |
| **Ancillary and Special Services** | 1,792 | 1,828 | (36) | (2.0%) |
| **Subtotal Market Dominant Mail and Services Revenue** | **$47,761** | **$50,868** | **$(3,107)** | **(6.1%)** |
| **Other** | 1,110 | 994 | 116 | 11.7% |
| **Change in Estimate of Prepaid Postage** | - | 1,061 | (1,061) | (100.0%) |
| **Total Adjusted Market Dominant Mail and Services Revenue** | **$48,871** | **$52,923** | **$(4,052)** | **(7.7%)** |

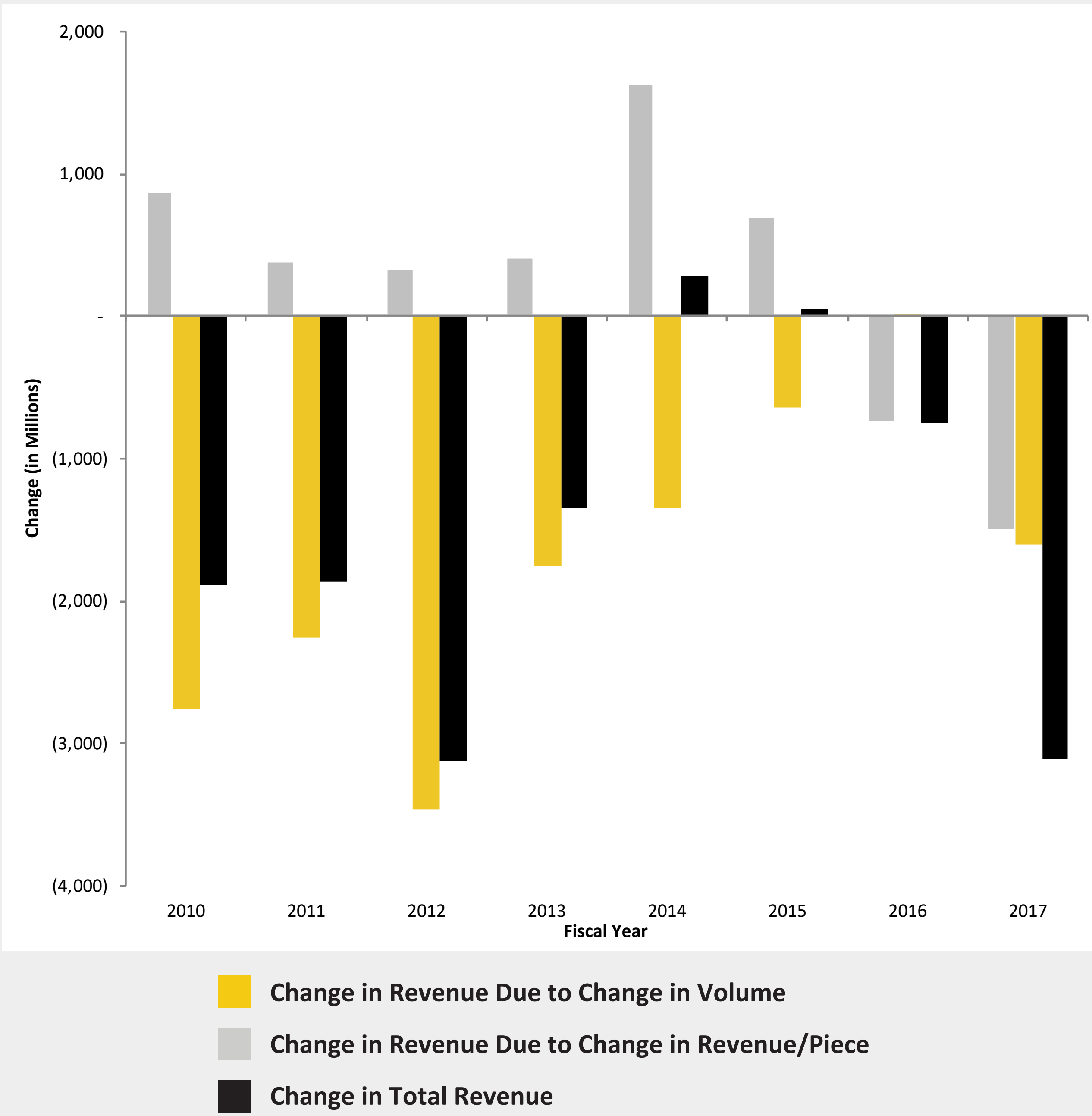
*Decrease in revenue is denoted by (). Numbers may not add across due to rounding.*

*Source: Library Reference PRC-LR-ARC2017/1, March 29, 2018; Docket No. ACR2017, Library Reference PRC-LR-ACR2016/1, March 28, 2017; Library Reference USPS-FY17-42, December 29, 2017.*

[12] FY 2016 Mail revenue includes a $1.1 billion adjustment. *See* supra n.9.
[13] *See* Docket No. R2013-11, Order on Removal of the Exigent Surcharge and Related Changes to the Mail Classification Schedule, March 29, 2016 (Order No. 3186).

Figure II-1 isolates the change in Market Dominant revenue due to changes in average revenue per piece and changes in mail volume for each year since FY 2010. As shown in Figure II-1, the FY 2017 change in total Market Dominant revenue was the largest since FY 2012.

**Figure II-1**
**Change in Market Dominant Revenue Due to Changes In Average Revenue per Piece and Total Mail Volumes, FY 2010 – FY 2017**
**($ In Millions)**




*Source:* Postal Regulatory Commission (PRC) derived from Postal Service *Revenue, Pieces and Weight Report, FY 2010–2017.*

Table II-4 shows that for Market Dominant products, both declines in revenue per piece and declining volumes caused total revenue to decrease by $3.1 billion in FY 2017.[14] In FY 2016, Market Dominant products generated exigent surcharge revenue for six months before the surcharge expired in April 2016. The expiration of the exigent surcharge is the primary reason for the decline in revenue per piece in FY 2017.[15] For First-Class Mail, Marketing Mail, and Periodicals, the revenue decline was predominately due to reductions in volume.

**Table II-4**
**Disaggregation of Change in Market Dominant Revenue, FY 2017**
**($ in Millions)**

| | Change in Revenue from Changes in Revenue per Piece | Change in Revenue from Changes in Volume per Piece | Net Change in Revenue |
|---|---|---|---|
| **First-Class Mail** | $(753) | $(1,184) | $(1,938) |
| **Marketing Mail** | (444) | (559) | (1,003) |
| **Periodicals** | (55) | (77) | (132) |
| **Package Services** | (35) | 37 | 2 |
| **Special Services** | (211) | 174 | (37) |
| **Total Market Dominant** | **$(1,499)** | **$(1,609)** | **$(3,108)** |

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

*Source: Docket No. ACR2017, Library Reference USPS-FY17-42; Docket No. ACR2016, Library Reference USPS-FY16-42, December 29, 2016.*

[14] The $3.1-billion decrease in Market Dominant revenue excludes “Other Income” which consists of appropriations, investment income, free military mail revenue, and any accounting estimate adjustments.

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

## COMPETITIVE PRODUCT REVENUE COMPARED TO PRIOR YEAR

Table II-5 compares revenue for Competitive products between FY 2017 and FY 2016. Competitive products' overall revenue increased $2.2 billion or 11.9 percent. The Competitive product price increase (effective January 22, 2017), transfer of First-Class Mail Retail (Single-Piece) from the Market Dominant category, and higher volume primarily contributed to the additional revenue.

**Table II-5**
**Competitive Product Revenue, FY 2017 and FY 2016**
**($ in Millions)**

| | FY 2017 | FY 2016 | $ Variance | % Variance |
|---|---|---|---|---|
| **Priority Mail** | $8,340 | $7,785 | $555 | 7.1% |
| **Total Ground** | 6,194 | 5,192 | 1,002 | 19.3% |
| **First-Class Packages** | 2,787 | 2,076 | 711 | 34.2% |
| **Priority Mail Express** | 766 | 809 | (43) | (5.3%) |
| **International** | 1,743 | 1,792 | (49) | (2.7%) |
| **Ancillary and Special Services** | 860 | 842 | 18 | 2.1% |
| **Subtotal Competitive Products Mail and Services Revenue** | **$20,690** | **$18,496** | **$2,194** | **11.9%** |
| **Other Revenue** | 134 | 111 | 23 | 20.5% |
| **Total Adjusted Competitive Products Mail and Services Revenue** | **$20,824** | **$18,607** | **$2,217** | **11.9%** |

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

*Source: Library Reference PRC-LR-ACR2017/1; Library Reference PRC-LR-ACR2016/1; Library Reference USPS-FY17-42.*

## EXPENSE ANALYSIS AS COMPARED TO PRIOR YEAR

As shown in Table II-6, total expenses declined $4.7 billion (6.1 percent) in FY 2017. Although total operating expenses increased by $1.2 billion, higher discount rates and changes in actuarial valuations shown below (as the non-cash change to workers' compensation liability and lower statutory retirement expense accruals) lowered total expenses in FY 2017.

## PERSONNEL EXPENSES AS SHARE OF TOTAL EXPENSES

In FY 2017, the share of total expenses comprised of personnel expenses, excluding systemwide personnel costs for non-cash adjustment to workers' compensation and amortization costs of unfunded retirement liabilities, was 74.5 percent. This was an increase of 5.3 percentage points from FY 2016, when these expenses constituted 69.2 percent of total expenses. In FY 2017, the share of total expenses comprised of personnel

**Table II-6**
**Total Expenses, FY 2017 and FY 2016**
**($ in Millions)**

| | | | | | % of Total Expenses | |
|---|---|---|---|---|---|---|
| | **FY 2017** | **FY 2016** | **$ Variance** | **% Variance** | **FY 2017** | **FY 2016** |
| **Compensation & Benefits Expenses:** | | | | | | |
| **Salaries and Benefits** | 48,793 | $48,115 | $678 | 1.4% | 67.6% | 62.6% |
| **Workers' Compensation – Cash Outlays** | 1,415 | 1,468 | (53) | (3.6%) | 2.0% | 1.9% |
| **Annuitant Health Benefits – Current Payment** | 3,305 | 3,305 | 0 | 0.00% | 4.6% | 4.3% |
| **Other Personnel Related** | 315 | 326 | (11) | (3.4%) | 0.4% | 0.4% |
| **Subtotal Personnel Expenses Excluding Systemwide Personnel Expenses** | **$53,828** | **$53,214** | **$614** | **1.2%** | **74.5%** | **69.2%** |
| **Transportation** | 7,238 | 6,992 | 246 | 3.5% | 10.0% | 9.1% |
| **Other Expenses** | 9,743 | 9,431 | 312 | 3.3% | 13.5% | 12.3% |
| **Total Operating Expenses** | **$70,809** | **$69,637** | **$1,172** | **1.7%** | **98.1%** | **90.6%** |
| **Systemwide Personnel Expenses:** | | | | | | |
| **Non-Cash Change to Workers' Compensation Liability** | (2,212) | 1,214 | (3,426) | NM | (3.1%) | 1.6% |
| **Amortization of Unfunded RHB (FY 2017), Statutory Accrual (FY 2016)** | 955 | 5,800 | (4,845) | (83.5%) | 1.3% | 7.5% |
| **Amortization of Unfunded FERS Liability** | 917 | 248 | 669 | 269.8% | 1.3% | 0.3% |
| **Amortization of Unfunded CSRS Liability** | 1,741 | 0 | 1,741 | NM | 2.4% | 0.0% |
| **Total Expenses** | **$72,210** | **$76,899** | **$(4,689)** | **(6.1%)** | **100.0%** | **100.0%** |

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

*Source: PRC derived from Postal Service National Trial Balance September 2017, November 14, 2017; Postal Service National Trial Balance September 2016, November 15, 2016.*

expenses including systemwide personnel costs, was 76.4 percent. This was a decrease of 2.2 percentage points from FY 2016, when these expenses constituted 78.6 percent of total expenses. In FY 2017, the favorable change in the non-cash adjustment to workers' compensation liability offset the accrual of the amortization of the unfunded CSRS liability, which is a new payment this year.

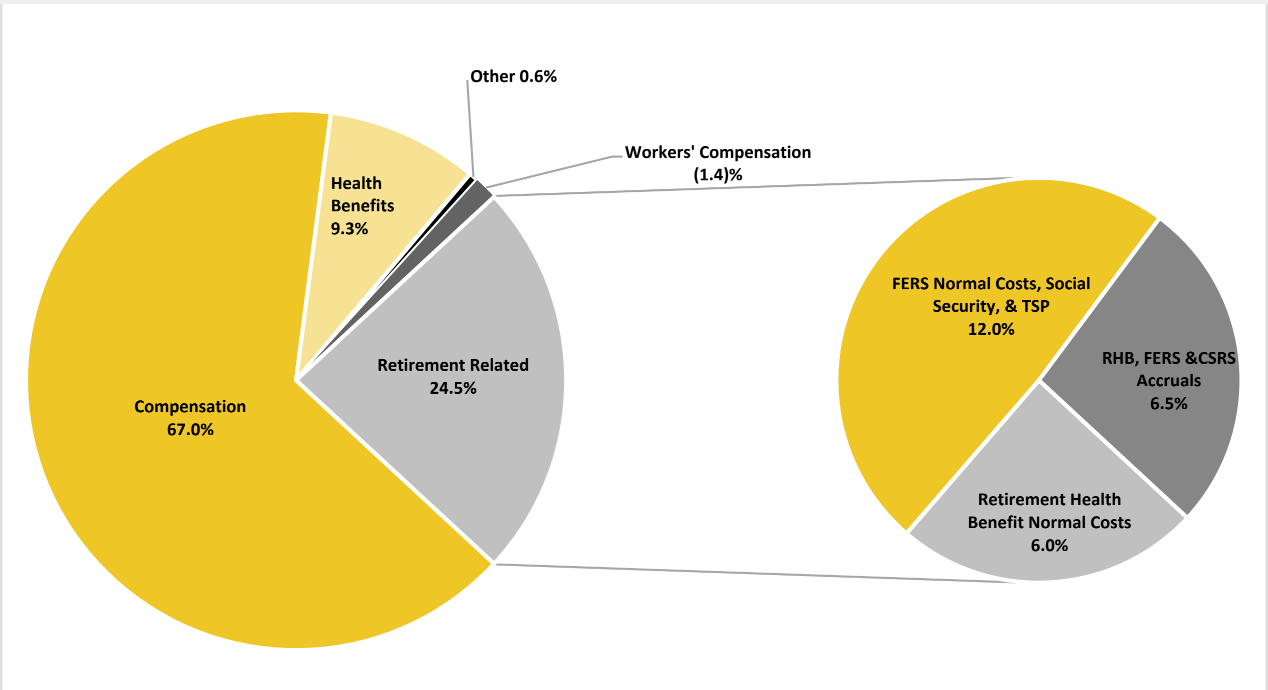
Other non-personnel related expenses, such as purchased transportation costs, were 10 percent of total expenses—an increase in share of 0.9 percentage points from FY 2016. The remaining 13.5 percent share of total expenses is comprised of Other Expenses,[18] and increased 1.2 percentage points from the prior year.

## PERSONNEL EXPENSES

Figure II-2 illustrates the composition of FY 2017 personnel expenses. Compensation accounts for the largest portion of personnel expenses, representing 67.0 percent of total personnel costs.

Retirement-related expenses are the next largest component of total personnel expenses, at 24.5 percent.

**Figure II-2**
**Total Personnel Expenses, FY 2017**




*Source: Postal Service FY 2017 Form 10-K at 23, 25, 30, and 31.*

[18] Other expenses comprise of supplies and services, depreciation and amortization, rent and utilities, vehicle maintenance service, delivery vehicle fuel, information technology and communications, rural carrier equipment maintenance, and miscellaneous costs. Postal Service FY 2017 Form 10-K at 35.

Table II-7 shows that the total personnel expenses for FY 2017 were $5.2 billion lower than in FY 2016. This decline was largely the result of FY 2017 changes to the Postal Service's retirement funding requirements detailed earlier and the favorable change in the non-cash adjustment to the workers' compensation liability.[19] Total operating personnel expenses increased by $614 million compared to FY 2016, with compensation, retirement (service costs for FERS), and health benefit expenses all increasing.

Total compensation is comprised of salaries for employees (full-time career, part-time career, and non-career), overtime and leave pay, and performance or arbitration awards. There are several cost drivers for compensation, including contractual pay increases, inflation used to calculate semi-annual Cost of Living Allowances (COLAs), number of overtime workhours, and the composition of the workforce. Total compensation increased by $0.4 billion compared to FY 2016 primarily due to contractual salary increases,[20] COLAs, and additional workhours necessitated by the growing demand for more labor-intensive shipping services.[21]

**Table II-7**
**Breakdown of Total Personnel Expenses, FY 2017 and FY 2016**
**($ in Millions)**

| | FY 2017 | FY 2016 | $ Variance | % Variance |
|---|---|---|---|---|
| **Total Compensation** | $37,026 | $36,634 | $392 | 1.1% |
| **Retirement** | 6,604 | 6,509 | 95 | 1.5% |
| **Health Benefits – Current Employees** | 5,163 | 4,972 | 191 | 3.8% |
| **Workers' Compensation – Cash Outlays** | 1,415 | 1,468 | (53) | (3.6%) |
| **Normal Costs of Retiree Health Benefits** | 3,305 | 3,305 | 0 | 0% |
| **Other Compensation** | 315 | 326 | (11) | (3.4%) |
| **Total Operating Personnel Expenses** | **$53,828** | **$53,214** | **$614** | **1.2%** |
| **Non-Cash Change to Workers' Compensation Liability** | (2,212) | 1,214 | (3,426) | NM |
| **Amortization of Unfunded RHB (FY 2017), Statutory Accrual (FY 2016)** | 955 | 5,800 | (4,845) | (83.5%) |
| **Amortization of Unfunded FERS Liability** | 917 | 248 | 669 | 269.8% |
| **Amortization of Unfunded CSRS Liability** | 1,741 | 0 | 1,741 | NM |
| **Total Personnel Expenses** | **$55,229** | **$60,476** | **$(5,247)** | **(8.7%)** |

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

*Source: PRC derived from Postal Service National Trial Balance September 2017; Postal Service National Trial Balance September 2016.*

[19] Workers' compensation expense consists of cash payments, miscellaneous expenses and the net increase (decrease) in the workers' compensation liability. In FY 2017, the decrease in the workers' compensation liability was higher than the cash payments and miscellaneous expenses.
[20] Postal Service FY 2017 Form 10-K at 23.
[21] *Id.* at 25.

The Postal Service's workforce is composed of career (full-time and part-time) and non-career employees, which include postal support employees, city carrier assistants, mailhandler assistants, and other non-career employees. Table II-8 shows the number of employees by type for FY 2015, FY 2016, and FY 2017.

In FY 2017, the Postal Service recorded its first decline in career employees since FY 2014. From FY 1999 through FY 2014, the Postal Service reduced the number of career employees every year, resulting in a total reduction of nearly 309,000 career employees. In FY 2015 and FY 2016, the number of career employees increased by approximately 20,600. In FY 2017, the Postal Service reduced its career workforce by 6,000 employees and increased its non-career workforce by 10,000 employees. According to the Postal Service, during FY 2017 and FY 2016, 72,000 non-career employees were converted to career status to offset attrition of career employees, primarily through retirement.[22]

A tentative bargaining agreement reached with the National Association of Letter Carriers (NALC) in 2017 included a wage increase of 2.5 percent over the life of the contract, with 1.2 percent applied retroactively to November 2016.[23] The agreement also included a consolidation of the current two pay grades into a single pay grade, and a reduction in the employer share of health insurance premiums beginning in 2018.[24]

**Table II-8**
**Postal Service Employee Complement, FY 2015 – FY 2017**

| | FY 2017 | FY 2016 | Change FY 2017 over FY 2016 | FY 2015 | Change FY 2016 over FY 2015 |
|---|---|---|---|---|---|
| Career Employees | 503,103 | 508,908 | (5,805) | 491,863 | 17,045 |
| Postal Support Employees (PSE) | 26,823 | 26,368 | 455 | 29,312 | (2,944) |
| City Carrier Assistants (CCA) | 44,486 | 40,436 | 4,050 | 37,767 | 2,669 |
| Mailhandler Assistants (MHA) | 6,463 | 5,280 | 1,183 | 5,322 | (42) |
| Other Non-Career | 63,249 | 58,797 | 4,452 | 57,573 | 1,224 |
| **Total On-Roll Employees** | **644,124** | **639,789** | **4,335** | **621,837** | **17,952** |

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

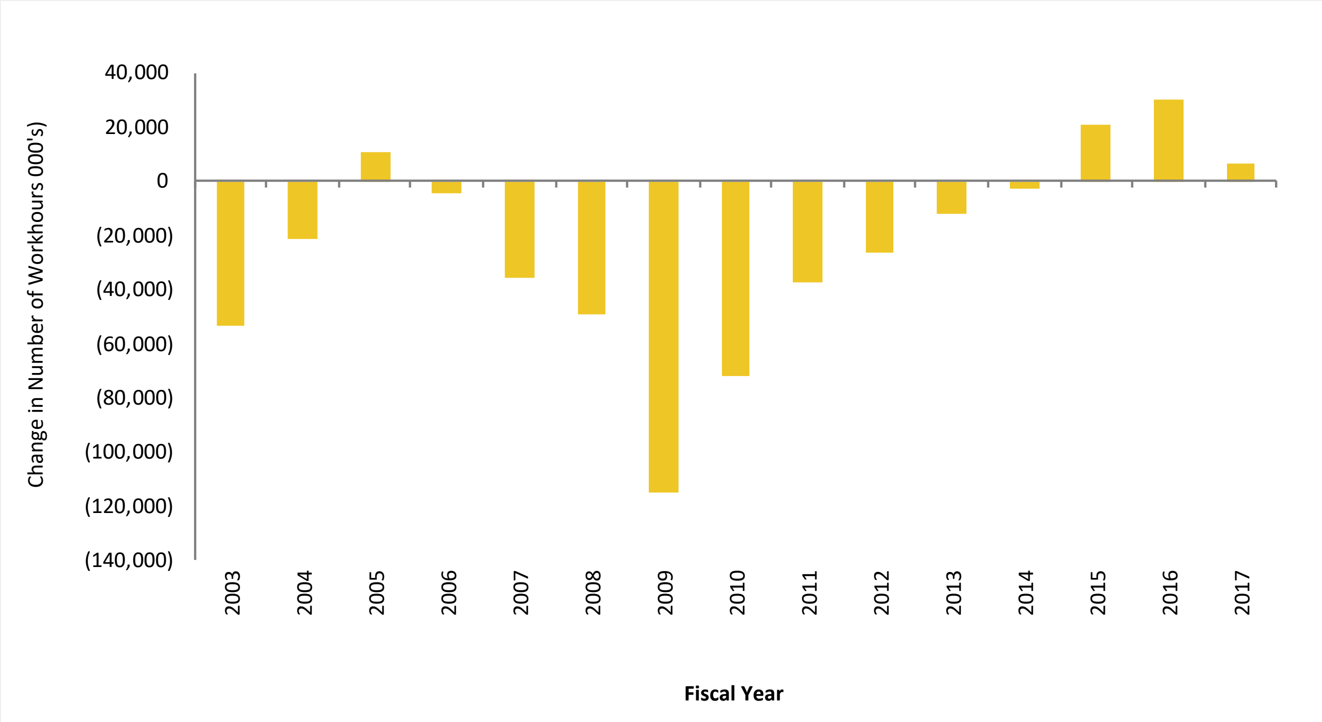
*Source: On-Roll and Paid Employee Statistics (ORPES), PP 20-2017, September 2017; ORPES, September 2016, October 6, 2016; ORPES, September 2015, September 24,2015.*

[22] Postal Service FY 2017 Form 10-K at 24.
[23] *Id.* at 25.
[24] *Id.*

Figure II-3 illustrates the change in workhours since FY 2003.

From FY 1999 through FY 2014, the Postal Service reduced total workhours by approximately 527 million. In FY 2015 and FY 2016, the number of workhours increased by 20.9 million (1.9 percent) and 29.7 million (2.6 percent), respectively. In FY 2017, the Postal Service experienced a smaller increase in workhours. Workhours increased by 6 million (0.5 percent), which the Postal Service states is primarily due to the continued growth in delivery points and the higher volume of shipping and packages.[25] The slower rate of increase in workhours in FY 2017 compared to the prior two years is largely the result of declining volumes of First-Class Mail and Marketing Mail.[26]

**Figure II-3**
**Change in Workhours, FY 2003 – FY 2017**




*Source: Postal Service Form 10-K and Annual Reports, FY 2003-2017.*

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[25] Postal Service FY 2017 Form 10-K at 24.
[26] *Id.*

**Table II-9**
**Workhours by Function (Thousands of Workhours), FY 2015 – FY 2017**

| | FY 2017 | FY 2016 | % Variance FY 2017 over FY 2016 | FY 2015 | % Variance FY 2016 over FY 2015 |
|---|---|---|---|---|---|
| **Mail Processing** | 202,069 | 204,403 | (1.1%) | 200,661 | 1.9% |
| **Customer Service** | 170,725 | 170,377 | 0.2% | 159,249 | 7.0% |
| **Delivery Service:** | | | | | |
| **City Delivery** | 422,811 | 416,646 | 1.5% | 403,983 | 3.1% |
| **Rural Delivery** | 197,574 | 191,806 | 3.0% | 184,726 | 3.8% |
| **Maintenance:** | | | | | |
| **Plant & Equipment** | 64,477 | 65,946 | (2.2%) | 66,741 | (1.2%) |
| **Vehicle** | 28,877 | 28,637 | 0.8% | 28,153 | 1.7% |
| **Other** | 77,345 | 80,281 | (3.7%) | 84,886 | (5.4%) |
| **Total Workhours** | **1,163,878** | **1,158,096** | **0.5%** | **1,128,399** | **2.6%** |

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

*Source: Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-19 of Chairman's Information Request No. 2, January 17, 2018, question 3, Excel file "ChIR.2.Q3.LDC.Workhours - FY17.xlsx." Docket No. ACR2016, Responses of the United States Postal Service to Questions 1-2, 4-9, 11-13, 15-19, 23, 28, and 31-33 of Chairman's Information Request No. 3, January 13, 2017, question 1, Excel file "ChIR.3.Q.1.LDC.Workhours.xlsx."*

During FY 2017, the number of delivery points increased by approximately 1.2 million, which led to higher workhours in City Delivery (1.5 percent) and Rural Delivery (3.0 percent) categories.[27] In FY 2017, workhours also increased in Customer Service (0.2 percent) and Vehicle Maintenance (0.8 percent) categories.

Workhours declined in Mail Processing (1.1 percent), Plant & Equipment (2.2 percent), and Other (3.7 percent) categories.[28] The overall decline in the rate of growth in workhours compared to the prior year is primarily due to the declining volumes in First-Class Mail and Marketing Mail.[29]

[27] Postal Service Form 10-K at 24.
[28] The "Other" category represents Operations Support, Finance, Human Resources, Administration, Training, and Rehabilitation workhours.
[29] *Id.*

The productive hourly wage rates are shown in Table II-10. The productive hourly wage rate for clerks increased 1.7 percent, compared to the prior year. The productive hourly wage rate for mailhandlers and city delivery carriers declined by 0.2 and 1.1 percent, respectively, compared to the prior year. For the two-year period from FY 2015 through FY 2017, the productive hourly wage rate has increased in every category except for clerks, mailhandlers, and city delivery carriers which declined by 1.2, 1.3, and 2.2 percent, respectively.[30]

Workers' compensation expenses decreased $3.5 billion in FY 2017. Workers' compensation expenses consist of a cash payment and a non-cash change in long term workers' compensation liability. The cash payment is made to the United States Department of Labor for the current year's cost of medical and compensation benefits payment and an administrative fee. The non-cash change in long term workers' compensation liability includes actuarial revaluations of existing cases and new cases, initial costs of new cases for the year, and any changes in the

**Table II-10**
**Productive Hourly Wage Rates ($ per Workhour), FY 2015 – FY 2017**

| Segment/Subsegment | FY 2017 | FY 2016 | % Change FY 2017 over FY 2016 | FY 2015 | % Change FY 2016 over FY 2015 |
|---|---|---|---|---|---|
| Supervisors & Technicians | $51.54 | $50.65 | 1.8% | $50.12 | 1.0% |
| Clerks | 39.94 | 39.29 | 1.7% | 40.44 | (2.8%) |
| Mailhandlers | 40.37 | 40.44 | (0.2%) | 40.91 | (1.2%) |
| City Delivery Carriers | 40.43 | 40.90 | (1.1%) | 41.32 | (1.0%) |
| Vehicle Drivers | 45.61 | 43.44 | 5.0% | 43.34 | 0.2% |
| Rural Carriers | 36.48 | 36.42 | 0.1% | 36.21 | 0.6% |
| Building Services | 41.67 | 39.60 | 5.2% | 40.06 | (1.1%) |
| Operating Equipment | 54.24 | 53.55 | 1.3% | 53.21 | 0.6% |
| Building Equipment | 50.40 | 49.43 | 2.0% | 49.07 | 0.7% |
| Motor Vehicle Service | 48.65 | 47.34 | 2.8% | 46.70 | 1.4% |
| Headquarters | 67.72 | 64.24 | 5.4% | 63.71 | 0.8% |

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

*Source: Library Reference USPS-FY17-7, December 29, 2017; Docket No. ACR2016, Library Reference PRC-ACR2016/1; Docket No. ACR2015, Library Reference PRC-ACR2015/1, March 27, 2016.*

[30] The percent change from FY 2015 through FY 2017 is calculated by adding the percent change from FY 2016 to FY 2017 and the percent change from FY 2015 to FY 2016.

discount rate used to estimate the amount of current funds needed to settle all claims in the current year. In FY 2017, the non-cash change in long term workers' compensation liability resulted in a $2.2 billion decrease in liability. Table II-11 disaggregates components factoring into the workers' compensation expense for the past two years.

**Table II-11**
**Components of Workers' Compensation Expense, FY 2017 and FY 2016**
**($ in Millions)**

| | FY 2017 | FY 2016 | $ Variance | % Variance |
|---|---|---|---|---|
| **Medical Claims Payments** | $1,264 | $1,396 | $(132) | (9.5%) |
| **Administrative Fee** | 151 | 72 | 79 | 109.7% |
| **Cash Outlays** | $1,415 | $1,468 | $(53) | (3.6%) |
| **(Decrease) Increase in Long Term Workers' Compensation Obligation** | (2,212) | 1,214 | (3,426) | (282.2%) |
| **Workers' Compensation Expense** | $(797) | $2,682 | $(3,479) | (129.7%) |

*Decrease in expenses is denoted by (). Numbers may not add across due to rounding.*
*Source: Postal Service FY 2017 Form 10-K at 69.*

## NON-PERSONNEL EXPENSES

Table II-12 shows transportation costs by category, which is a major component of non-personnel related expenses, and which accounted for 10 percent of total costs. See infra Table II-7.

Total transportation expenses increased by 3.5 percent from FY 2016 to FY 2017. Highway transportation costs increased by 6.3 percent, while air transportation costs increased by 0.5 percent from the prior year. According to the Postal Service, these increases were primarily due to higher prices per mile on contract routes and an increase in average jet fuel prices.[31] These increases were offset slightly by an $11 million-decline in international transportation costs.

**Table II-12**
**Transportation Costs by Category, FY 2017 and FY 2016 ($ in Millions)**

| | FY 2017 | FY 2016 | $ Variance | % Variance |
|---|---|---|---|---|
| **Highway Transportation** | $4,070 | $3,827 | $243 | 6.3% |
| **Air Transportation** | 2,481 | 2,469 | 12 | 0.5% |
| **International Transportation** | 631 | 642 | (11) | (1.7%) |
| **Other Transportation** | 56 | 54 | 2 | 3.7% |
| **Total Transportation** | **$7,238** | **$6,992** | **$246** | **3.5%** |

*Decrease in expenses is denoted by (). Numbers may not add across due to rounding.*
*Source: Postal Service FY 2017 Form 10-K at 34.*

[31] Postal Service FY 2017 Form 10-K at 34.

Table II-13 shows all other non-personnel related expenses increased by $0.3 billion in FY 2017. The largest increase was in supplies and services expenses, which increased by $0.2 billion in FY 2017. According to the Postal Service, this was the result of an increase in information security services expenses.[32] This increase was partially offset by declines in depreciation and miscellaneous other expenses. Miscellaneous other expenses consist mainly of travel, training, repairs and contingency accounts.

**Table II-13**
**Other Non-Personnel Expenses, FY 2016 and FY 2017**
**($ in Millions)**

| | FY 2017 | FY 2016 | $ Variance | % Variance |
|---|---|---|---|---|
| **Supplies and Services** | $2,980 | $2,755 | $225 | 8.2% |
| **Depreciation and Amortization** | 1,677 | 1,740 | (63) | (3.6%) |
| **Rent and Utilities** | 1,590 | 1,560 | 30 | 1.9% |
| **Vehicle Maintenance Services** | 640 | 624 | 16 | 2.6% |
| **Delivery Vehicle Fuel** | 409 | 359 | 50 | 13.9% |
| **Information Technology and Communications** | 914 | 852 | 62 | 7.3% |
| **Rural Carrier Equipment Maintenance** | 503 | 484 | 19 | 3.9% |
| **Miscellaneous Other** | 1,030 | 1,057 | (27) | (2.6%) |
| **Total Other Non-Personnel Expenses** | **$9,743** | **$9,431** | **$312** | **3.3%** |

*Decrease in expenses is denoted by ().*
*Numbers may not add across due to rounding.*
*Source: Postal Service FY 2017 Form 10-K at 35.*

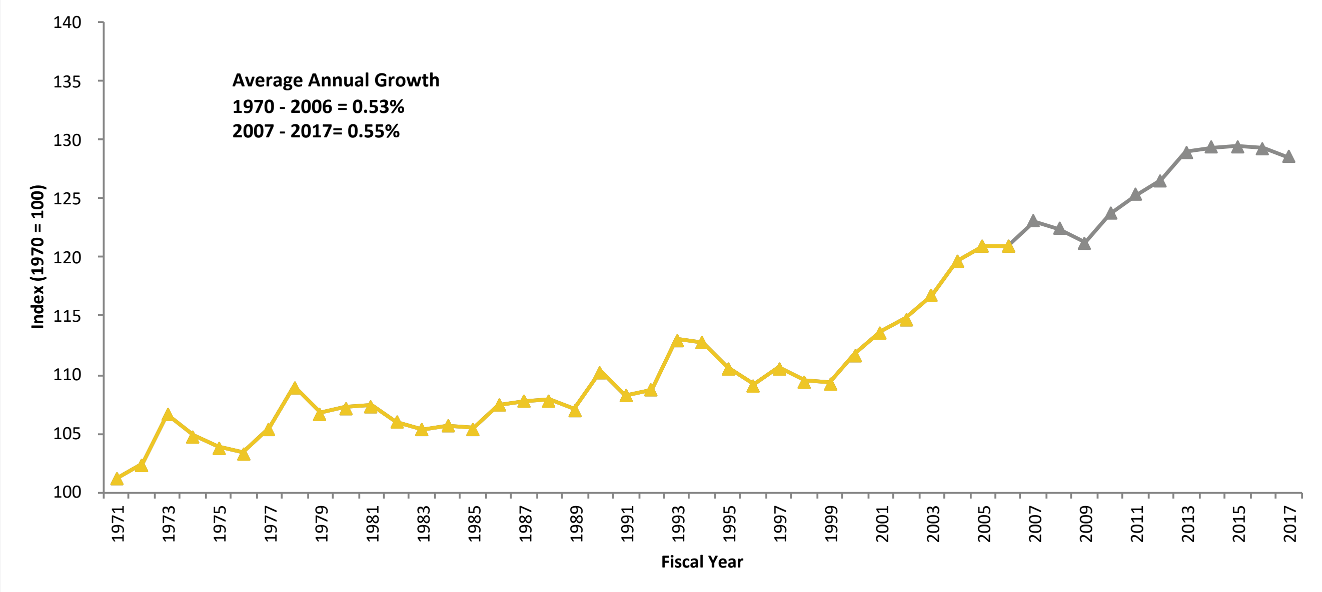
## TOTAL FACTOR PRODUCTIVITY

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

TFP declined slightly for the second year since FY 2009. Total workload increased 1.3 percent in FY 2017. Workload increased due to the growth in delivery points and weighted mail volume, particularly parcel volume, which requires more resources to process than letter or flat-shaped mail. In FY 2017, capital inputs increased 1.4 percent and investment in buildings and equipment also increased. Labor input declined for the first time since FY 2014, by 1.1 percent. The growth in shipping and packages increased materials usage. In FY 2017, other factors such as the growth in workhours, level of employment, and price of labor also contributed to the slight decline in the TFP. Figure II-4 below shows the trend in TFP from FY 1971 through FY 2017.

[32] *Id* at 35.

**Figure II-4**
**Postal Service Total Factor Productivity, FY 1971 – FY 2017**
**($ in Billions)**




*Source: Source: Library Reference USPS-FY17-43, Postal Service Annual Tables, FY 2017 TFP.*

# Comparison of Postal Service Actual to Operating Plan

The Postal Service's FY 2017 Operating Plan, as outlined in its 2017 Integrated Financial Plan (IFP), projected a net loss of $4.2 billion in FY 2017.[33] The actual total net loss of $2.7 billion was $1.5 billion less than the Postal Service estimated. Total revenue was $1 billion less than planned while total operating expenses were $0.3 billion more than planned. However, because retirement accruals were $0.6 billion less than anticipated, the Postal Service's net loss was smaller than it had initially projected. Table II-14 compares actual FY 2017 results with the estimated results in the Operating Plan.

As seen in Table II-15, revenue from all Market Dominant mail was lower than expected.

In total, Market Dominant mail generated $3.2 billion less than forecasted. However, revenue from Competitive mail and Other Parcels was $2.3 billion greater than what was projected, which partially offset the other declines. International mail revenue was $0.1 billion less than planned.

Total volume was 3.4 billion pieces less than expected, primarily due to less than planned volume for Marketing Mail. The only category that exceeded expectations was Competitive and Other Parcels, with 0.2 billion more pieces than expected. Table II-16 compares volumes for FY 2017 with the volume projected in the Operating Plan.

[33] United States Postal Service Fiscal Year 2017 Integrated Financial Plan, December 2, 2016, at 1 (Postal Service 2017 Integrated Financial Plan). *See* also USPS Preliminary Financial Information (Unaudited), September 2017, November 14, 2017.

Total expenses were $2.5 billion less than anticipated. Operating expenses were $0.3 billion greater than expected. As shown in Table II-17, the compensation and benefits expense was $0.2 billion more than planned, primarily due to greater than expected workhours.

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

**Table II-14**
**FY 2017 Actual and Operating Plan Statement of Operations**
**($ in Billions)**

| | FY 2017 Actual | FY 2017 Operating Plan | Variance |
|---|---|---|---|
| Total Revenue | $69.7 | $70.7 | $(1.0) |
| Total Operating Expense | 71.0 | 70.7 | 0.3 |
| **Net Operating Income/(Loss)** | **$(1.3)** | **$ -** | **$(1.3)** |
| Workers' Compensation Liability | (2.2) | 0 | (2.2) |
| RHBF Unfunded Liability Amortization | 1.0 | 2.8 | (1.8) |
| FERS Unfunded Liability Amortization | 0.9 | 0.2 | 0.7 |
| CSRS Unfunded Liability Amortization | 1.7 | 1.2 | 0.5 |
| **Total Net Income/(Loss)** | **$(2.7)** | **$(4.2)** | **$1.5** |

*Decrease in revenue and expense is denoted by (). Increase in net loss is denoted by ().*
*Numbers may not add across due to rounding.*
*Source: USPS Preliminary Financial Information (unaudited), September 2017, November 14, 2017, file "2017.11.14 September FY 2017 Monthly Report to the PRC--Report.pdf."*

**Table II-15**
**FY 2017 Actual and Operating Plan Revenue Broken Down by Categories Shown in IFP[34]**
**($ in Billions)**

| | FY 2017 Actual | FY 2017 Operating Plan | $ Variance |
|---|---|---|---|
| First-Class Mail | $25.6 | $26.0 | $(0.4) |
| Periodicals | 1.4 | 1.4 | (0.0) |
| Marketing Mail | 16.6 | 17.7 | (1.1) |
| Other | 2.1 | 3.8 | (1.7) |
| Competitive and Other Parcels | 21.3 | 19.0 | 2.3 |
| International | 2.7 | 2.8 | (0.1) |
| **Total Mail Revenue** | **$69.7** | **$70.7** | **$(1.0)** |

*Decrease in revenue is denoted by ().*
*Numbers may not add across due to rounding.*
*Source: November 15, 2017, Preliminary Financial Information, file "2017.11.15 September FY 2017 Monthly Report to the PRC--Report.pdf."*

[34] The Postal Service FY 2017 IFP isolates volume from International and Parcels from the other categories. *See* Postal Service 2017 Integrated Financial Plan at 5.

**Table II-16**
**FY 2017 Actual and Operating Plan Volume Broken Down by Categories Shown in IFP**[35]
**(in Billions)**

| | FY 2017 Actual | FY 2017 Operating Plan | $ Variance |
|---|---|---|---|
| **First-Class Mail** | 58.8 | 59.4 | $(0.6) |
| **Periodicals** | 5.3 | 5.4 | (0.1) |
| **Marketing Mail** | 78.3 | 81.2 | (2.9) |
| **Other** | 0.4 | 0.4 | - |
| **Competitive and Other Parcels** | 5.7 | 5.5 | 0.2 |
| **International** | 1.0 | 1.0 | - |
| **Total Mail Volume** | **149.5** | **152.9** | **$(3.4)** |

*Decrease in amounts is denoted by ().*
*Numbers may not add across due to rounding.*
*Source: November 15, 2017, Preliminary Financial Information, file "2017.11.15 September FY 2017 Monthly Report to the PRC--Report.pdf."*

**Table II-17**
**Actual and Operating Plan Expenses, FY 2017**
**($ in Billions)**

| | FY 2017 Actual | FY 2017 Operating Plan | $ Variance |
|---|---|---|---|
| **Compensation & Benefits** | $53.8 | $53.6 | $0.2 |
| **Transportation** | 7.2 | 7.1 | 0.1 |
| **Supplies & Services** | 3.0 | 3.2 | (0.2) |
| **Depreciation** | 1.7 | 1.6 | 0.1 |
| **Rent/Utilities/Other** | 5.3 | 5.2 | 0.1 |
| **Total Operating Expenses** | **$71.0** | **$70.7** | **$0.3** |
| **Workers' Compensation Adj.** | (2.2) | 0.0 | (2.2) |
| **RHB Unfunded Amortization** | 1.0 | 2.8 | (1.8) |
| **FERS Unfunded Amortization** | 0.9 | 0.2 | 0.7 |
| **CSRS Unfunded Amortization** | 1.7 | 1.2 | 0.5 |
| **Total Expenses** | **$72.4** | **$74.9** | **$(2.5)** |

*Decrease in amounts is denoted by ().*
*Numbers may not add across due to rounding.*
*Source: November 15, 2017, Preliminary Financial Information, file "2017.11.15 September FY 2017 Monthly Report to the PRC--Report.pdf."*

[35] The Postal Service FY 2017 IFP isolates revenue from International and Parcels from the other categories. See FY 2017 IFP at 5.

# Analysis of Balance Sheets

This section analyzes the Postal Service's financial situation and use of resources based on Balance Sheets data prepared according to U.S. Generally Accepted Accounting Principles. The analysis compares two points in time, September 30, 2017 (FY 2017) and September 30, 2016 (FY 2016).

Table II-18 compares certain categories in the Postal Service's asset and liability structure for FY 2017 with FY 2016. This analysis is derived from the Postal Service's Balance Sheets.

Current assets are the sum of cash and cash equivalents, receivables, and supplies and prepayments that can be easily converted to cash for financing operations. Non-current assets, mainly buildings and equipment (capital assets), are more difficult to convert to cash in the short term.

**Table II-18**
**Structure of Assets and Liabilities, FY 2017 and FY 2016**
**($ in Millions)**

| | | | | % of Total Assets | |
|---|---|---|---|---|---|
| | **FY 2017** | **FY 2016** | **$ Variance** | **FY 2017** | **FY 2016** |
| **Assets** | | | | | |
| **Cash and Cash Equivalents (includes Restricted Cash)** | $10,804 | $8,330 | $2,474 | 39.4% | 33.0% |
| **Receivables** | 1,127 | 1,042 | 85 | 4.1% | 4.1% |
| **Supplies and Prepayments** | 134 | 140 | (6) | 0.5% | 0.6% |
| **Total Current Assets** | 12,065 | 9,512 | 2,553 | 44.0% | 37.7% |
| **Noncurrent Assets** | 15,329 | 15,707 | (378) | 56.0% | 62.3% |
| **Total Assets** | **$27,394** | **$25,219** | **$2,175** | **100.0%** | **100.0%** |
| | | | | **% of Total Liabilities** | |
| | **FY 2017** | **FY 2016** | **$ Variance** | **FY 2017** | **FY 2016** |
| **Liabilities** | | | | | |
| **Retiree Health Benefits** | $38,160 | $33,900 | $4,260 | 44.3% | 41.7% |
| **Current Portion of Long-Term Debt** | 10,100 | 10,100 | 0 | 11.7% | 12.4% |
| **Deferred Revenue-Prepaid Postage** | 2,168 | 2,253 | (85) | 2.5% | 2.8% |
| **Other Current Liabilities** | 11,399 | 8,362 | 3,037 | 13.2% | 10.3% |
| **Total Current Liabilities** | 61,827 | 54,615 | 7,212 | 71.8% | 67.3% |
| **Workers' Compensation Costs, Noncurrent** | 16,397 | 18,612 | (2,215) | 19.0% | 22.9% |
| **Noncurrent Portion of Long-Term Debt** | 4,900 | 4,900 | - | 5.7% | 6.0% |
| **Other Noncurrent Liabilities** | 2,994 | 3,074 | (80) | 3.5% | 3.8% |
| **Total Noncurrent Liabilities** | 24,291 | 26,586 | (2,295) | 28.2% | 32.7% |
| **Total Liabilities** | **$86,118** | **$81,201** | **$4,917** | **100.0%** | **100.0%** |

*Decrease in amounts is denoted by ().*
*Numbers may not add across due to rounding.*
*Source: Postal Service FY 2017 Form 10-K at 46; PRC derived from September, 2017 National Trial Balance.*

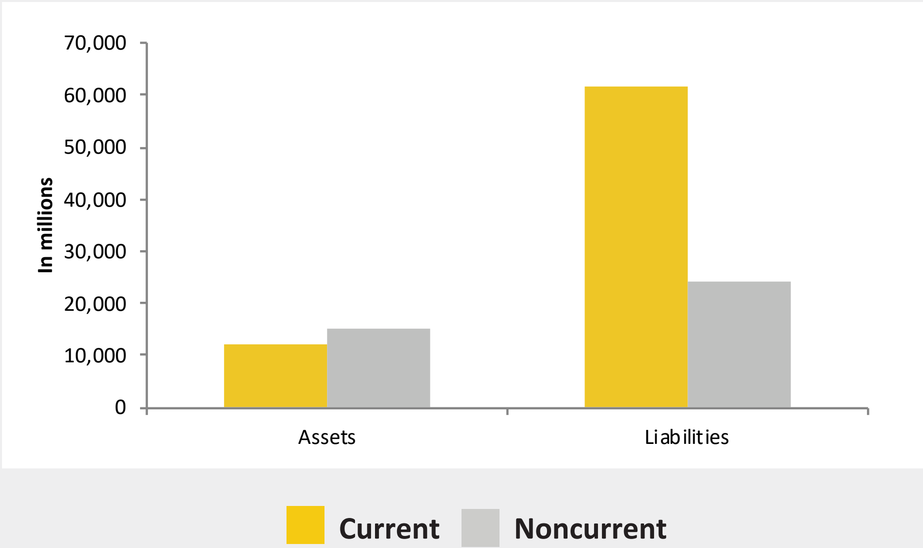
Liabilities at the end of FY 2017 totaled $86.1 billion, 71.8 percent of which were current liabilities. Current liabilities are obligations that will come due within one year while noncurrent liabilities are long-term financial obligations. Current liabilities consist largely of RHBF obligations and short-term borrowing. The Postal Service continued to accrue its unpaid RHB expenses, which totaled $38.2 billion at the end of FY 2017. This includes accruals for FY 2012 through FY 2017 when the Postal Service was unable to pay down the obligation. This obligation is 61.7 percent of current liabilities. Most of the net liabilities consist of the RHBF payments, workers' compensation liability ($16.4 billion), and the total net debt owed to the Federal Financing Bank ($15 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 2017, the Postal Service recorded a $58.7 billion net deficit consisting of an accumulated deficit of $61.8 billion offset by capital contributions of $3.1 billion. This is primarily the result of several years of net operating losses starting in FY 2007. Negative net worth indicates that the Postal Service has spent both its initial capital and also the capital of its creditors. Its debts are no longer secured by its assets.

Because of its existing outstanding debt, the Postal Service must finance all current activity with internally generated cash. This limits its ability to invest in much needed equipment and other productive assets.[36]

**Figure II-5**
**Categories of Assets and Liabilities, FY 2017**




*Source: Id.* at 46.

[36] Postal Service FY 2017 Form 10-K at 36.

Figure II-5 shows the mix of the Postal Service's asset and liability structure as of September 30, 2017. The shortage of current assets (44 percent of total assets) to cover current liabilities (72 percent of total liabilities) adversely affects the Postal Service's financial condition. Noncurrent assets comprise 56 percent of total assets, while noncurrent liabilities only comprise 28 percent of total liabilities.

Working capital is the difference between current assets and current liabilities. In FY 2017, the Postal Service's working capital was negative $49.8 billion.

During FY 2017, total assets increased by $2.2 billion primarily from a 39.4 percent increase in the cash balance. Aging capital assets and the continued restrictions on capital investment resulted in depreciation costs in excess of investments, which resulted in a net decrease in fixed assets of $0.4 billion.

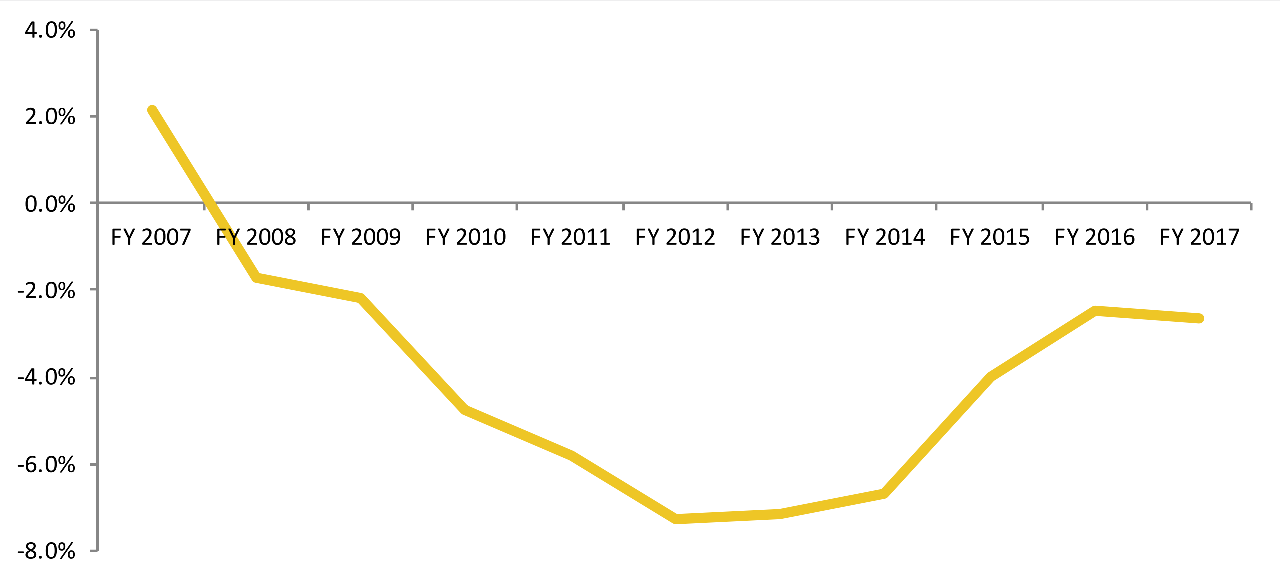
Total liabilities increased by $4.9 billion dollars mainly due to personnel-related liabilities such as the accrual for the unpaid RHB expenses for FY 2017.

## Assets

During FY 2017, total assets increased by $2.2 billion, primarily from an increase in cash of $2.5 billion. Aging capital assets and the continued restriction in capital investment resulted in a decline in net property plant and equipment of $0.4 billion. The growth in cash reserves is likely the result of limited investment in capital infrastructure and equipment and the nonpayment of the statutory prefunding of the RHBF.

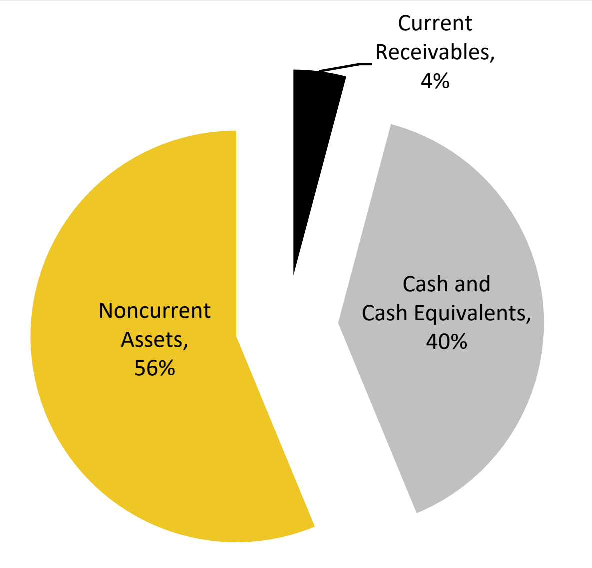
Figure II-6 illustrates the trend in the Postal Service's net capital assets since FY 2007.

**Figure II-6**
**Growth in Capital Assets, FY 2007 – FY 2017**




*Source: Postal Service FY 2007 to 2017 Forms 10-K.*

**Figure II-7**
**Postal Service Asset Structure, September 30, 2017**




*Source: Postal Service FY 2017 Form 10-K at 46; PRC derived from September, 2017 National Trial Balance.*

The Postal Service continues to limit its capital expenditures to necessary safety, customer support, and high-return investments.[37]

Figure II-7 shows the breakdown of the Postal Service assets as of September 30, 2017.

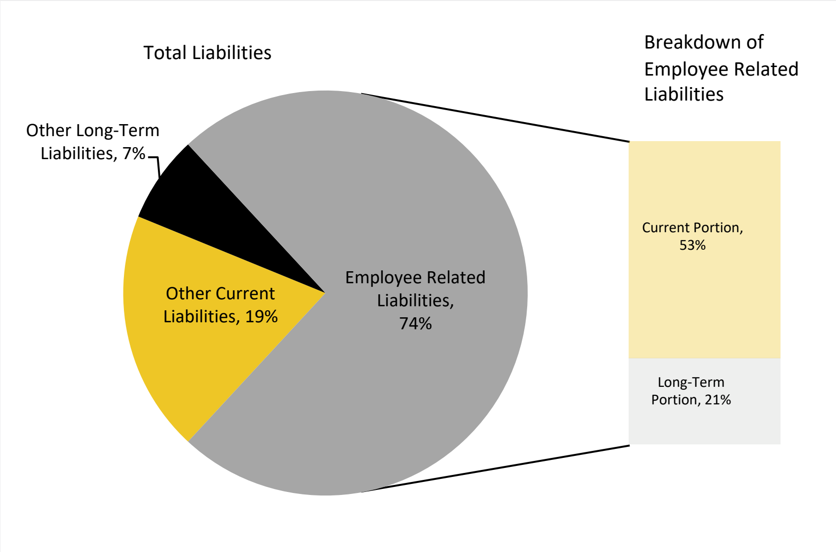
## Liabilities

In FY 2017, total liabilities increased by $4.9 billion, largely due to a higher balance in current liabilities. The RHB accrual increased by $4.2 billion.

The long-term portion of workers' compensation declined by $2.2 billion in FY 2017. The long-term portion of workers' compensation liability is highly sensitive to discount and inflation rates in actuarial adjustment and to new and existing claims.

Figure II-8 shows the current breakdown of the Postal Service's liabilities as of September 30, 2017.

**Figure II-8**
**Postal Service Liabilities Structure, September 30, 2017**




*Source: Postal Service FY 2017 Form 10-K at 46; PRC derived from September, 2017 National Trial Balance.*

[37] Postal Service FY 2017 Form 10-K at 37.

In addition to the liabilities recorded on the Postal Service's Balance Sheets, there are other liabilities that are not recognized in the Postal Service's financial statements. These liabilities are controlled and administered by OPM and relate to the assets and liabilities attributed to the Civil Service Retirement and Disability Fund (CSRDF) and the RHBF.[38] The CSRDF provides pension benefits to retired and disabled Federal employees, including Postal Service employees covered by CSRS and FERS.[39]

In addition, the PAEA requires the Postal Service to report certain disclosures provided by OPM regarding the funded status of the CSRDF, specifically for postal employees and the Postal Service RHBF. This information is then reported on the Postal Service Form 10-K statements.

## Analysis of Statements of Cash Flows

At the end of FY 2017, the Postal Service's cash and cash equivalents excluding $0.3 billion in restricted cash were $10.5 billion. Cash and cash equivalents excluding restricted cash were $2.4 billion higher than at the end of FY 2016. The Postal Service's average daily cash requirement is $0.4 billion; $10.5 billion represents 34 days of operating cash.[40]

Table II-19 compares the Postal Service's cash flows from FY 2009 to FY 2017.

Table II-20 illustrates the current liquidity position of the Postal Service. The Postal Service's liquidity is limited to cash and cash equivalents excluding restricted cash, because the Postal Service exhausted its statutory borrowing limit in FY 2012. Its debt includes two revolving credit facilities that are fully drawn. Its fixed interest rate debt as of September 30, 2017, consists of short-term borrowings from the Federal Financing Bank of $6.1 billion.[41]

[38] *See* 5 U.S.C. § 8909a.
[39] *See* 5 U.S.C. § 8348.
[40] Postal Service FY 2017 Form 10-K at 35.
[41] *Id.* at 61.

**Table II-19**
**Postal Service Statements of Cash Flows, FY 2009 – FY 2017 ($ in Millions)**

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|---|---|---|---|
| Net Income/(Loss) | $(3,794) | $(8,505) | $(5,067) | $(15,906) | $(4,977) | $(5,508) | $(5,060) | $(5,591) | $(2,742) |
| Non-Cash Items and Other Cash Flows | 5,367 | 5,213 | 5,561 | 15,474 | 5,912 | 8,822 | 7,939 | 8,327 | 6,565 |
| Cash Flows from Investing Activities: | | | | | | | | | |
| Decrease (Increase) in Restricted Cash | | | (10) | (28) | (79) | 66 | 13 | (20) | (38) |
| Purchase of Property and Equipment | (1,839) | (1,393) | (1,190) | (705) | (667) | (781) | (1,222) | (1,428) | (1,344) |
| Proceeds from Sale of Property and Equipment | 33 | 70 | 137 | 148 | 158 | 129 | 120 | 206 | 58 |
| Net Cash Used in Investing Activities | (1,806) | (1,323) | (1,063) | (585) | (588) | (586) | (1,089) | (1,242) | (1,324) |
| Cash Flows from Financing Activities: | | | | | | | | | |
| Increase (Decrease) in Debt | 3,000 | 1,800 | 1,000 | 2,000 | - | - | - | - | - |
| Payments for Capital Leases | (46) | (50) | (51) | (51) | (59) | (58) | (62) | (51) | (63) |
| U.S. Government Appropriations - Expensed | (64) | (63) | (63) | (129) | (48) | (90) | - | - | - |
| Net Cash (Used) Provided by Financing Activities | 2,890 | 1,687 | 886 | 1,820 | (107) | (148) | (62) | (51) | (63) |
| Net Increase/(Decrease) in Cash | 2,657 | (2,928) | 317 | 803 | 240 | 2,580 | 1,728 | 1,443 | 2,436 |
| Cash Balance Beginning of Year | 1,432 | 4,089 | 1,161 | 1,283 | 2,086 | 2,326 | 4,906 | 6,634 | 8,077 |
| Cash Balance End of Year | **$4,089** | **$1,161** | **$1,283** | **$2,086** | **$2,326** | **$4,906** | **$6,634** | **$8,077** | **$10,513** |
| Debt Outstanding | $10,200 | $12,000 | $13,000 | $15,000 | $15,000 | $15,000 | $15,000 | $15,000 | $15,000 |

*Decrease in expenses is denoted by (). Numbers may not add across due to rounding.*
*Source: Postal Service FY 2009 to FY 2017 Forms 10-K.*

**Table II-20**
**Total Postal Service Liquidity End of FY 2017 Compared to FY 2016**

| | FY 2017 | FY 2016 |
|---|---|---|
| Cash and Cash Equivalents | $10,513 | $8,077 |
| Current Portion of Debt | 10,100 | 10,100 |
| Long-Term Debt | 4,900 | 4,900 |
| Total Debt | $15,000 | $15,000 |
| Statutory Debt Limit | 15,000 | 15,000 |
| Available Debt | - | - |
| Total Liquidity (Cash + Available Debt) | **$10,513** | **$8,077** |

*Source: Id.* at 48.

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# CHAPTER III

# Volume, Revenue, and Cost Trends

## Overview

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

The second section provides a comparison of volume, revenue, and cost between FY 2016 and FY 2017. It also includes a trend analysis that highlights changes in volume, revenue, and cost that have occurred since FY 2007. For most comparisons, FY 2007 is used as the base year because it reflects the mail reclassifications that resulted from the PAEA. Other comparisons use more recent fiscal years. The section also includes an analysis by cost segment and/or component.

# Overall Volume, Revenue, and Cost Trends

## Attributable and Institutional Cost Relationships

39 U.S.C. § 3622(c)(2) defines attributable cost as the "direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type[.]" In Order No. 3506, the Commission revised the methodology for determining attributable cost to include inframarginal costs developed as part of the estimation of incremental costs.[1] Before that order, attributable cost only included the sum of volume-variable costs,[2] 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.[3]

FY 2017 is the first year that the Postal Service implemented in the CRA Report the expanded scope of cost attribution discussed in Order No. 3506. In this chapter, the Commission uses the revised definition of attributable cost to evaluate FY 2017 product and class costs. Attributable costs are now equal to incremental costs, which reflect the total marginal costs of the volume in a class or product. 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.[4]

In this chapter, at both the product and the class level, the Commission uses attributable (incremental) cost for analysis. The change in methodology only impacts the comparison to FY 2016 results slightly because the attributed inframarginal costs make up less than 3 percent of each product's attributable cost. Unlike in previous years, institutional cost in FY 2017 does not include all inframarginal cost because some inframarginal costs are now attributed.

In this chapter, the Commission also analyzes changes in cost for certain cost segments and components. VVPPS are distributed to products using distribution keys that reflect the underlying cost driver.[5] For comparisons of cost segments and components, the Commission uses VVPPS instead of the revised definition of attributable cost.[6]

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[1] 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). UPS appealed Order No. 3506 to the United States Court of Appeals for the District of Columbia Circuit. *United Parcel Service, Inc. v. Postal Regulatory Comm'n,* No. 16-1354 (D.C. Cir. filed Oct. 7, 2016). Oral arguments were heard on January 22, 2018, and a decision is pending.
[2] Total volume-variable cost is calculated by multiplying total cost by the volume variability ratio for each cost segment.
[3] Volume-Variable plus Product-Specific (VVPPS).
[4] 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.
[5] 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.
[6] The analysis of a product's unit costs by cost component is intended to provide insight into the cost of the activities performed in handling each mailpiece. For this reason, these costs are piggybacked to include the indirect costs of each activity. Similarly, inframarginal costs are excluded because this analysis is focused on the cost of a piece of mail, as opposed to the cost of a product or class of mail.

Institutional cost cannot be attributed to a specific product or service and is equal to total cost minus total attributable cost. While sometimes referred to as "fixed cost," it is more accurately characterized as "common cost" because it includes costs that are variable but not causally related to an individual product or class. Institutional cost includes costs for carrier network travel time, amortization of RHB unfunded liability, amortization of CSRS unfunded liability apportioned to prior years, and various administrative costs. The institutional cost share is the ratio of total institutional cost to total costs. Holding all else equal, a higher mail volume results in a lower institutional cost share and a lower mail volume results in a higher institutional cost share.[7]

In addition to the change in the definition of attributable cost, two other methodological changes also affected attributable cost calculations. These include changes to capacity variability for purchased highway transportation costs[8] and an adjustment to city carrier street time parcel proportions.[9]

The Commission has previously discussed how institutional cost share changes as volume increases and decreases. The Commission has also discussed how changes in operational factors such as volume mix and volume weighted by the average attributable cost of individual products will also change the institutional cost share. There are also non-operational factors such as Generally Accepted Accounting Principles changes in the law and Commission approved costing methodologies which have an effect on the ratio. *Id.* Institutional cost is primarily driven by accruals for retirement related expenses, workers' compensation, and delivery network costs. Therefore, institutional cost will increase or decrease depending on changes to retirement obligations (initiated by OPM), interest rate fluctuations that impact the workers' compensation liability, and increases in delivery points or changes due to restructuring routes. Table III-1 shows the causes of the changes in institutional cost each year since FY 2010. The largest drivers of the changes have been workers' compensation and annuitant health benefits accounting adjustments, rather than changes in operational costs. In FY 2017, the supplemental contribution to CSRS was added to institutional cost. See Chapter 2 at page 10.

**Table III-1**
**Main Sources of Change in Institutional Cost,[10] FY 2010 – FY 2017**

| | FY 2017 ($ 000) | FY 2016 ($ 000) | FY 2015 ($ 000) | FY 2014 ($ 000) | FY 2013 ($ 000) | FY 2012 ($ 000) | FY 2011 ($ 000) | FY 2010 ($ 000) |
|---|---|---|---|---|---|---|---|---|
| Workers' Compensation | (3,419,553) | 965,985 | (654,814) | 1,290,341 | (2,600,835) | (99,435) | (48,990) | 1,189,647 |
| Annuitant Health Benefits | (4,913,951) | 388,908 | 27,737 | 332,737 | (5,124,055) | 11,471,877 | (5,109,985) | 4,460,307 |
| CSRS Supplemental Liability | 1,549,748 | | | | | | | |
| City and Rural Carriers | 461,070 | 387,579 | 465,085 | (98,278) | 42,613 | 314,106 | 281,666 | 122,766 |
| FERS Supplemental Liability | 668,715 | 149,024 | 102,998 | 2,664 | 407 | 309 | (276) | 563 |
| Transportation | 579,903 | 103,181 | (31,117) | (23,560) | 15,148 | 21,239 | 46,419 | 7,033 |
| Supplies and Services | 73,733 | 116,728 | 19,641 | 43,336 | 113,029 | (56,587) | 114,221 | (100,798) |
| Clerks and Mailhandlers | 35,231 | 99,575 | 239,558 | 54,748 | 28,205 | (35,478) | (110,222) | (203,979) |
| Other | 348,598 | 397,208 | (435,196) | (512,303) | 187,858 | (498,105) | 362,786 | (160,139) |
| **Total Change** | **(4,616,504)** | **2,608,187** | **(266,108)** | **1,089,686** | **(7,337,630)** | **11,117,927** | **(4,464,383)** | **5,315,400** |

*Source: The Postal Regulatory Commission derived from Cost Segment and Component Report, FY 2010 - FY 2017.*

[7] Postal Regulatory Commission Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2014, April 1, 2015, at 35-37 (FY 2014 Postal Regulatory Commission Financial Report).
[8] Docket No. RM2016-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), June 22, 2017 (Order No. 3973).
[9] Docket No. RM2017-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), December 1, 2017 (Order No. 4259).
[10] For this analysis, Commission uses the Postal Service's institutional cost figures, which reflect attribution of incremental costs at the product level, as opposed to the class level.

## Market Dominant Products and Services

Table III-2 illustrates the changes in total volume, revenue, attributable cost, and contribution to institutional cost for Market Dominant products and services between FY 2016 and FY 2017.

Total Market Dominant revenue decreased by 6.1 percent in FY 2017, after nearly no change for the previous three years. The decrease in revenue is primarily due to the removal of the temporary exigent surcharge that the Commission authorized in January 2014.[11] The surcharge expired on April 10, 2016. Thus, FY 2017 is the first full fiscal year in which the surcharge was not in effect. Lower Market Dominant volume in FY 2017 also had a negative effect on revenue.

**Table III-2**
**Market Dominant Volume, Revenue, and Cost, FY 2017 and FY 2016**

| | FY 2017 | FY 2016 | Variance |
|---|---|---|---|
| **Volume (Millions)** | 144,387 | 149,824 | (3.6)% |
| **Revenue ($ Millions)** | 47,788 | 50,894 | (6.1)% |
| **Attributable Cost ($ Millions)** | 28,794 | 28,267 | 1.9 % |
| **Contribution to Institutional Cost ($ Millions)** | 18,994 | 22,626 | (16.1)% |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

Total attributable cost for Market Dominant products increased slightly, in part due to the methodology change for attributable cost described at the beginning of the section. Total attributable cost for Market Dominant products was 1.9 percent higher than in FY 2016. The decrease in revenue combined with the increase in attributable cost, resulted in a $3.7 billion decrease in total Market Dominant contribution to institutional cost.

In FY 2017, Market Dominant products accounted for 96.6 percent of total mail volume, a drop of 0.5 percentage points from FY 2016. Revenue from these products as a percentage of total revenue decreased from 71.2 percent to 68.7 percent. Market Dominant attributable cost as a percentage of total attributable cost decreased from 69.3 percent in FY 2016 to 67.4 percent in FY 2017.

Several Market Dominant products failed to generate sufficient revenue to cover attributable cost, resulting in negative contribution. The total negative contribution to institutional cost from these products amounted to $1.4 billion, about $15 million more than in FY 2016. Five domestic mail products failed to cover their attributable cost: Marketing Mail Flats ($668.9 million), Marketing Mail Parcels ($25.8 million), Periodicals Outside County ($581.4 million), Periodicals In-County ($26.7 million), and Package Services Media Mail/Library Mail ($85.6 million). In addition, three services, Money Orders, International Services, and Collect on Delivery (COD), as well as First-Class Mail Inbound Letter Post had a negative contribution.

[11] The surcharge was designed to offset the loss in total contribution associated with volume losses due to the Great Recession of 2008–2009.

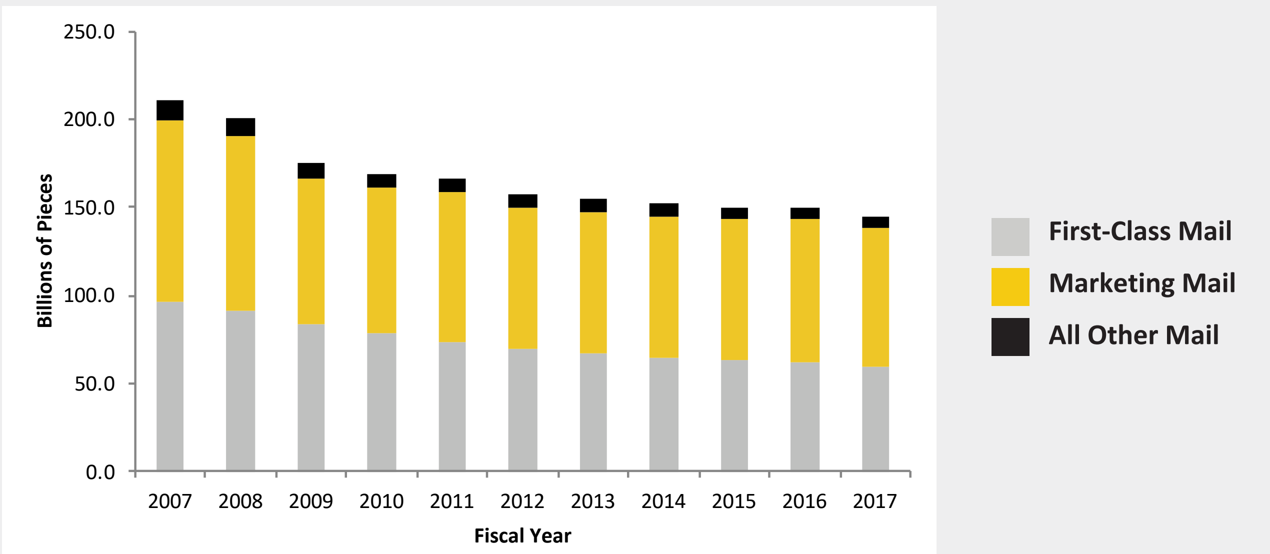
## Market Dominant Volume Trends

Figure III-1 shows the total volume for Market Dominant products over the last eleven years. Since FY 2007, volume for Market Dominant products has declined by 66.2 billion pieces.

First-Class Mail and Marketing Mail accounted for 95.7 percent of total Market Dominant volume. First-Class Mail volume has declined by 36.6 billion pieces since FY 2007. However, in recent years the rate of decline has slowed significantly; since FY 2014, the average decrease was approximately 2.5 percent per year.

Marketing Mail volume has declined by 25.1 billion pieces since FY 2007. In FY 2017, Marketing Mail volume dropped by 2.6 billion pieces, representing a decrease of 3.2 percent from FY 2016. The FY 2017 decline is a larger loss compared with the previous four years when Marketing Mail volume remained relatively steady.

**Figure III-1**
**Market Dominant Volume, FY 2007 – FY 2017**



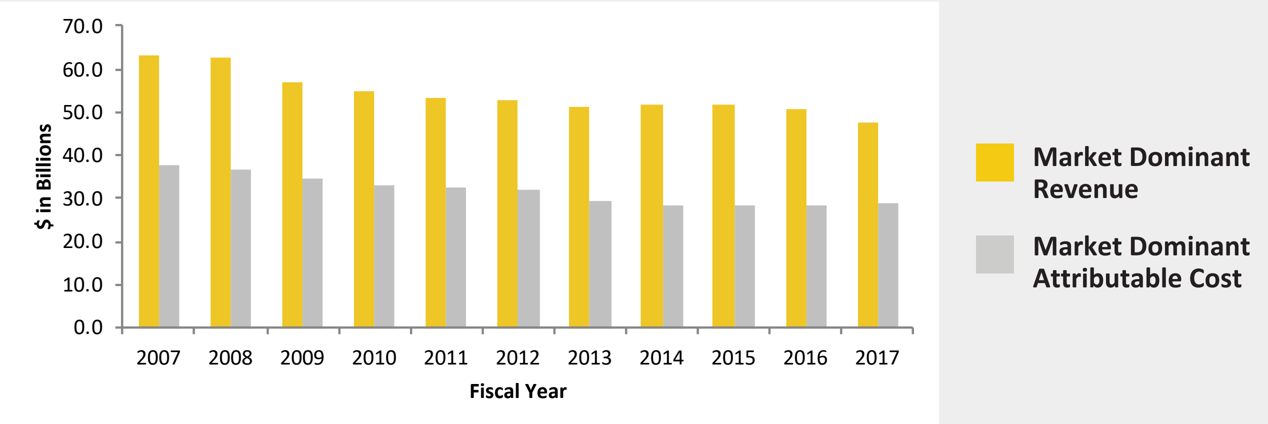

*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR 2016, PRC-LR-ACR2016/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; FY 2007- FY 2014 ACD; Library Reference PRC-LR-1.*

## Market Dominant Revenue and Cost Trends

Total Market Dominant revenue and attributable cost have also declined since FY 2007. Total revenue declined by 24.3 percent and total attributable cost declined by 23.2 percent. Figure III-2 compares revenue and attributable cost since FY 2007.

In FY 2017, the decline in total Market Dominant revenue (6.1 percent) was considerable, representing the largest decrease since FY 2013. As noted previously, the decrease in revenue can be mainly attributed to the expiration of the exigent surcharge. The exigent surcharge added $1.4 billion in additional revenue in FY 2014, $2.1 billion in additional revenue in FY 2015 and $1.1 billion in additional revenue in FY 2016.

**Figure III-2**
**Market Dominant Revenue and Attributable Cost, FY 2007 – FY 2017**




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

## Competitive Products and Services

Both volume and revenue for Competitive products increased in FY 2017. Table III-3 compares the total volume, revenue, and cost of these products and services between FY 2016 and FY 2017.

Volume grew 13.4 percent in FY 2017 compared with 13.6 percent in FY 2016. Revenue also increased by 11.9 percent or $2.2 billion. Attributable cost increased by 11.2 percent in FY 2017. Since revenue growth outpaced the increase in attributable cost, contribution to institutional cost increased by 13.3 percent. Additionally, FY 2017 represents the third year in a row that average unit attributable cost decreased. However, the decrease from FY 2016 to FY 2017 was smaller than the decrease from FY 2015 to FY 2016, 2.0 percent and 7.7 percent, respectively.

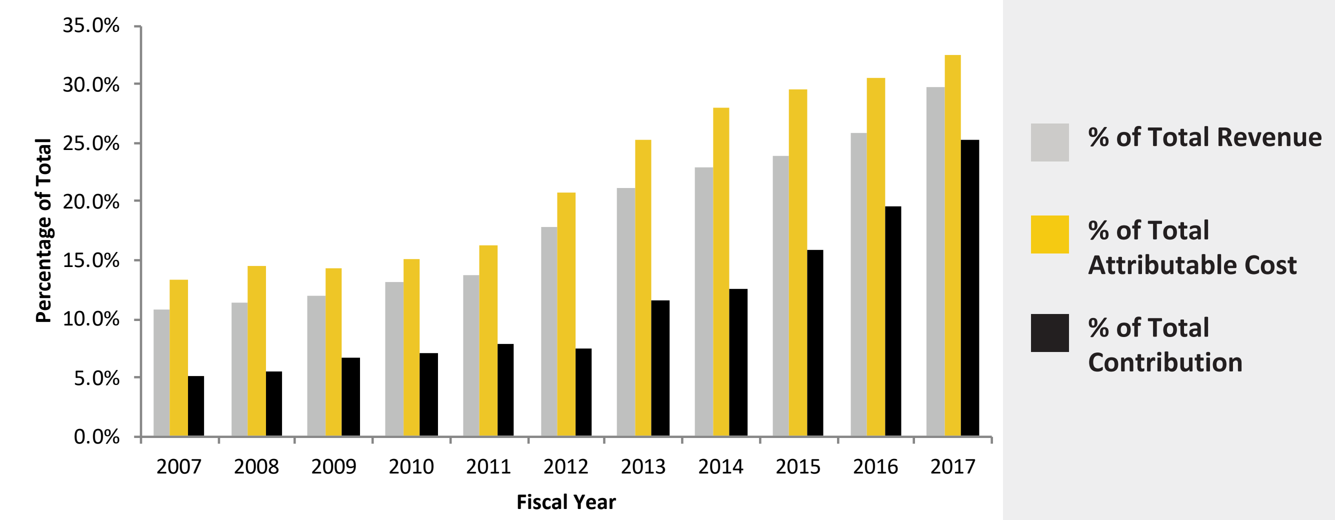
As shown in Figure III-3, the Competitive products' share of total Postal Service revenue and attributable cost nearly tripled since FY 2007. Competitive products' share of contribution to institutional cost has steadily increased from just 5.2 percent in FY 2007 to 25.3 percent in FY 2017.

**Table III-3**
**Competitive Volume, Revenue, and Cost, FY 2017 and FY 2016**

| | FY 2017 | FY 2016 | Varience |
|---|---|---|---|
| Volume (Millions) | 5,103 | 4,499 | 13.4% |
| Revenue ($ Millions) | 20,690 | 18,495 | 11.9% |
| Attributable Cost ($ Millions) | 13,884 | 12,490 | 11.2% |
| Contribution to Institutional Cost ($ Millions) | 6,806 | 6,005 | 13.3% |

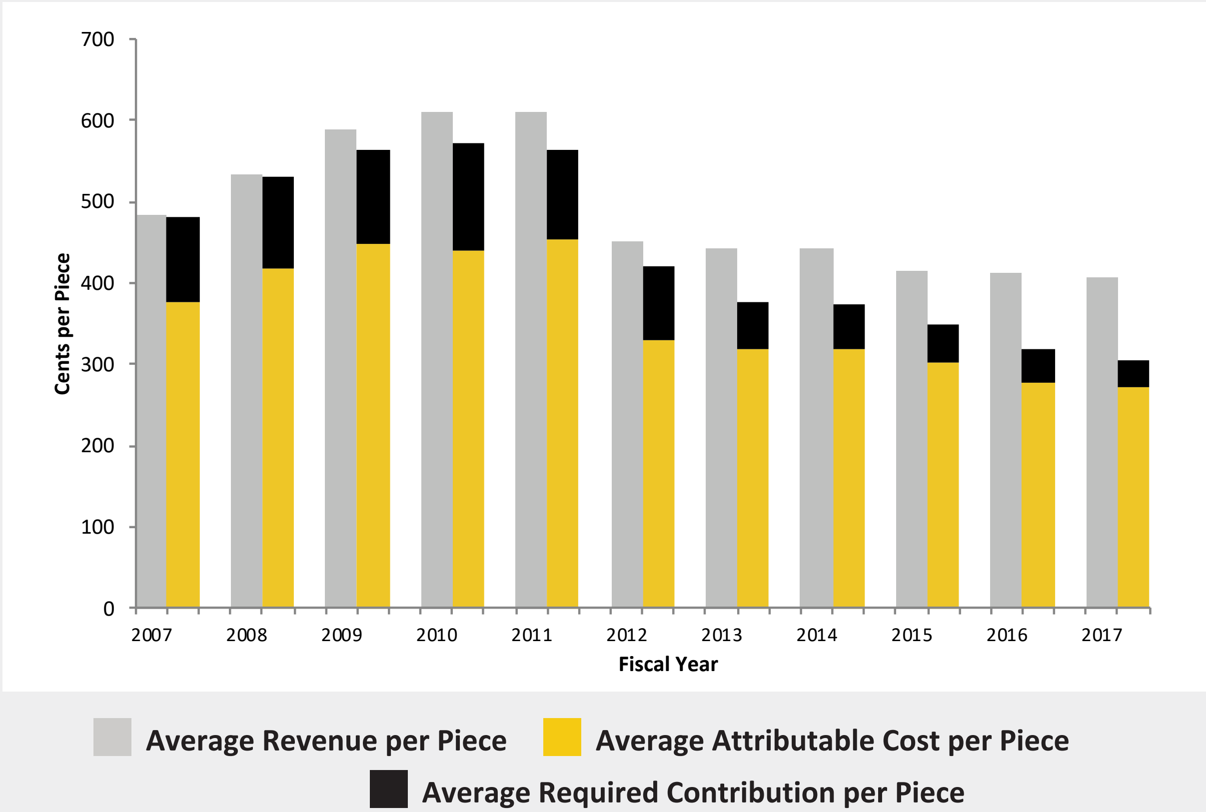
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Library Reference USPS-FY17-42.*

**Figure III-3**
**Competitive Percentage Share of Total Postal Service Revenue, Cost, and Contribution to Institutional Cost, FY 2007 – FY 2017**



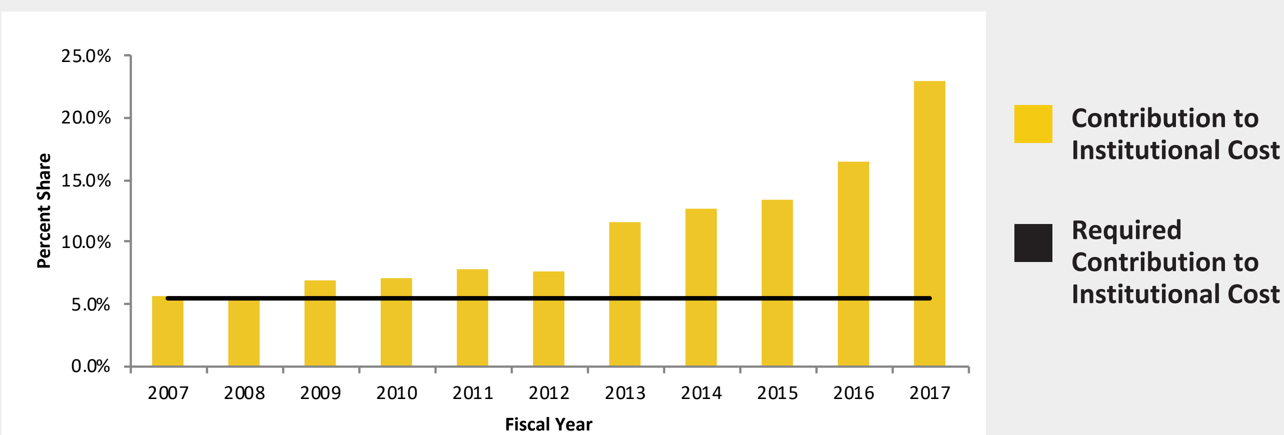

*Source: Postal Service Cost and Revenue Analysis (CRA) Reports, FY 2007 - FY 2017.*

**Figure III-4**
**Competitive Average Unit Revenue and Cost, FY 2007 – FY 2017**




*Source: Postal Service CRA Reports, FY 2007 - FY 2017.*

**Figure III-5**
**Competitive Contribution to Institutional Cost, FY 2007 – FY 2017**




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

Figure III-4 illustrates the changes in average unit revenue and cost from FY 2007 to FY 2017. Competitive products are required to collectively cover 5.5 percent of the Postal Service's institutional costs.[12] The minimum required contribution is shown in Figure III-4 as an average per piece basis. Since FY 2007, average unit revenue for Competitive products and services exceeded the combined average unit attributable cost and required contribution per piece.

The significant increase in Competitive product volume has resulted in total attributable cost for Competitive products increasing in every cost segment, more than doubling since FY 2007. Total contribution to institutional cost from Competitive products continues to increase, exceeding the required contribution to institutional cost.[13] As shown in Figure III-5, Competitive products' contribution has increased significantly in recent years. Nonetheless, the increase in FY 2017 is substantial compared to increases in past years.

# Market Dominant Volume, Revenue, and Cost Trends by Class

## First-Class Mail

Five products are assigned to First-Class Mail: Single-Piece Letters/Postcards; Presorted Letters/Postcards; Flats; Outbound Single-Piece First-Class Mail International; and Inbound Letter Post. For comparison purposes in this report, the products are grouped into letters, flats, and "all other."[14]

### FIRST-CLASS MAIL LETTERS COMPARED WITH FY 2016

Table III-4 summarizes the FY 2017 change in total volume and revenue for First-Class Mail letters. First-Class Mail letters volume continued to decline in FY 2017. For single-piece letters, the rate of decline was 5.7 percent compared to 4.2 in FY 2016.

**Table III-4**
**First-Class Mail Letters Volume and Revenue, FY 2017 and FY 2016**

| | Mail Volume | | | | Mail Revenue | | | |
|---|---|---|---|---|---|---|---|---|
| | (Millions) FY 2017 | (Millions) FY 2016 | Increase or Decrease | Percent Change | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change |
| **Single-Piece** | 17,832 | 18,910 | (1,078) | -5.7% | 8,804 | 9,534 | (730) | -7.7% |
| **Presorted** | 36,670 | 37,746 | (1,076) | -2.8% | 14,054 | 14,889 | (835) | -5.6% |
| **Total Letters** | **54,502** | **56,656** | **(2,154)** | **-3.8%** | **22,857** | **24,423** | **(1,566)** | **-6.4%** |

*Negative values denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

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[12] 39 C.F.R. § 3015.7(c).
[13] The Commission has proposed a formula-based approach to calculate the appropriate share of institutional cost to which Competitive products must contribute. Docket No. RM2017-1, Notice of Proposed Rulemaking to Evaluate the Institutional Cost Contribution Requirement for Competitive Products, February 8, 2018 (Order No. 4402). Under the proposed rules, the Postal Service's Competitive products would have had to contribute 7.8 percent of institutional cost in FY 2017, less than the Postal Service contributed in FY 2017. Order No. 4402 at 33.
[14] "All other" includes cards, Outbound Single-Piece First-Class Mail International, Inbound Letter Post, and Inbound International NSAs.

**Table III-5**

**First-Class Mail Letters Attributable Cost and Average Unit Attributable Cost, FY 2017 and FY 2016**

| | Attributable Cost | | | | Unit Attributable Cost | | | |
|---|---|---|---|---|---|---|---|---|
| | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change | (Cents per Piece) FY 2017 | (Cents per Piece) FY 2016 | Increase or Decrease | Percent Change |
| **Single-Piece** | 5,318 | 5,322 | (4) | -0.1% | 29.8 | 28.1 | 1.7 | 6.0% |
| **Presorted** | 4,405 | 4,404 | 1 | 0.0% | 12.0 | 11.7 | 0.3 | 2.9% |
| **Total Letters** | **9,723** | **9,726** | **(3)** | **0.0%** | **17.8** | **16.8** | **1.0** | **5.9%** |

*Negative values are denoted by ().*

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

Presorted letters volume decreased 2.8 percent in FY 2017, compared to 0.7 percent in FY 2016.

Revenue for First-Class Mail dropped sharply in FY 2017 due to elimination of the exigent surcharge, which decreased the price of stamps by 2 cents. This, coupled with lower volume resulted in a 7.7 percent decrease in revenue from single-piece letters. The revenue for presorted letters was also negatively affected by the elimination of the surcharge, falling 5.6 percent from FY 2016.

Table III-5 summarizes the FY 2017 change in total attributable cost for First-Class Mail letters. Total attributable cost for First-Class Mail letters decreased by $3 million from FY 2016. However, due to the large drop in volume in FY 2017, unit attributable cost increased 5.9 percent. The overall increase in average unit attributable cost for First-Class Mail letters is in a large part due to the single-piece category, as the average unit attributable cost of the single-piece category increased by 6.0 percent from FY 2016. These changes are discussed in further detail in the following section.

## TRENDS IN FIRST-CLASS MAIL LETTERS

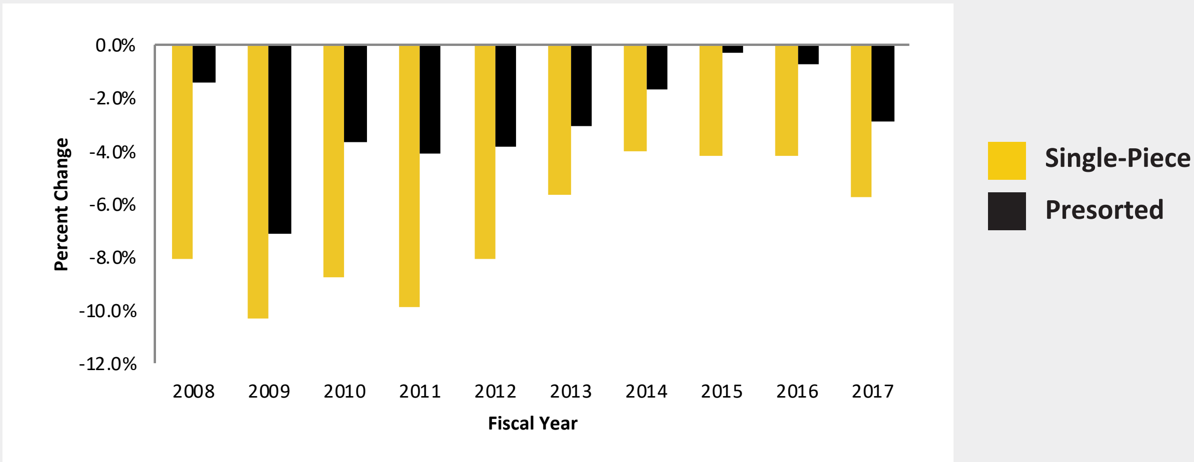
Changes in the use of postal services continues to erode First-Class Mail letters volume as consumers switch to electronic channels for banking and payment of services.[15] Figure III-6 illustrates the rate of decline for First-Class Mail letters volume. In FY 2017, the rate of decline for single-piece letters increased compared with the previous three years, when the rate of decline remained consistently close to 4 percent.

The volume of First-Class Mail presorted letters has decreased every year since FY 2007. The rate of decline for First-Class Mail presorted letters volume increased to 5.7 percent, the highest rate of decline since FY 2012.

Figure III-7 shows the change in the average unit attributable cost for First-Class Mail letters. First-Class Mail single-piece letters average unit attributable cost has increased three of the last five years, increasing 0.7 percent in FY 2014, 4.7 percent in FY 2016, and 6.0 percent in FY 2017. The FY 2017 increase in average unit attributable cost for First-Class Mail single-piece letters is the highest in a decade. This is due in part to the change in the definition of attributable cost. *See supra* at 1.

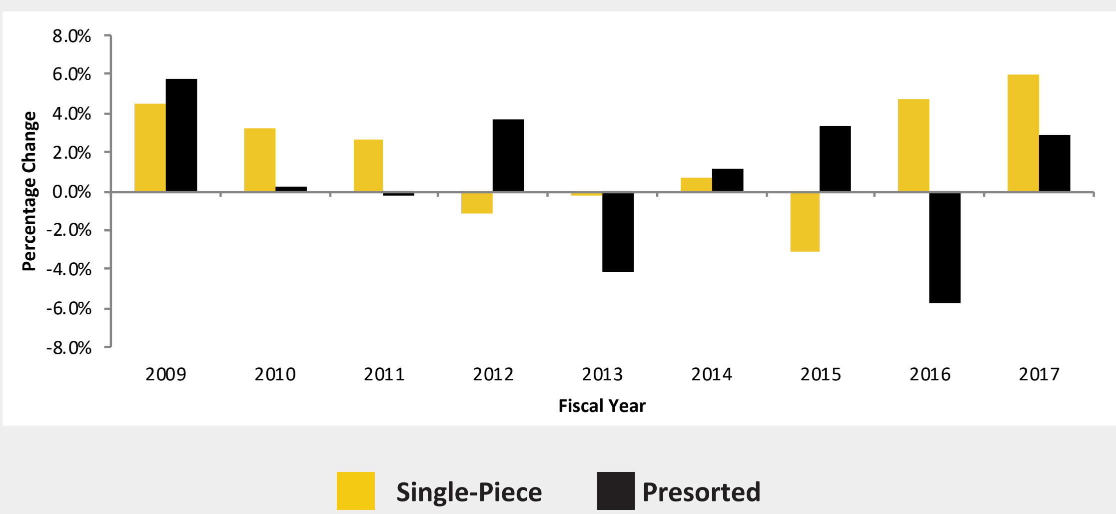
[15] Postal Service FY 2017 Form 10-K at 19.

**Figure III-6**
**First-Class Mail Letters Percentage Change in Volume, FY 2008 – FY 2017**




*Source: Postal Service Revenue, Pieces and Weight (RPW) Reports, FY 2008 - FY 2017.*

**Figure III-7**
**First-Class Mail Letters Percentage Change in Average Unit Attributable Cost, FY 2009 – FY 2017**




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

**Table III-6**
**First-Class Mail Presorted Letters Average VVPPS Cost by Segment, FY 2012 – FY 2017**

| Cost Segment or Component | Unit Volume Variable plus Product Specific Cost | | | | | | Changes in Volume Variable plus Product Specific Unit Cost | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2016 | 2014 | 2013 | 2012 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Mail Processing | 5.26 | 5.18 | 5.87 | 5.55 | 5.49 | 5.78 | 1.5% | -11.8% | 5.7% | 1.2% | -5.0% |
| City Carrier In-Office | 1.45 | 1.47 | 1.54 | 1.52 | 1.40 | 1.48 | -1.4% | -4.5% | 1.4% | 8.7% | -5.6% |
| City Carrrier Street | 2.32 | 2.32 | 2.21 | 2.38 | 2.41 | 2.37 | 0.0% | 5.2% | -7.2% | -1.6% | 2.1% |
| Rural carriers | 0.89 | 0.83 | 0.82 | 0.81 | 0.78 | 0.90 | 7.2% | 0.7% | 2.1% | 4.1% | -14.2% |
| Transportation | 1.36 | 1.34 | 1.27 | 1.17 | 1.22 | 1.23 | 1.2% | 6.1% | 8.4% | -4.3% | -0.4% |
| All Other | 0.57 | 0.53 | 0.58 | 0.58 | 0.59 | 0.64 | 7.5% | -8.6% | 0.0% | -7.2% | -14.4% |

*Source: The Postal Regulatory Commission derived from Postal Service Cost Segment and Component Reports, FY 2012 to FY 2017.*

There is no perceivable trend for First-Class Mail presorted letters average unit attributable cost. Unit attributable cost for First-Class Mail presorted letters increased in FY 2017, after a large decrease in FY 2016. However, it is notable that the increases and decreases for FY 2016 are atypical because in FY 2016 the Postal Service corrected an In-Office Cost System (IOCS) coding error that shifted costs from First-Class Mail presorted letters to First-Class Mail single-piece letters.[16]

Table III-6 compares the average unit VVPPS cost for presorted letters, by cost component or segment, for FY 2012 through FY 2017. Mail processing cost increased slightly in FY 2017, but remains significantly lower than in previous years. City carrier in-office unit costs for presorted letters decreased modestly FY 2017 (1.4 percent). The rate of decrease was lower than in FY 2016 (4.5 percent). Both of these segments represent mail processing activities, as carrier in-office cost is largely comprised of time spent sorting mail for delivery. City carrier street unit cost remained unchanged from FY 2017. As the table shows, rural carrier unit cost increased by 7.2 percent, to the highest unit cost since FY 2012.

[16] *See* USPS-FY16-37, December 29, 2016, at 1.

**Table III-7**
**First-Class Mail Flats Volume and Revenue, FY 2017 and FY 2016**

| | Mail Volume | | | | Mail Revenue | | | |
|---|---|---|---|---|---|---|---|---|
| | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change |
| Single-Piece | 865 | 961 | (96) | -10.0% | 1,405 | 1,575 | (170) | -10.8% |
| Presorted | 583 | 609 | (26) | -4.2% | 586 | 631 | (45) | -7.2% |
| Total Flats | 1,448 | 1,570 | (122) | -7.8% | 1,992 | 2,206 | (215) | -9.7% |

*Negative values denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

## FIRST-CLASS MAIL FLATS COMPARED WITH FY 2016

Table III-7 shows the total volume and revenue for First-Class Mail Flats. First-Class Mail single-piece flats volume declined 10.0 percent in FY 2017 compared to a 9.1 percent decline in FY 2016. The 4.2 percent decrease in First-Class Mail presorted flats volume in FY 2017 was much larger than the 0.4 percent decrease in FY 2016.

Total First-Class Mail Flats revenue also declined compared to FY 2016. The decrease is partly due to decline in volume. The expiration of the exigent surcharge also contributed to the decrease in revenue in FY 2017.

Table III-8 summarizes the FY 2017 change in attributable cost. Total attributable cost for First-Class Mail Flats remained nearly unchanged from FY 2016. However, on a unit basis, costs increased 8.6 percent. The change in the definition of attributable cost accounts for just 0.2 percent of the increase. The average unit attributable cost for single-piece flats and presorted flats increased, by 9.7 percent and 8.3 percent respectively.

**Table III-8**
**First-Class Mail Flats Attributable Costs and Average Unit Attributable Cost, FY 2017 and FY 2016**

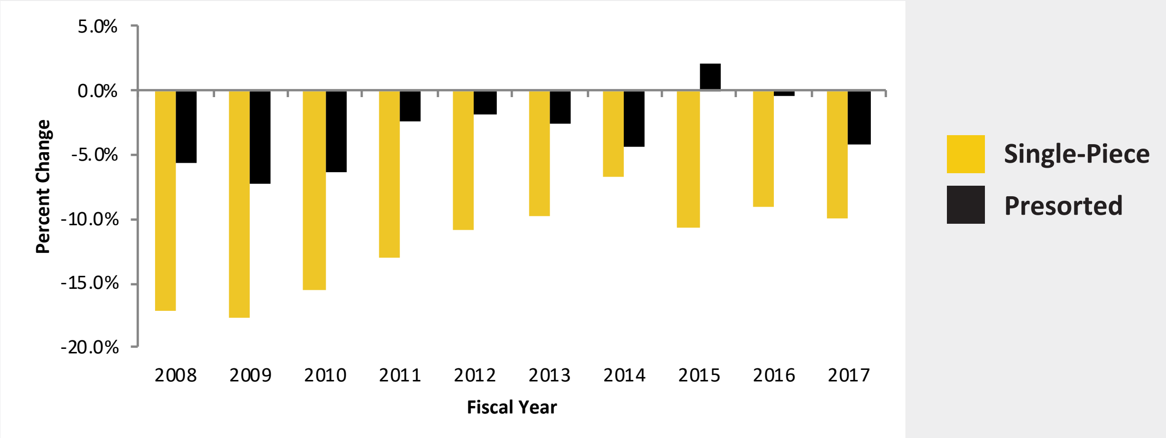
| | Attributable Cost | | | | Unit Attributable Cost | | | |
|---|---|---|---|---|---|---|---|---|
| | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change | (Cents per Piece) FY 2017 | (Cents per Piece) FY 2016 | Increase or Decrease | Percent Change |
| Single-Piece | 1,084 | 1,098 | (14) | -1.3% | 125.4 | 114.3 | 11.1 | 9.7% |
| Presorted | 449 | 433 | 16 | 3.7% | 76.9 | 71.0 | 5.9 | 8.3% |
| Total Flats | 1,533 | 1,531 | 2 | 0.1% | 105.8 | 97.5 | 8.4 | 8.6% |

*Negative values are denoted by ().*
*Source: Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

## TRENDS IN FIRST-CLASS MAIL FLATS

First-Class Mail Flats volume has been declining for years. Figure III-8 compares the percentage change in First-Class Mail Flats volume from FY 2008 to FY 2017. Since FY 2007, First-Class Mail Flats volume decreased by 63.5 percent. Single-piece flats volume continues its downward trend. Although both presorted flats and single-piece flats lost volume since FY 2008, most of the First-Class Mail Flats volume loss occurred in First-Class Mail single-piece flats. Since FY 2007, single-piece flats have decreased 72.5 percent, compared to a 28.7 percent volume decrease for presorted flats.

**Figure III-8**
**Percentage Change in First-Class Mail Flats Volume, FY 2008 – FY 2017**




*Source: Source: Postal Service RPW Reports, FY 2008 - FY 2017.*

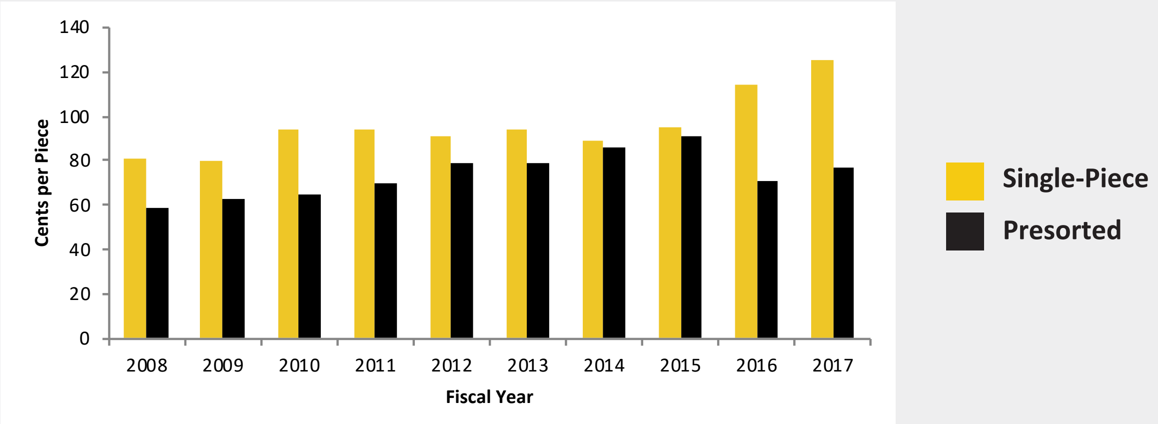
Figure III-9 compares the average unit attributable cost for First-Class Mail single-piece and presorted flats since FY 2008. The average unit attributable cost for First-Class Mail single-piece flats has increased for the fourth year in a row. For the last two years, the average unit attributable cost for First-Class Mail single-piece flats was relatively high compared with previous years. Conversely, for First-Class Mail presorted flats, average unit attributable cost was relatively low in the last two years.

Table III-9 compares the average VVPPS unit cost by cost segment or component of First-Class Mail single-piece and presorted flats for FY 2016 and FY 2017. VVPPS cost includes all of the indirect cost that is piggybacked to the direct cost.[17]

In FY 2017, average VVPPS unit cost for First-Class Mail single-piece flats exceeded the average VVPPS unit cost for First-Class Mail presorted flats in all cost segments. Compared to FY 2016, the average VVPPS unit cost for First-Class Mail single-piece flats increased in all cost segments. For First-Class Mail presorted flats, only the average VVPPS unit cost for city carrier in-office decreased in FY 2017.

[17] In addition to the direct costs, there are other “indirect” costs associated with the direct costs component or cost segment. Some examples of these indirect costs are Cost Segment 3 Administrative Clerks, Cost Segment 12 Vehicle Service Costs, Cost Segment 15 Rents and Fuel and Utilities, and Cost Segment 18 Service-wide Labor Costs (such as, workers’ compensation, etc.). These “indirect” costs are referred to as “piggybacked” costs and are developed in Library Reference USPS-FY15-24. The unit attributable cost by cost segment or component presented in this report are “piggybacked” costs, unless stated otherwise.

**Figure III-9**
**First-Class Mail Flats Average Unit Attributable Cost, FY 2008 – FY 2017**




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

**Table III-9**
**First-Class Mail Flats Average VVPPS Unit Cost by Segment or Component, FY 2016 and FY 2017**

| Cost Segment or Component | 2016 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Single-Piece | Presort | Diff. | Single-Piece | Presort | Diff. |
| Mail Processing | 63.1 | 38.5 | 24.6 | 71.3 | 42.0 | 29.3 |
| City Carrier In-Office | 11.3 | 12.5 | (1.1) | 12.7 | 12.1 | 0.6 |
| City Carrier Street | 7.6 | 4.2 | 3.3 | 7.9 | 4.2 | 3.7 |
| Rural carriers | 3.7 | 2.7 | 1.0 | 4.2 | 3.0 | 1.2 |
| Transportation | 18.8 | 10.3 | 8.5 | 19.4 | 12.3 | 7.1 |
| All Other | 9.6 | 2.8 | 6.8 | 9.9 | 2.7 | 7.2 |
| **Total** | **114.3** | **71.0** | **43.3** | **125.4** | **76.4** | **49.0** |

*Source: The Postal Regulatory Commission derived from Postal Service Cost Segment and Component Reports, FY 2016 and FY 2017.*

**Table III-10**
**All Other First-Class Mail Volume and Revenue, FY 2017 and FY 2016**

| | Mail Volume | | | | Mail Revenue | | | |
|---|---|---|---|---|---|---|---|---|
| | (Millions) FY 2017 | (Millions) FY 2016 | Increase or Decrease | Percent Change | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change |
| Total Cards | 2,796 | 2,993 | (196) | -6.6% | 787 | 865 | (78) | -9.0% |
| Outbound Single-Piece First-Class Mail International | 152 | 172 | (20) | -11.5% | 231 | 262 | (30) | -11.6% |
| Inbound Letter Post | 401 | 392 | 9 | 2.2% | 293 | 266 | 26 | 9.9% |
| Inbound International NSAs | 243 | 214 | 29 | 13.8% | 414 | 324 | 91 | 28.0% |
| **Total Other First-Class Mail** | **3,592** | **3,770** | **(178)** | **-4.7%** | **1,726** | **1,717** | **9** | **0.5%** |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

**Table III-11**
**Other First-Class Mail Attributable Cost and Average Unit Attributable Cost, FY 2017 and FY 2016**

| | Attributable Cost | | | | Unit Attributable Cost | | | |
|---|---|---|---|---|---|---|---|---|
| | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change |
| Total Cards | 374 | 405 | (31) | -7.7% | 13.4 | 13.5 | (0) | -1.2% |
| Outbound Single-Piece First-Class Mail International | 139 | 153 | (13) | -8.8% | 91.6 | 88.9 | 2.7 | 3.1% |
| Inbound Letter Post | 463 | 401 | 62 | 15.5% | 115.6 | 102.3 | 13.2 | 12.9% |
| Inbound International NSAs | 278 | 218 | 60 | 27.8% | 114.5 | 102.0 | 12.5 | 12.3% |
| **Total Other First-Class Mail** | **1,254** | **1,176** | **78** | **6.6%** | **34.9** | **31.2** | **3.7** | **11.9%** |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

## OTHER FIRST-CLASS MAIL COMPARED WITH FY 2016

Table III-10 shows the volume and revenue for First-Class Mail “all other.” The volume of Cards and Outbound Single-Piece First-Class Mail International each decreased in FY 2017. Conversely, Inbound Letter Post volume and Inbound International NSAs volume increased from FY 2016. Changes in revenue followed the same pattern.

Table III-11 presents the changes in total attributable cost and average unit attributable cost for “all other” First-Class Mail between FY 2016 and FY 2017. On a unit basis, only the attributable cost of First-Class Mail cards decreased from FY 2016, albeit minimally. The unit attributable cost for both inbound international products increased by approximately 12 percent. Due to the small volume of “all other,” less than 1.0 percent of the total volume of First-Class Mail, its impact on the average unit attributable cost for the class is minimal.

## Marketing Mail

Marketing Mail is comprised of seven products: Letters, Flats, Parcels, Carrier Route, High Density and Saturation Letters, High Density and Saturation Flats/Parcels, and Every Door Direct Mail-Retail (EDDM-R). For comparison purposes, the products have been grouped into letters and flats.[18]

### MARKETING MAIL LETTERS COMPARED WITH FY 2016

Table III-12 summarizes the FY 2017 change in volume and revenue of letter-shaped Marketing Mail. High Density and Saturation Letters volume increased modestly, compared to FY 2016. Revenue for this product also increased compared with FY 2016, even though revenue in FY 2016 included exigent surcharge revenue collected through April 10, 2016. For Marketing Mail Letters both volume and revenue decreased in FY 2017, 3.9 percent and 5.5 percent, respectively.

Table III-13 summarizes the FY 2017 change in attributable cost. Despite an increase in the attributable cost of High Density and Saturation Letters, total attributable cost for letter-shaped Marketing Mail decreased 1.6 percent in FY 2017. The average unit attributable cost increased for both categories.

**Table III-12**
**Marketing Mail Letters Volume and Revenue, FY 2017 and FY 2016**

| | Mail Volume | | | | Mail Revenue | | | |
|---|---|---|---|---|---|---|---|---|
| | (Millions) FY 2017 | (Millions) FY 2016 | Increase or Decrease | Percent Change | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change |
| Letters | 46,973 | 48,859 | (1,886) | -3.9% | 9,600 | 10,163 | (563) | -5.5% |
| High Density & Saturation Letters | 7,094 | 6,992 | 102 | 1.5% | 1,093 | 1,079 | 14 | 1.3% |
| Total Letters | 54,067 | 55,851 | (1,784) | -3.2% | 10,693 | 11,242 | (550) | -4.9% |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

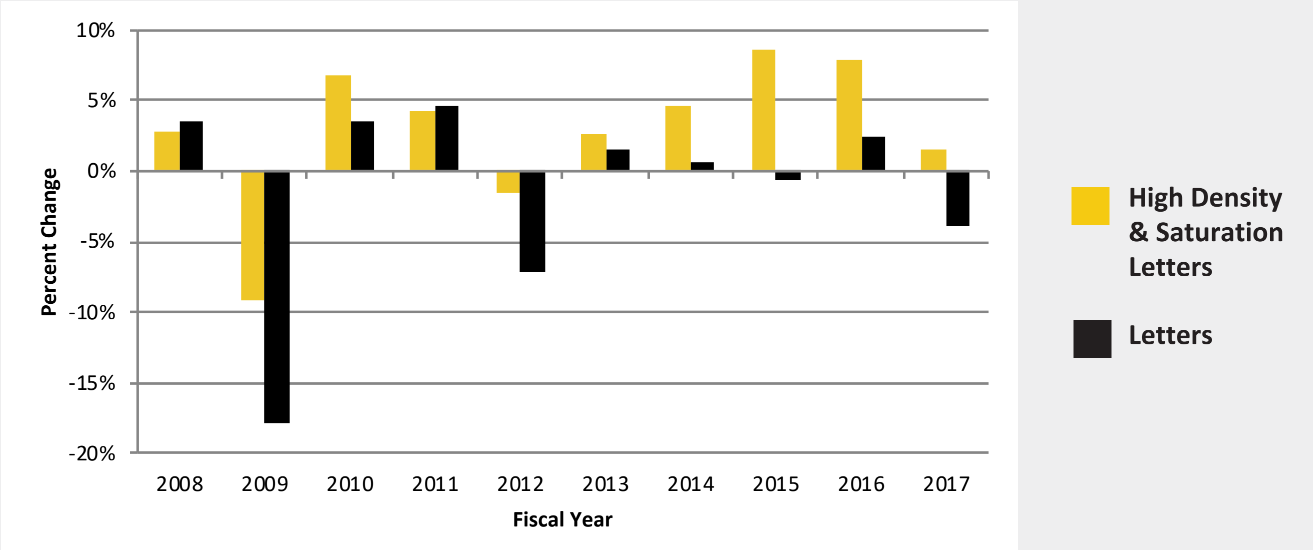
**Table III-13**
**Marketing Mail Letters Attributable Costs and Average Unit Attributable Costs, FY 2017 and FY 2016**

| | Attributable Cost | | | | Unit Attributable Cost | | | |
|---|---|---|---|---|---|---|---|---|
| | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change | (Cents per Piece) FY 2017 | (Cents per Piece) FY 2016 | Increase or Decrease | Percent Change |
| Letters | 4,912 | 5,023 | (111) | -2.2% | 10.5 | 10.3 | 0.2 | 1.7% |
| High Density & Saturation Letters | 515 | 492 | 23 | 4.6% | 7.3 | 7.0 | 0.2 | 3.1% |
| Total Letters | 5,427 | 5,516 | (88) | -1.6% | 10.0 | 9.9 | 0.2 | 1.6% |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

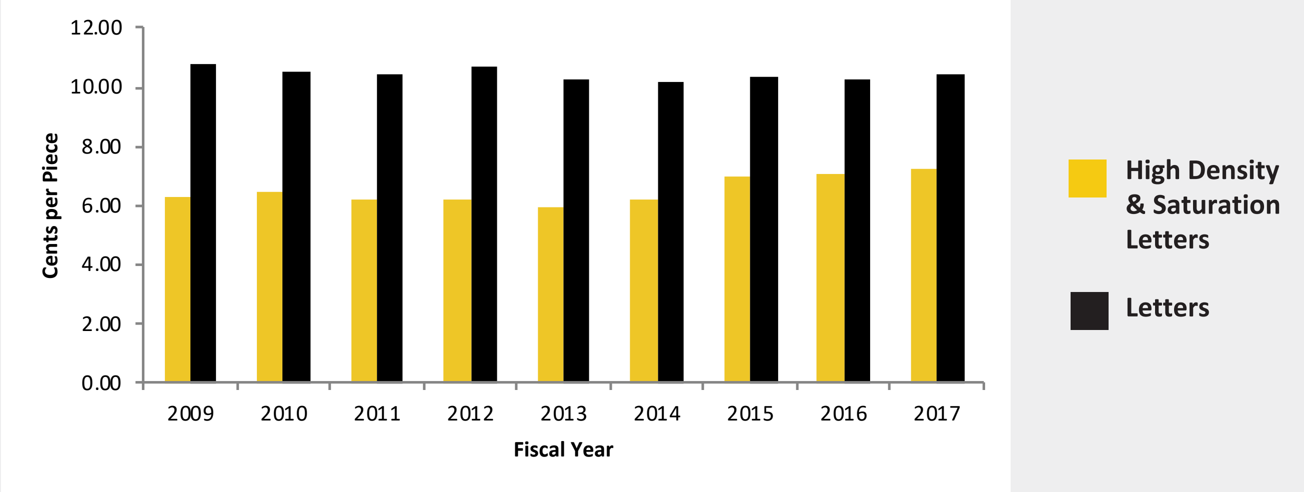
[18] The majority of the former Standard Mail Parcels product was moved to the Competitive product list, and the remaining parcel volume comprises only 0.1 percent of total Marketing Mail volume. Consequently, that volume is not discussed separately. *See* Docket No. MC2010-36, Order Conditionally Granting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

**Figure III-10**
**Marketing Mail Letters Volume Percent Change, FY 2008 – FY 2017**




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

**Figure III-11**
**Marketing Mail Letters Average Unit Attributable Cost, FY 2009 – FY 2017**




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

## TRENDS IN MARKETING MAIL LETTERS

As shown in Figure III-10, Marketing Mail Letters volume decreased in FY 2017, after a sizable increase in FY 2016. The decrease in volume is the largest decrease since FY 2012. High Density and Saturation Letters volume increased every year since FY 2012, with the increase in FY 2017 being the smallest from FY 2012 to FY 2017.

As shown in Figure III-11, the average unit attributable cost for Marketing Mail Letters has remained relatively stable since FY 2009. Since FY 2010, annual unit attributable cost changes were less than 0.5 cents. FY 2017 average unit attributable cost for High Density and Saturation Letters increased every year since FY 2012.

**Table III-14**
**Marketing Mail Flat Volume and Revenue, FY 2017 and FY 2016**

| | Mail Volume | | | | Mail Revenue | | | |
|---|---|---|---|---|---|---|---|---|
| | (Millions) FY 2017 | (Millions) FY 2016 | Increase or Decrease | Percent Change | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change |
| **High Density & Saturation Flats/Parcels** | 11,252 | 11,101 | 151 | 1.4% | 1,989 | 2,021 | (32) | -1.6% |
| **Carrier Route** | 7,297 | 6,783 | 514 | 7.6% | 1,903 | 1,831 | 72 | 3.9% |
| **Flats** | 4,955 | 6,340 | (1,386) | -21.9% | 1,906 | 2,380 | (475) | -20.0% |
| **Every Door Direct Mail - Retail** | 758 | 810 | (52) | -6.4% | 134 | 146 | (12) | -8.0% |
| **Total** | **24,262** | **25,034** | **(772)** | **-3.1%** | **5,932** | **6,378** | **(446)** | **-7.0%** |

*Negative values denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1;Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

## MARKETING MAIL FLATS COMPARED WITH FY 2016

Table III-14 summarizes the FY 2017 changes in volume and revenue for flat-shaped Marketing Mail.[19] Volume declined for Flats and EDDM-R and increased for High Density and Saturation Flats/Parcels and Carrier Route flats. The largest changes from FY 2016 were for Flats and Carrier Route flats due to a change in pricing structure.

On May 31, 2015, the Postal Service introduced new price categories for Marketing Mail Flats pieces destined for Flats Sequencing System (FSS) zones.[20] The Postal Service intended to provide pricing signals that better reflected the mail processing costs of FSS preparation. For Marketing Mail, the new FSS rates were developed by blending Carrier Route prices and presorted 5-Digit/3-Digit prices, using the proportion of FSS volumes mailed in each price category.

In Docket No. R2017-1, the Postal Service sought to reverse the changes to the pricing structure of flat-shaped mail due to unintended consequences affecting certain categories. Many mailers who previously paid Carrier Route rates for their FSS volume experienced an above-average price increase after the new rates were implemented on May 31, 2015.

[19] Some products include parcels, however those products contain predominantly flat-shaped mailpieces.
[20] Similar price categories were also introduced for flat-shaped Bound Printed Matter (BPM) and Periodicals. Docket No. R2015-4, Order on Revised Price Adjustments for Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, May 7, 2015 (Order No. 2472)

The Postal Service explained that after the change in price structure, "FSS volume declined more quickly than the volume in other categories of flat-shaped mail." The Commission approved a Market Dominant price adjustment that reversed the change in pricing structure.[21]

The FY 2016 volume data for Marketing Mail flats showed a large decrease in Carrier Route flats volume and a large increase in Marketing Mail Flats volume. By returning to the original pricing structure, substantial Flats volume migrated back to Carrier Route flats.

The 21.9 percent decrease in Flats volume resulted in a 20.0 percent decrease in revenue. Carrier Route revenue increased in FY 2017, but only by a fraction of the decrease in Flats revenue. Total revenue for flat-shaped Marketing Mail decreased in FY 2017, due to both the shift in volume and the expiration of the exigent surcharge in FY 2016. The loss of volume also contributed to the reduction of revenue.

Total attributable cost for flat-shaped Marketing Mail decreased slightly in FY 2017, despite an increase in the attributable cost for High Density and Saturation Flats/Parcels, and Carrier Route. Average unit attributable cost for flats remained nearly unchanged from FY 2016, mostly due to the large decrease in the volume of Flats, which have the highest unit attributable cost of all flat-shaped Marketing Mail products.

## TRENDS IN MARKETING MAIL FLATS

Total volume for flat-shaped Marketing Mail continued to decline in FY 2017, decreasing by nearly 30 percent since FY 2009. As shown in Figure III-12, volume changes for Marketing Mail Flats and Carrier Route flats in FY 2016 and FY 2017 are substantially larger than previous volume changes for these categories. As previously discussed, changes to the pricing structure were responsible for volume moving from Carrier Route to Flats and back again. Since FY 2012, volume changes for High Density and Saturation Flats/Parcels remained relatively small.

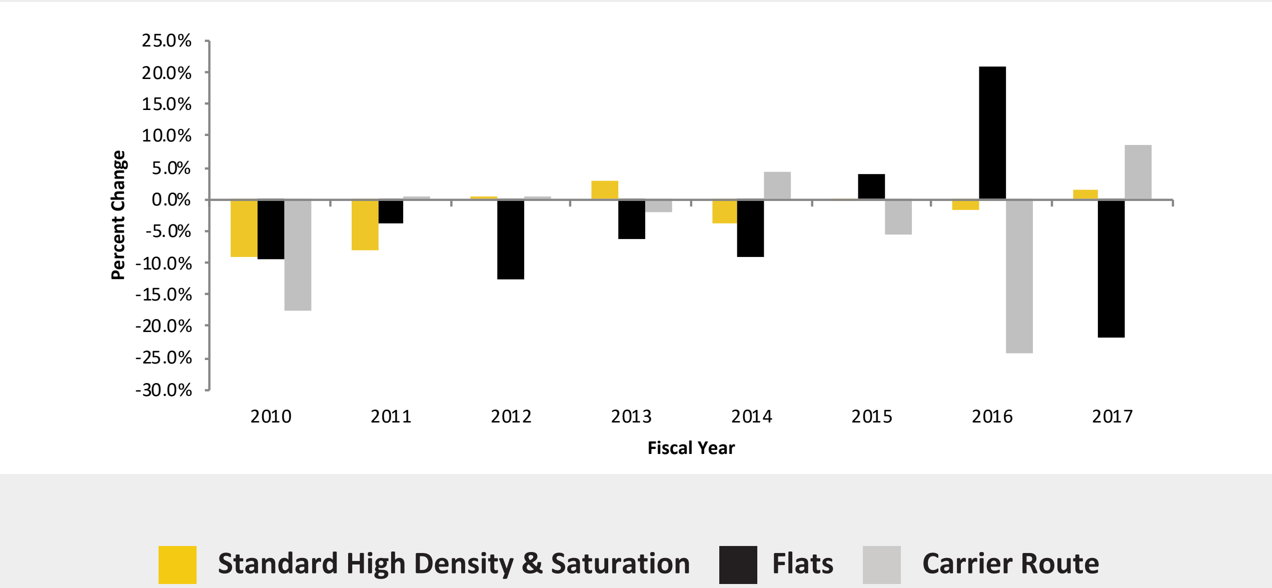
**Table III-15**
**Marketing Mail Flats Attributable Costs and Average Unit Attributable Cost, FY 2017 and FY 2016**

| | Attributable Cost | | | | Unit Attributable Cost | | | |
|---|---|---|---|---|---|---|---|---|
| | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change | (Cents per Piece) FY 2017 | (Cents per Piece) FY 2016 | Increase or Decrease | Percent Change |
| **High Density & Saturation Flats/Parcels** | 1,263 | 1,197 | 66 | 5.5% | 11.2 | 10.8 | 0.4 | 4.1% |
| **Carrier Route** | 1,531 | 1,331 | 200 | 15.0% | 21.0 | 19.6 | 1.4 | 6.9% |
| **Flats** | 2,574 | 2,985 | (410) | -13.7% | 52.0 | 47.1 | 4.9 | 10.4% |
| **Every Door Direct Mail - Retail** | 50 | 54 | (4) | -7.5% | 6.6 | 6.7 | (0.1) | -1.1% |
| **Total** | **5,418** | **5,567** | **(149)** | **-2.7%** | **22.3** | **22.2** | **0.1** | **0.4%** |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

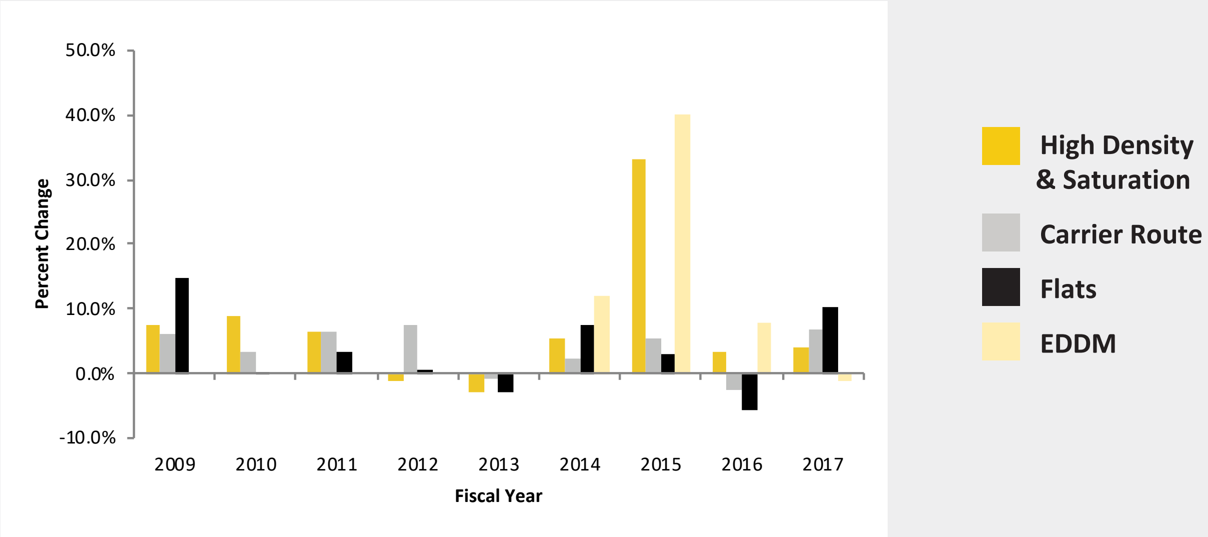
[21] Docket No. R2017-1, Order on Price Adjustments for First-Class Mail, Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, November 15, 2016 (Order No. 3610).

**Figure III-12**
**Marketing Mail Flats Percent Change in Volume, FY 2010 – FY 2017**




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

**Figure III-13**
**Marketing Mail Flats Percent Change in VVPPS Cost, FY 2009 – FY 2017**




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

The average unit attributable cost of each flat-shaped Marketing Mail product has increased significantly over the last nine years. The annual changes in average unit attributable cost are illustrated in Figure III-13. Since FY 2008, the average unit attributable cost has increased 33.7 percent for Flats, 39.6 percent for Carrier Route, and 80.5 percent for High Density and Saturation Flats.

Table III-16 compares the change in the average unit VVPPS cost by cost segment or component between FY 2016 and FY 2017. Mail processing unit cost increased for all Marketing Mail flats except for EDDM-R. EDDM-R unit costs tend to vary significantly from year to year, most likely due to the few IOCS tallies for this low-volume category of Marketing Mail that requires very little in-office handling. City carrier in-office unit costs increased for all categories of flat-shaped Marketing Mail except High Density and Saturation Flats/Parcels. For High Density and Saturation Flats/Parcels, Flats, and EDDM the city carrier street unit cost increased, while the rural carrier unit cost decreased. Carrier Route flats exhibited the opposite of this pattern.

**Table III-16**
**Change in Standard Flat-Shaped Mail Average Unit VVPPS Cost by Cost Segment, FY 2017 and FY 2016**

| | High Density & Saturation | Carrier Route | Flats | EDDM |
|---|---|---|---|---|
| **Mail Processing** | | | | |
| **FY 2017** | 1.2797 | 6.2086 | 27.8954 | 0.0718 |
| **FY 2016** | 1.2011 | 5.0007 | 25.7396 | 0.1251 |
| **% Change** | **6.5%** | **24.2%** | **8.4%** | **-42.6%** |
| **City Carrier In-Office** | | | | |
| **FY 2017** | 1.2983 | 5.6614 | 10.8220 | 1.2623 |
| **FY 2016** | 1.1343 | 5.5438 | 8.8783 | 1.1001 |
| **% Change** | **-12.6%** | **2.1%** | **21.9%** | **14.7%** |
| **City Carrier Street** | | | | |
| **FY 2017** | 4.7631 | 4.0644 | 5.5164 | 4.2718 |
| **FY 2016** | 4.9163 | 3.3338 | 6.0793 | 4.4585 |
| **% Change** | **3.2%** | **-18.0%** | **10.2%** | **4.4%** |
| **Rural Carriers** | | | | |
| **FY 2017** | 3.1156 | 3.5998 | 2.9040 | 0.5043 |
| **FY 2016** | 2.8599 | 4.0477 | 2.3563 | 0.4720 |
| **% Change** | **-8.2%** | **12.4%** | **-18.9%** | **-6.4%** |

*Source: The Postal Regulatory Commission derived from Library Reference USPS-FY17-24; Docket No. ACR2016, Library Reference USPS-FY16-24.*

## Periodicals

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

### PERIODICALS COMPARED WITH FY 2016

Table III-17 summarizes the FY 2017 changes in volume and revenue for Periodicals. In FY 2017, Periodicals volume declined by 285 million pieces, or 5.1 percent, with most of the decrease occurring in Outside County publications. In FY 2017, the rate of decrease in volume exceeded that of FY 2016. As with Marketing Mail Flats, the change in the rate structure introduced May 31, 2015, and its reversal, may have impacted the volume of mail in the two Periodicals categories. In FY 2016, Outside County volume dropped by a greater percentage than In-County; in FY 2017, it was the reverse. Total revenue for Periodicals declined 8.8 percent in FY 2017. The loss in revenue is due to volume losses, as well as the decrease in prices due to the expiration of the exigent surcharge.

Table III-18 compares Periodicals total attributable cost and average unit attributable cost for FY 2016 and FY 2017. Total Periodicals attributable cost decreased by $54 million, or 2.6 percent. Most of the decrease occurred in Outside County; In-County cost decreased by the same percentage from FY 2016 as Outside County but its volume was significantly lower. The average unit attributable cost for In-County and Outside County grew 0.6 percent and 2.8 percent, respectively.

**Table III-17**
**Periodicals Volume and Revenue, FY 2017 and FY 2016**

| | Mail Volume | | | | Mail Revenue | | | |
|---|---|---|---|---|---|---|---|---|
| | (Millions) FY 2017 | (Millions) FY 2016 | Increase or Decrease | Percent Change | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change |
| **In-County** | 516 | 534 | (18) | -3.3% | 58 | 62 | (4) | -6.0% |
| **Outside County** | 4,784 | 5,052 | (268) | -5.3% | 1,317 | 1,445 | (128) | -8.9% |
| **Total** | **5,301** | **5,586** | **(285)** | **-5.1%** | **1,375** | **1,507** | **(132)** | **-8.8%** |

*Negative values are denoted by ().*

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

**Table III-18**
**Periodicals Attributable and Average Unit Attributable Cost, FY 2017 and FY 2016**

| | Attributable Cost | | | | Unit Attributable Cost | | | |
|---|---|---|---|---|---|---|---|---|
| | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change | (Cents per Piece) FY 2017 | (Cents per Piece) FY 2016 | Increase or Decrease | Percent Change |
| **In-County** | 85 | 87 | (2) | -2.7% | 16.4 | 16.3 | 0.1 | 0.6% |
| **Outside County** | 1,898 | 1,950 | (52) | -2.7% | 39.7 | 38.6 | 1.1 | 2.8% |
| **Total** | **1,983** | **2,037** | **(54)** | **-2.6%** | **37.4** | **36.5** | **0.9** | **2.6%** |

*Negative values are denoted by ().*

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

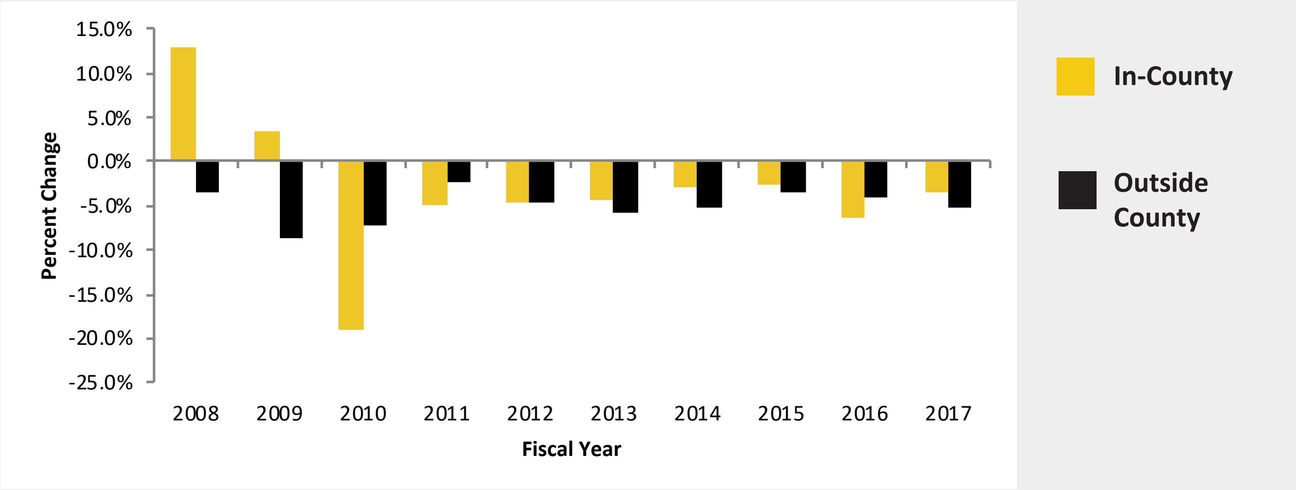
## TRENDS IN PERIODICALS

As shown in Figure III-14, Periodicals volume has continued to decline, in large part due to the availability of electronic alternatives. The decline in FY 2017 is similar to the declines seen in recent years.

The percentage change in the average unit attributable cost for In-County and Outside County Periodicals is shown in Figure III-15. Both In-County and Outside County average unit attributable cost increased during each of the past four fiscal years. With the exception of FY 2013, the average unit attributable cost for Outside County has increased each year since FY 2008. The changes in average unit attributable cost of In-County Periodicals have been more erratic from FY 2008 to FY 2017.

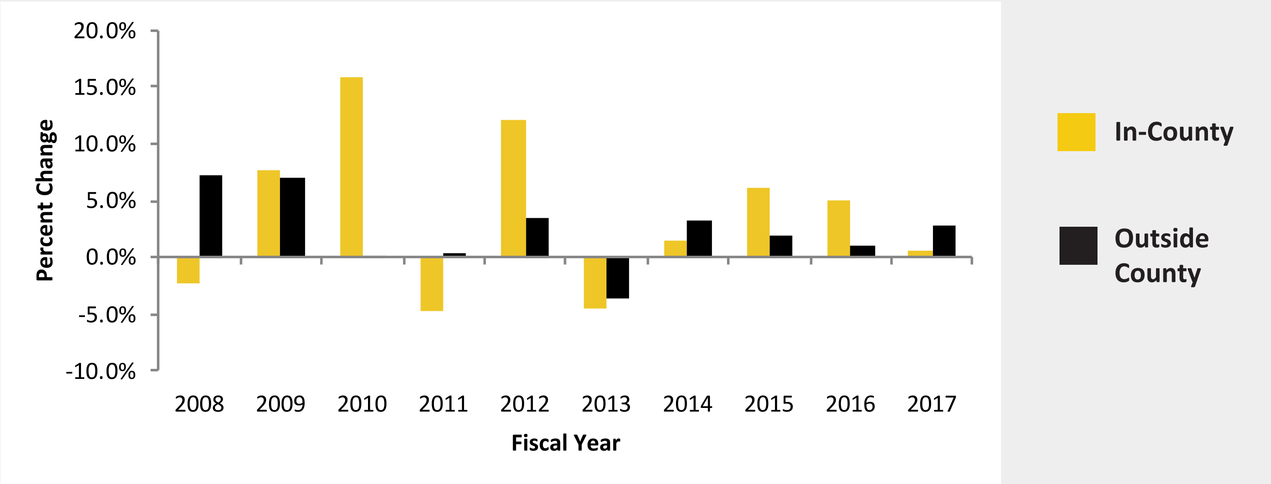
Table III-19 disaggregates the average unit attributable cost of Outside County Periodicals for FY 2015 to FY 2017. As shown in the table, the average unit city carrier in-office cost increased substantially in FY 2017. Unit transportation cost decreased 23.2 percent after an 8.0 percent increase the year before, primarily due to a reduction in highway transportation cost.

**Figure III-14**
**Periodicals Percent Change in Volume, FY 2008 – FY 2017**




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

**Figure III-15**
**Periodicals Percent Change in Average Unit Attributable Cost, FY 2008 – FY 2017**




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

**Table III-19**
**Outside County Periodicals Average Unit VVPPS Cost by Segment, FY 2015 – FY 2017**

| | Average Unit Attributable Cost | | | Change in Average Unit Attributable Cost | |
|---|---|---|---|---|---|
| **Cost Segment** | **2015** | **2016** | **2017** | **2016** | **2017** |
| **Mail Processing** | 18.89 | 19.09 | 20.19 | 1.1% | 5.8% |
| **City Carrier In-Office** | 6.30 | 6.14 | 6.76 | -2.5% | 10.1% |
| **City Carrrier Street** | 3.78 | 4.09 | 4.10 | 8.2% | 0.2% |
| **Rural Carriers** | 3.35 | 3.36 | 3.55 | 0.3% | 5.7% |
| **Transportation** | 4.31 | 4.65 | 3.57 | 8.0% | -23.2% |
| **All Other** | 1.43 | 1.28 | 1.40 | -10.5% | 9.4% |

*Source: The Postal Regulatory Commission derived from Postal Service Cost Segment and Component Reports, FY 2015 to FY 2017.*

**Table III-20**
**Package Services Volume and Revenue, FY 2017 and FY 2016**

| | Mail Volume | | | | Mail Revenue | | | |
|---|---|---|---|---|---|---|---|---|
| | (Millions) FY 2017 | (Millions) FY 2016 | Increase or Decrease | Percent Change | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change |
| Alaska Bypass | 1 | 1 | 0 | 1.8% | 34 | 34 | 0 | 0.5% |
| Bound Printed Matter Flats | 264 | 265 | (0) | -0.2% | 202 | 210 | (8) | -3.8% |
| Bound Printed Matter Parcels | 278 | 250 | 28 | 11.1% | 299 | 290 | 9 | 3.1% |
| Media Mail/Library Mail | 76 | 75 | 1 | 2.0% | 267 | 267 | 1 | 0.2% |
| **Total** | **620** | **591** | **29** | **4.9%** | **801** | **799** | **2** | **0.2%** |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

## Package Services

The Package Services class consists of four products: Alaska Bypass Service; Bound Printed Matter (BPM) Flats; Bound Printed Matter (BPM) Parcels; and Media Mail/Library Mail.

Table III-20 summarizes the FY 2017 changes in volume and revenue for Package Services. Overall, Package Services volume increased 4.9 percent in FY 2017. With the exception of BPM Flats, volumes of Package Service products were higher compared with FY 2016. The volume of BPM Flats remained unchanged.

Of the four Package Service products, only BPM Flats revenue declined compared with FY 2016. The revenue increases for the other products were small, with BPM Parcels increasing the most at 3.1 percent.

As shown in Table III-21, attributable cost for Package Services decreased for all but one category compared with FY 2016. For FY 2017, BPM Flats attributable cost increased 1.5 percent, and 1.7 percent on a unit basis. The attributable cost of BPM Parcels and Media Mail/Library Mail decreased relatively modestly, however due to the growth in volume, on a unit basis the decreases were more sizable, 12.1 percent and 2.4 percent, respectively. Alaska Bypass Service cost, which consists entirely of Cost Segment 14 transportation, decreased 11.6 percent in the aggregate and 13.2 percent on a unit basis.

Table III-22 shows the FY 2017 percent change in VVPPS unit cost for selected cost segments. As shown in the table, BPM Flats unit costs increased for mail processing activities including city carrier in-office cost and rural carrier delivery cost. The largest percentage decrease in VVPPS unit cost was in transportation, with vehicle service driver costs a close second. In total, VVPPS unit costs for BPM Flats increased by 1.7 percent.

The unit cost for BPM Parcels decreased by 2.3 percent in FY 2017. For this product, transportation VVPPS unit cost decreased 30.6 percent, the largest decrease of any segment. Conversely, VVPPS unit costs for delivery activities increased, as did city carrier in-office cost and vehicle service driver cost. The overall unit cost of Media Mail/Library Mail decreased slightly in FY 2017, with sizeable VVPPS unit cost decreases in city carrier in-office cost, transportation cost and rural carrier delivery cost offsetting the large increases in other segments and components.

**Table III-21**
**Package Services Attributable Costs and Average Unit Attributable Cost, FY 2017 and FY 2016**

| | Attributable Cost | | | | Unit Attributable Cost | | | |
|---|---|---|---|---|---|---|---|---|
| | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change | (Cents per Piece) FY 2017 | (Cents per Piece) FY 2016 | Increase or Decrease | Percent Change |
| Alaska Bypass | 17 | 20 | (2) | -11.6% | 1,334.7 | 1,537.7 | (203.0) | -13.2% |
| Bound Printed Matter Flats | 133 | 131 | 2 | 1.5% | 50.1 | 49.3 | 0.8 | 1.7% |
| Bound Printed Matter Parcels | 270 | 277 | (7) | -2.4% | 97.4 | 110.8 | (13.4) | -12.1% |
| Media/Library Mail | 353 | 354 | (2) | -0.5% | 461.1 | 472.5 | (11.4) | -2.4% |
| **Total** | **774** | **781** | **(8)** | **-1.0%** | **124.8** | **132.2** | **(7.4)** | **-5.6%** |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

**Table III-22**
**Package Services Percent Change in Average Unit VVPPS Cost by Segment and Component, FY 2017**

| | BPM Flats | BPM Parcels | Media Mail/ Library Mail |
|---|---|---|---|
| Mail Processing | 3.0% | -13.8% | 4.2% |
| City Carrier In-Office | 19.3% | 14.2% | -35.9% |
| City Carrier Street | -1.9% | 38.3% | 24.2% |
| Vehicle Service Driv. | -11.8% | -22.6% | 14.5% |
| Rural Carriers | 6.3% | 3.3% | -3.0% |
| Motor Vehicle Service | -1.6% | 19.3% | 12.8% |
| Transportation | -12.6% | -30.6% | -19.4% |
| All Other | -49.1% | 25.9% | -1.0% |
| **Total Volume Variable plus Product Specific Cost** | **1.7%** | **-2.3%** | **-2.6%** |

*Source: The Postal Regulatory Commission derived from Library Reference USPS-FY17-31; Docket No. ACR2016, Library Reference USPS-FY16-31.*

## Market Dominant Special Services

The Special Services class consists of 11 products: 8 domestic products and 3 international products. Three Special Services products, Ancillary Services,[22] Address Management Services, and International Ancillary Services include a number of distinctive services.

Special Services include Certified Mail, Insurance, Money Orders, Post Office Box, and other services that enhance Market Dominant products. As shown in Table III-23, total revenue for Special Services declined $36 million in FY 2017. With the exception of COD and Stamped Envelopes and Cards, revenue decreased for all special services.

Table III-24, shows that attributable cost for Special Services increased $122 million in FY 2017, following a $42 million increase in FY 2016. The increase in attributable cost is primarily due to increases in attributable cost for Money Orders and Certified Mail service of $40 million and $38 million, respectively.

**Table III-23**
**Market Dominant Ancillary Services and Special Services Revenue, FY 2017 and FY 2016**

| | Revenue | | | |
|---|---|---|---|---|
| | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change |
| **Certified Mail** | 667 | 670 | (4) | -0.6% |
| **COD** | 4 | 2 | 2 | 105.5% |
| **Insurance** | 74 | 77 | (2) | -3.2% |
| **Registered Mail** | 30 | 32 | (1) | -4.0% |
| **Stamped Envelopes & Cards** | 13 | 10 | 3 | 35.4% |
| **Other Ancillary Services** | 434 | 447 | (14) | -3.0% |
| **Money Orders** | 152 | 157 | (4) | -2.8% |
| **Post Office Box** | 279 | 284 | (5) | -1.9% |
| **Other Services** | 165 | 175 | (11) | -6.1% |
| **Total Services** | **1,818** | **1,854** | **(36)** | **-1.9%** |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

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

**Table III-24**
**Market Dominant Ancillary Services and Special Services Attributable Cost, FY 2017 and FY 2016**

| | Attributable Cost ($ in Millions) | | | |
|---|---|---|---|---|
| | FY 2017 | FY 2016 | Increase or Decrease | Percent Change |
| Certified Mail | 559 | 521 | 38 | 7.2% |
| COD | 3 | 5 | (2) | -47.0% |
| Insurance | 47 | 43 | 4 | 9.5% |
| Registered Mail | 22 | 16 | 6 | 34.6% |
| Stamped Envelopes & Cards | 8 | 10 | (2) | -15.5% |
| Other Ancillary Services | 219 | 207 | 12 | 5.8% |
| Money Orders | 156 | 117 | 40 | 34.0% |
| Post Office Box | 231 | 230 | 1 | 0.5% |
| Other Services | 79 | 77 | 2 | 2.4% |
| **Total Services** | **1,347** | **1,225** | **122** | **9.9%** |

*Negative values are denoted by ().*

*Source: The Postal Regulatory Commission derived from Library Reference USPS-FY17-31; Docket No. ACR2016, Library Reference USPS-FY16-31.*

# Competitive Volume, Revenue, and Cost by Product

Competitive products consist of both domestic and international products. Domestic Competitive products include Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; First-Class Package Service; Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards and Stationery; Competitive Ancillary Services; Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies. There was also a total of 846 Domestic Competitive NSA products in effect during FY 2017.

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 2017, there were also 718 International Outbound NSAs and 12 International Inbound NSAs.

To facilitate comparison, the products have been grouped into several broad categories. Table III-25 summarizes the FY 2017 changes in volume and revenue for Competitive products and services. Total volume for Competitive products increased 13.4 percent in FY 2017, as every category except Priority Mail Express and Competitive International Mail experienced volume growth. The products with the largest increases in volume were First-Class Package Service, which increased 23.6 percent, and ground parcels,[23] which increased 17.3 percent. The increase in First-Class Package Service is due in part to the transfer of single-piece retail parcels from the Market Dominant product list to the First-Class Package Service product on the Competitive product list.[24]

Total Competitive product revenue increased 11.9 percent, or $2.2 billion, in FY 2017. Revenue for every domestic Competitive product except Priority Mail Express increased, with ground parcels and First-Class Package Service providing the bulk of the increase. The relatively high revenue per piece of the transferred single-piece retail parcels contributed to the large increase in First-Class Package Service revenue. The changes in revenue for the other categories are closely related to changes in volume.

**Table III-25**
**Competitive Products Volume and Revenue, FY 2017 and FY 2016**

| | Mail Volume | | | | Mail Revenue | | | |
|---|---|---|---|---|---|---|---|---|
| | (Millions) FY 2017 | (Millions) FY 2016 | Increase or Decrease | Percent Change | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change |
| **Priority Mail Express** | 30 | 33 | (3) | -9.9% | 766 | 809 | (43) | -5.4% |
| **First-Class Package Service** | 960 | 776 | 183 | 23.6% | 2,787 | 2,076 | 711 | 34.3% |
| **Priority Mail** | 1,023 | 1,004 | 19 | 1.9% | 8,340 | 7,785 | 555 | 7.1% |
| **Ground Parcels** | 2,884 | 2,457 | 426 | 17.3% | 6,194 | 5,192 | 1,003 | 19.3% |
| **International** | 207 | 228 | (21) | -9.3% | 1,749 | 1,792 | (42) | -2.4% |
| **Domestic Services** | | | | | 853 | 833 | 20 | 2.4% |
| **Total Competitive** | **5,103** | **4,499** | **604** | **13.4%** | **20,690** | **18,495** | **2,194** | **11.9%** |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

Table III-26 summarizes the FY 2017 changes in attributable cost. Total attributable cost for Competitive products increased 11.2 percent, or approximately $1.4 billion, in FY 2017. The primary reason for the increase in attributable cost is volume growth. Costs were higher in nearly all cost segments and components. The largest increases in attributable costs were in ground parcels and First-Class Package Service. The average unit attributable cost increased for every category except for ground parcels. However, with ground parcels comprising 56.5 percent of total Competitive volume, the average unit attributable cost of Competitive products as a whole decreased by 2.0 percent.

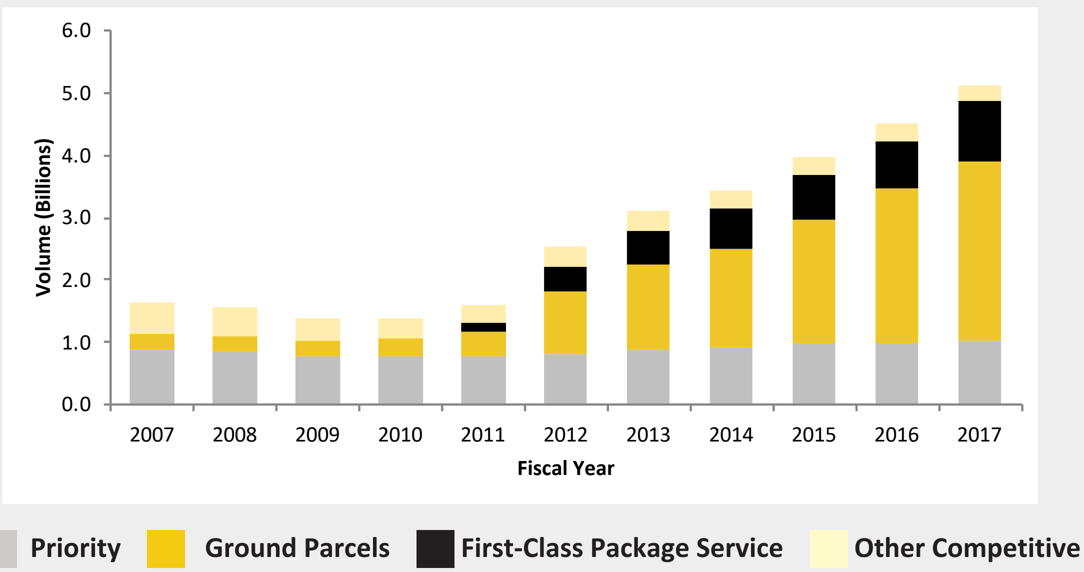
[23] Ground parcels include Standard Post, Parcel Select, and Parcel Return Service.
[24] Docket No. MC2015-7, Order Conditionally Approving Transfer, July 20, 2017 (Order No. 4009).

Table III-26
Competitive Products Attributable Costs, FY 2017 and FY 2016

| | Attributable Cost | | | | Unit Attributable Cost | | | |
|---|---|---|---|---|---|---|---|---|
| | ($ in Millions) FY 2017 | ($ in Millions) FY 2016 | Increase or Decrease | Percent Change | (Cents per Piece) FY 2017 | (Cents per Piece) FY 2016 | Increase or Decrease | Percent Change |
| Priority Mail Express | 329 | 357 | (27.3) | -7.6% | 1,107.0 | 1,079.6 | 27.4 | 2.5% |
| First-Class Package Service | 1,936 | 1,469 | 467.9 | 31.9% | 201.8 | 189.2 | 12.6 | 6.7% |
| Priority Mail | 6,324 | 6,128 | 195.7 | 3.2% | 618.2 | 610.2 | 8.0 | 1.3% |
| Ground Parcels | 3,550 | 3,055 | 495.2 | 16.2% | 123.1 | 124.3 | (1.2) | -1.0% |
| International | 1,053 | 1,049 | 3.9 | 0.4% | 508.1 | 459.2 | 48.8 | 10.6% |
| Domestic Services | 429 | 426 | 3.3 | 0.8% | | | | |
| **Total Competitive** | **13,884** | **12,490** | **1,393.5** | **11.2%** | **272.1** | **277.6** | **(5.5)** | **-2.0%** |

*Negative values are denoted by ().*
*Source: Library Reference PRC-LR-ACR2017/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1.*

Figure III-16
Competitive Volume by Product, FY 2007 – FY 2017




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

## Trends in Competitive Products

Competitive product volume growth has exceeded 10 percent each year since FY 2012. The growth in purchases of retail e-commerce has been the primary driver of volume increases for these products.[25] Figure III-16 highlights the growth in Competitive categories since FY 2007.

[25] Postal Service FY 2017 Form 10-K at 20.

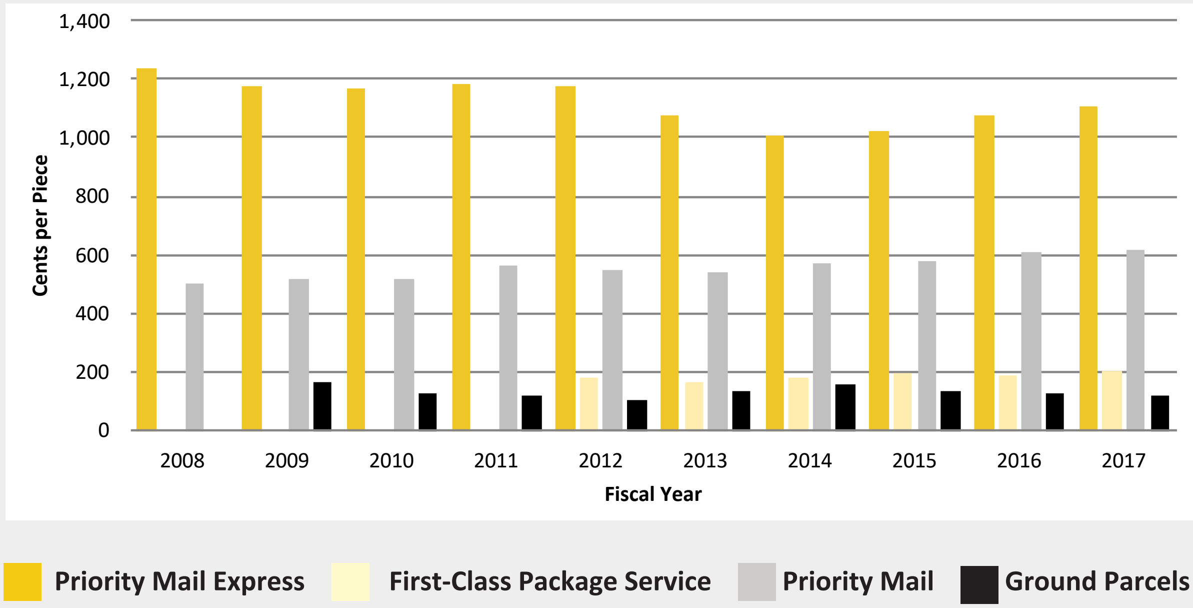
As the volume of Competitive products has grown, so has the attributable cost, which now comprises 33 percent of total attributable cost. This is more than double the percentage of total attributable cost comprised by Competitive products in FY 2008. However, comparing total attributable cost over time is problematic due to mail classification changes that transferred products from the Market Dominant to the Competitive product list. These include the transfer of Commercial First-Class Mail Parcels to a new Lightweight Commercial Parcels category,[26] Marketing Mail lightweight parcels to the Competitive ground parcels category, and single-piece Parcel Post from Market Dominant products to the Competitive Standard Post product. Most recently, First-Class Mail single-piece retail Parcels were transferred to the First-Class Package Services product.

Figure III-17 shows the average unit attributable cost by category from FY 2008 to FY 2017.

Compared with FY 2016, average unit attributable cost increased for all Competitive parcel categories except ground parcels. Figure III-18 shows the percent change in average unit attributable cost by category from FY 2009 to FY 2017. It shows that FY 2012 was the only year in which the unit attributable cost decreased for each of the four categories. Average unit attributable costs for Priority Mail and Priority Mail Express have increased annually since FY 2015. In contrast, the average unit attributable cost of ground parcels decreased for the third year in a row. The average unit attributable cost of First-Class Package Service increased in two of the last three years.

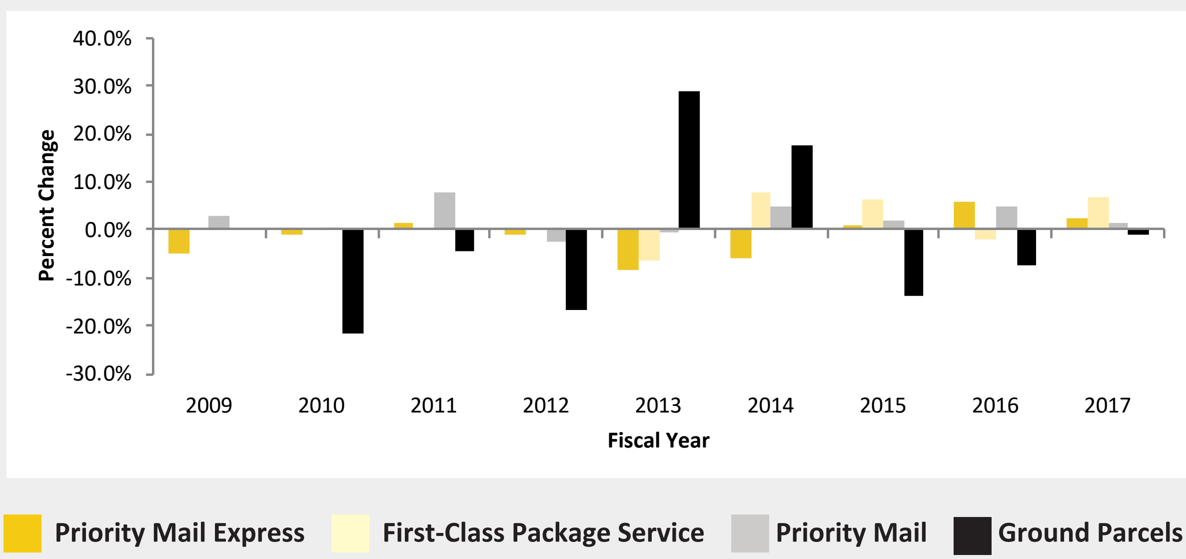
[26] The Postal Service renamed the "Lightweight Commercial Parcels" category to "Commercial First-Class Package Service

**Figure III-17**
**Competitive Average Unit Attributable Cost by Category, FY 2008 – FY 2017**




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

**Figure III-18**
**Competitive Percent Change in Average Unit Attributable Cost by Category, FY 2009 – FY 2017**




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

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PHOTOBYUSPS

# CHAPTER IV

# Sustainability, Liquidity, Activity and Financial Solvency

## Introduction

The financial status of the Postal Service is affected by a combination of environmental, economic, and organizational factors, including the decisions and actions of management and the Postal Service Board of Governors.[1] This chapter analyzes the Postal Service's financial status in terms of sustainability, liquidity, and performance using financial ratios. These ratios provide a concise and systematic way to organize financial data into meaningful information.

[1] The Board of Governors delegated powers needed to provide for continuity of operations to a Temporary Emergency Committee composed of the remaining members of the Board. *See* 79 Fed. Reg. 74780 (December 16, 2014).

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

The Commission acknowledges that financial analyses used in the private sector are not directly applicable to the Postal Service as a Federal Government entity because revenue streams, equity structures, and management incentives differ. Due to the myriad of ways Federal Government entities differ from the private sector, the standard measurements used to assess the financial health of private sector firms generally do not carry the same weight when applied to Federal Government entities. Additionally, in the private sector, stakeholders use financial analysis to make investment and credit decisions, and success is often measured by the company's stock valuation. In contrast, Federal Government entities are mission-oriented and measure success through the provision of service and do not have direct shareholders. Nonetheless, the ratios provide an objective, quantitative measure of an entity's financial health and its ability to satisfy its financial obligations.

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

Comparing ratios for the current fiscal year to previous years and historic averages also provides valuable insight when analyzing past performance and can help identify weaknesses and highlight improvements. This year, the Commission has not included *pro forma* ratios, which exclude the impact of the RHBF prefunding payments. The Commission made this decision because the Postal Service's relationship with the RHBF changed in FY 2017. *See* Chapter 2. In brief, in FY 2017, the Postal Service's obligation shifted from a fixed and accelerated prefunding schedule to the type of retirement expenses typical of retirement plans.

The objectives of this chapter are to:

- Compare and analyze the financial statements over a period of time[2]
- Measure the sustainability and liquidity of the Postal Service
- Analyze the annual growth rate and growth patterns of the Postal Service's income and assets over time through trend analyses
- Analyze the Postal Service's overall financial performance

[1] The Board of Governors delegated powers needed to provide for continuity of operations to a Temporary Emergency Committee composed of the remaining members of the Board. See 79 Fed. Reg. 74780 (December 16, 2014).

[2] Financial statements are analyzed from FY 2006, the fiscal year prior to the enactment of the PAEA, through FY 2017, the most recently audited fiscal year.

## Financial Sustainability Analysis

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

Table IV-1 shows the three sustainability ratios calculated using amounts reported on the Postal Service's Balance Sheets. The table then compares the FY 2017 results with the previous year's value and the historical 10-year average (FY 2007–FY 2016).

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

| Ratios | 9/30/2017 Value | 9/30/2016 Value | Change | Description of Ratio | Postal Service Historic 10-Year Average Value |
|---|---|---|---|---|---|
| **Debt Ratio (Debt to Assets Ratio)** | 3.14 | 3.22 | (0.08) | This ratio is calculated by dividing total liabilities (i.e. long-term and short-term liabilities) by total assets. It shows how much the company relies on debt to finance assets. | 2.13 |
| **Fixed Assets to Net Worth Ratio** | (0.25) | (0.27) | 0.02 | This ratio indicates the extent to which the entity's cash is frozen in the form of fixed assets, such as property, plant, and equipment. | (0.18) |
| **Current Liability Ratio** | 0.72 | 0.67 | 0.05 | This ratio is calculated by dividing current liabilities by total (i.e. current and noncurrent) liabilities. | 0.56 |

*Negative values are denoted by (). Numbers may not add across due to rounding.*
*Source: USPS FY 2017 Form 10-K Statement at 46.*

### DEBT RATIO

Debt ratio is the amount of debt the entity has on its Balance Sheets compared to its assets. Debt ratio is one of the primary ratios used to assess financial stability. The higher the ratio, the greater the risk that the entity's debt level may impede its ability to effectively respond to challenges and opportunities. A low debt ratio indicates assets are available to secure future financing to grow operations with little or no financial risk.

The ratio generally indicates the relationship between two main sources of capital: equity and borrowed capital. It generally calculates the relationship between liabilities and overall capital (*i.e.*, the sum of equity and liabilities). As it pertains to the Postal Service, the debt ratio provides information about the Postal Service's ability to absorb reductions in asset value that may arise from the sale, disposition, or depreciation of assets.

At the end of FY 2017, the debt ratio for the Postal Service decreased to 3.14, from the 3.22 debt ratio for FY 2016. The Postal Service's FY 2017 debt ratio of 3.14 was higher than the average 10-year debt ratio of 2.13. The ratio indicates that the Postal Service does not possess sufficient capital. This lack of sufficient capital is highly relevant in light of the fact that the Postal Service has maximized its statutory borrowing capacity.

The slight improvement in the value of the ratio for FY 2017 is due to total assets, primarily cash, increasing at a greater percentage rate than total liabilities. The combined accrual of amortization for unpaid retirement obligations, RHB normal costs, and the reduction in long-term workers' compensation obligations are lower than the defaulted statutory prefunding into the RHBF that occurred in the prior year. To reduce its debt ratio to historic averages, the Postal Service would have to increase either its current cash position, investments in capital assets, or both, and reduce its obligations.

## FIXED ASSET TO NET WORTH RATIO

The fixed asset to net worth ratio analyzes fixed assets as a percentage of net worth to determine liquidity. Net worth is the residual amount representing the excess of an entity's assets over its liabilities. The Postal Service's fixed assets consist primarily of buildings and equipment which cannot be easily converted into cash.

The Postal Service accumulated deficits in excess of its fixed assets, which results in a negative fixed asset to net worth ratio. This signifies an inability to rapidly respond to financial emergencies or easily obtain cash for further investment and growth.

As shown in Table IV-1, the ratio improved slightly over the prior year, but remained negative in FY 2017. Accumulated net deficits from the continuous total net losses impacted the value of this ratio as the amount of fixed assets has remained relatively unchanged due to lack of capital investments.

## CURRENT LIABILITY RATIO

The current liability ratio is a useful measurement when reviewing an entity's debt structure as it indicates the percentage of current debt required to be paid within 1 year. As of September 30, 2017, the Postal Service's short-term liabilities were 71.8 percent of total liabilities, an increase of 4.5 percentage points from the prior year. An increasing current liability ratio value is generally a sign of financial pressure because it indicates growth in the proportion total liabilities that must be paid within one year.

The accrual of the unpaid retirement amortization, statutory RHBF prefunding, and RHB normal cost payments are included in current obligations, and account for the vast majority of current liabilities. Current liabilities include $33.9 billion in unpaid statutory prefunding to the RHBF, $3.6 billion in amortization of unfunded retirement obligations, $3.3 billion in RHB normal cost, and $10.1 billion of the $15.0 billion in outstanding debt.

## Financial Liquidity Analysis

Liquidity-related ratios focus on working capital and are one of the most widespread indicators of an entity's solvency.[3] There are three liquidity-related ratios: current ratio, quick ratio, and cash ratio. These ratios supplement the Statement of Operations and Statement of Cash Flows and are a measure of an entity's ability to pay short-term obligations. The values of the three ratios for the Postal Service are shown in Table IV-2.

**Table IV-2**
**Liquidity Ratio Analysis of Postal Service Financial Statement**

| Ratios | 9/30/2017 Value | 9/30/2016 Value | Change | Description of Ratio | Postal Service Historic 10-Year Average Value |
|---|---|---|---|---|---|
| **Current Ratio** | 0.20 | 0.17 | 0.03 | This ratio is calculated by dividing current assets by current liabilities. It indicates an entity's ability to meet short term debt obligations. | 0.16 |
| **Quick Ratio** | 0.19 | 0.17 | 0.02 | This ratio is calculated by dividing liquid assets (cash, cash equivalents and short term investments, current receivables) by current liabilities. It is a measure of an entity's ability to meet its short term obligations using its most liquid assets (near cash or quick assets). | 0.15 |
| **Cash Ratio** | 0.17 | 0.15 | 0.02 | This ratio is calculated by dividing absolute liquid assets (cash, cash equivalents and short-term investments) by current liabilities. | 0.11 |

*Negative values are denoted by (). Numbers may not add across due to rounding.*

*Source: USPS FY 2017 Form 10-K Statement at 46.*

[3] See Jamie Pratt, *Financial Accounting in an Economic Context*, 246 part 3 (8th ed. 2011) stating that "Dun & Bradstreet, a widely used service that rates the creditworthiness of a large number of U.S. businesses, includes both the current ratio and the quick ratio as solvency measures" and "Working capital, the current ratio and the quick ratio are also used by auditors. For example, an AICPA list of 'red flags' alerting auditors to possible management fraud includes 'inadequate working capital.'"

## 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.

At the end of FY 2017, the current ratio was 0.20. That level is an improvement of 0.03 from the end of the prior fiscal year. This is also an improvement over the 10-year historic average reflecting the yearly increase in the cash balance. Accrual of the current fiscal year's defaulted payment for amortization of unfunded retirement obligations and the RHB normal cost increased current liabilities by 13.2 percent. At the same time, the Postal Service's current assets increased by 26.8 percent, primarily due to the increase in cash and cash equivalents.

## QUICK RATIO

The quick ratio is an indication of the liquidity of the entity and reflects whether sufficient funds are available to meet short-term obligations to creditors. At the close of FY 2017, the quick ratio equaled 0.19, an increase of 0.02 from FY 2016 and 0.04 above the 10-year historic average. This is a positive sign, as it indicates that the Postal Service's cash and accounts receivables increased at a faster rate than its current liabilities.

## CASH RATIO

The cash ratio measures the amount of cash, cash equivalents, or short-term investments available to cover current liabilities. The cash ratio is calculated by dividing total liquid assets by current liabilities.

The FY 2017 cash ratio was 0.17—an improvement over FY 2016 and the 10-year historic average—but as with the current ratio and quick ratio, the cash ratio indicates that the Postal Service does not have enough cash and/or cash equivalents (the most liquid assets) to meet all current liabilities.

The improved liquidity-related ratios were largely a result of the increased amount of cash on hand held by the Postal Service. Although there is improvement in the Postal Service's liquidity ratios, as discussed in the next section, its working capital has deteriorated.

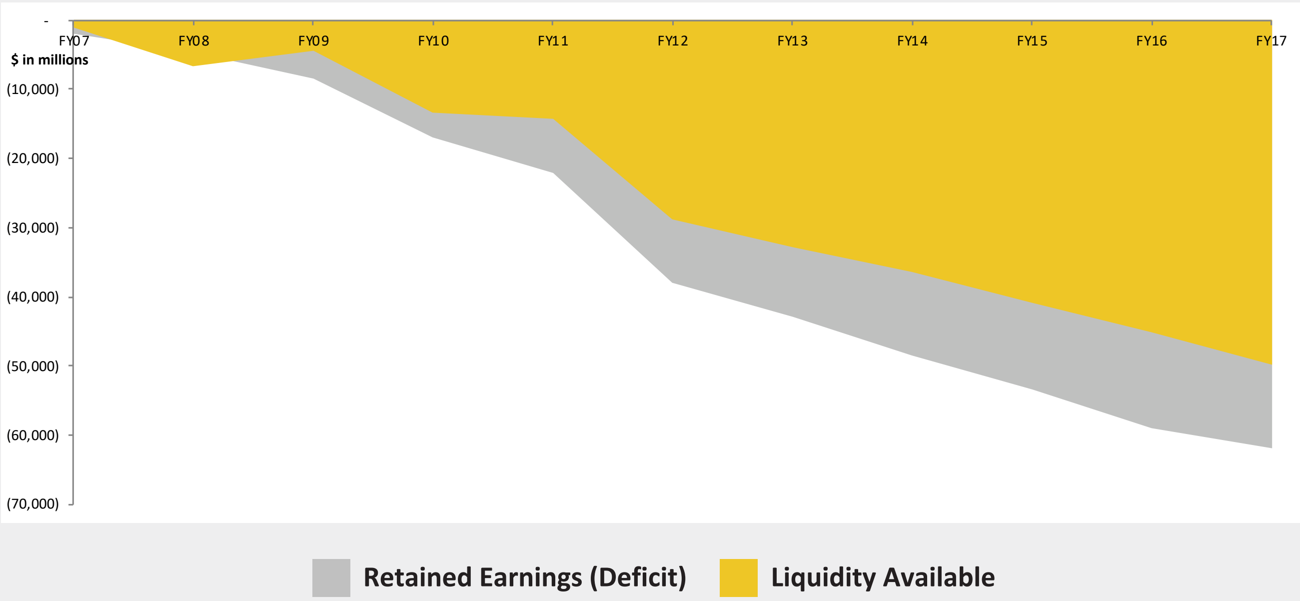
## WORKING CAPITAL ANALYSIS

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

The Postal Service had no working capital at the end of FY 2017. The Postal Service's FY 2017 working capital was negative $49.8 billion. The net deterioration of $4.7 billion in working capital from the prior fiscal year was largely due to the growth in employee-related liabilities, including the accruals for payments for retirement obligations.

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

**Figure IV-1**
**Postal Service Liquidity and Retained Deficit Trends Since FY 2007**




*Source: Postal Service FY 2007 to FY 2017 Forms 10-K and USPS Annual Reports.*

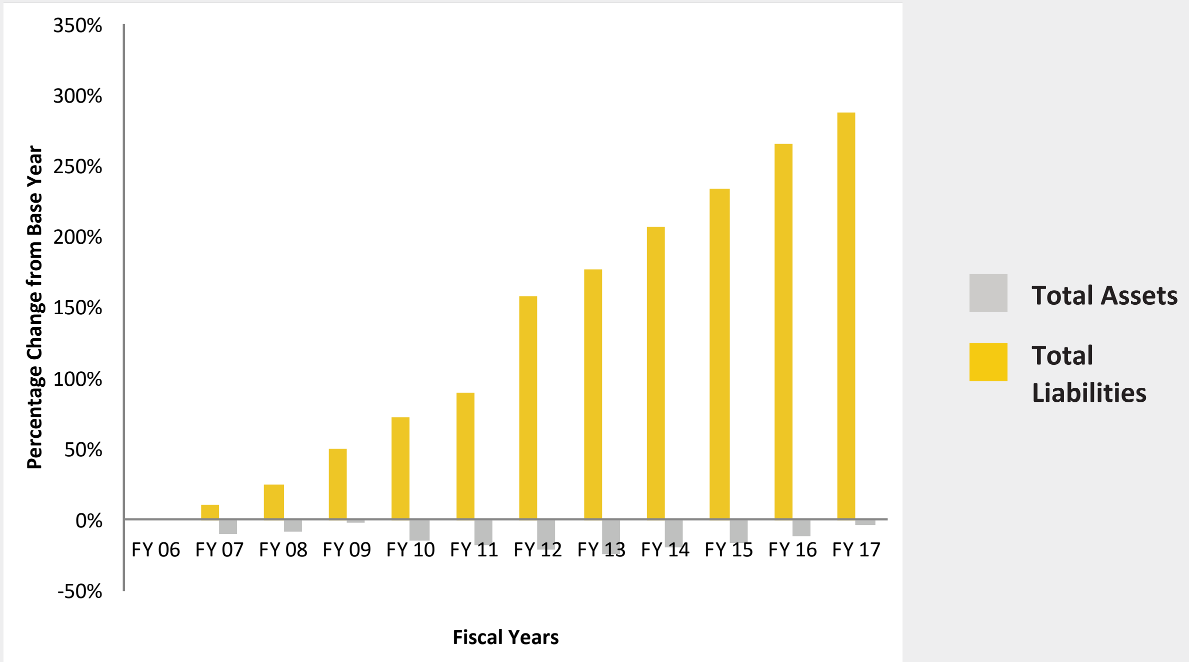
## Financial Activity Analysis

### TREND ANALYSIS

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

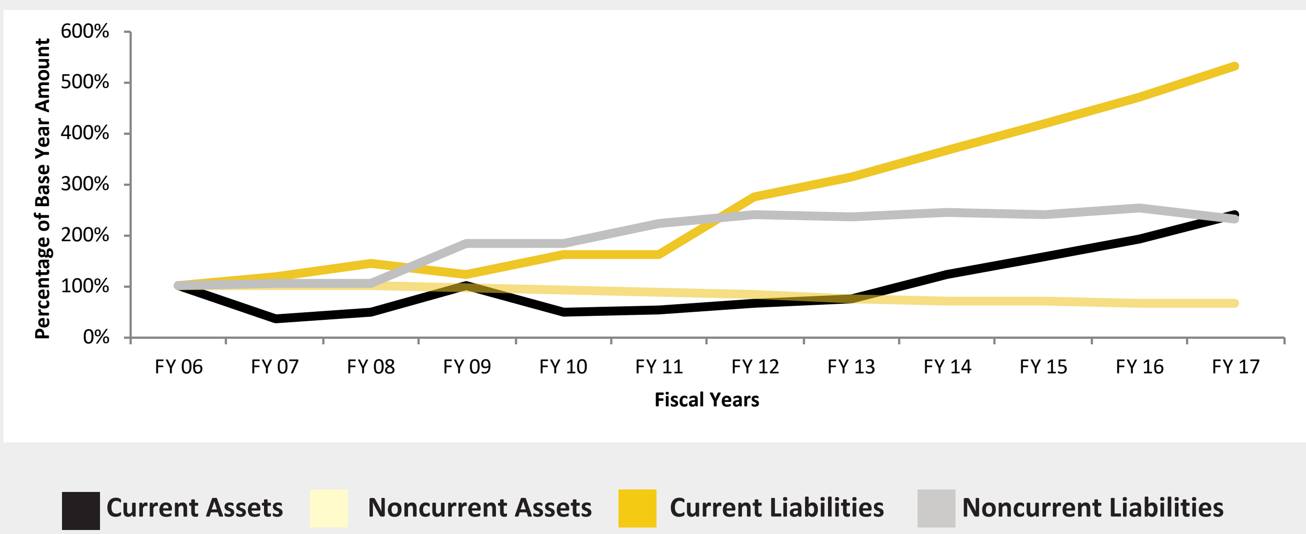
The value of the Postal Service's assets began declining in FY 2007 and continued to decline through FY 2013, with a slight improvement in FY 2009 and the last four fiscal years. Current assets (primarily cash and cash equivalents) increased from the base year as the safety net of available borrowing was depleted. After taking depreciation into account, FY 2017 net property, plant, and equipment values decreased 35.5 percent from the base year. This is primarily due to reduced capital investments and because fully-depreciated assets have not been replaced.

**Figure IV-2**
**Change in Assets and Liabilities Since FY 2006**



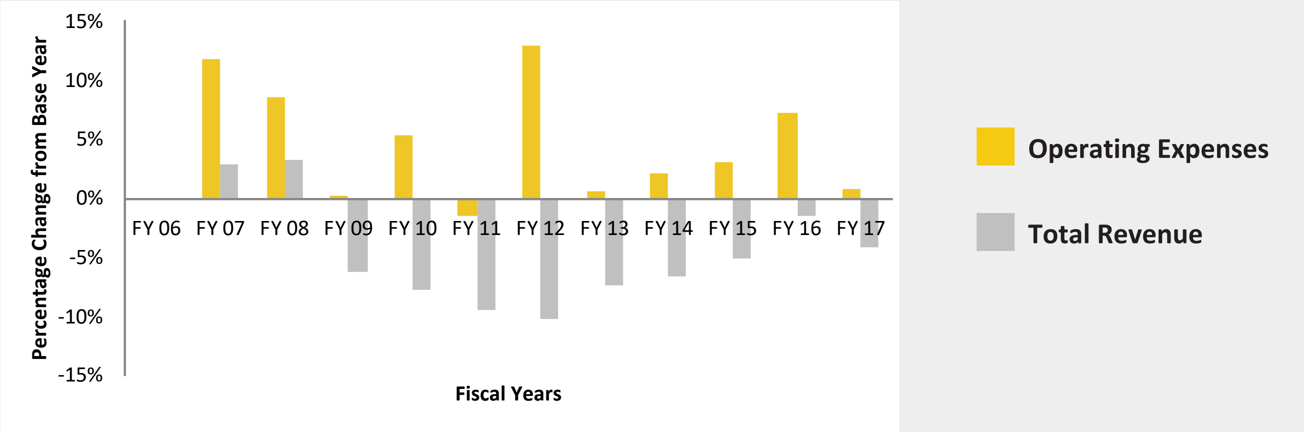

*Source: Postal Service FY 2006 to FY 2017 Forms 10-K and USPS Annual Reports.*

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




*Source: Postal Service FY 2006 to FY 2017 Forms 10-K and USPS Annual Reports.*

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




*Source: Postal Service FY 2006 to FY 2017 Forms 10-K and USPS Annual Reports.*

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

Conversely, total liabilities have risen steadily since the base year (FY 2006). The Postal Service's total liabilities in FY 2017 were nearly four times higher than those in the base year.

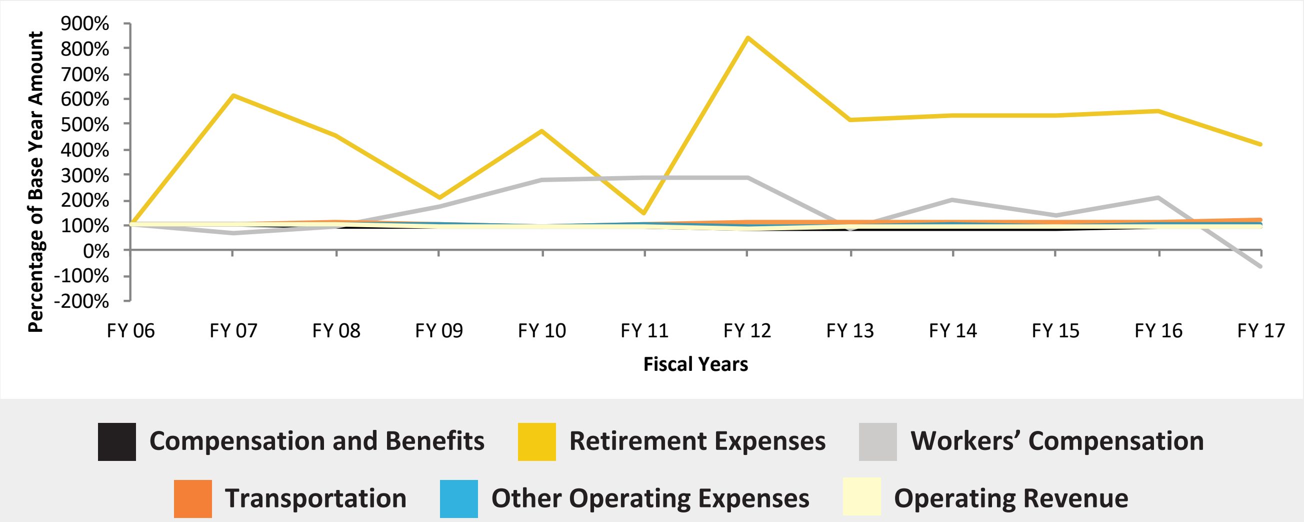
Figure IV-3 shows that current and noncurrent liabilities trended upwards from the base year, largely due to increasing balances in employee-related liabilities such as statutory retirement payments and future workers' compensation obligations. The increase in current assets, comprised primarily of cash and cash equivalents, is insignificant when compared to the trend in current liabilities. Noncurrent assets, consisting largely of property and equipment, held relatively flat with a slight downward trend reflecting limited capital spending and depreciating fixed assets. Figure IV-3 shows that at the end of FY 2017, the value of noncurrent liabilities increased from the base year by a substantially greater percentage than the value of the noncurrent assets. Similarly, the growth of current liabilities greatly outpaced the growth of current assets with similar maturity dates. This highlights the Postal Service's lack of liquidity.

Figure IV-4 shows the changes in revenue and expenses from the base year (FY 2006). In FY 2017, revenue decreased 4.1 percent from the base year, while operating expenses increased by 0.7 percent from the base year.

Reversing the trend of the last three years, revenue and expenses both decreased in FY 2017 compared to FY 2016. The reduction in revenue was primarily due to the expiration of the exigent surcharge in the prior year and the continuing decline in mail volume. The decrease in expenses was largely the result of a reduction in the noncash adjustment for workers' compensation.

The accrual of the retirement payments contributed to the 322.6 percent increase in retirement expenses from the base year. Compensation and benefits excluding retirement expenses decreased by 8.0 percent from the base year.

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




*Source: Postal Service FY 2006 to FY 2017 Forms 10-K and USPS Annual Reports.*

As seen in Figure IV-5, operating revenue, compensation and benefits, transportation, and other benefits has remained relatively flat since FY 2006. Similar to the growth in current liabilities, retiree health benefit payments (including the mandatory retirement accruals since FY 2012) have trended upwards from the base year. The reduction in retirement-related expenses and workers' compensation for FY 2017 results from lower retirement health benefit expenses compared to the prior year statutory prefunding of the RHBF and a decrease in noncash workers' compensation compared to the prior year. *See* Figure IV-5.

## Financial Solvency Analysis

### ALTMAN Z-SCORE

The financial strength of an entity can be evaluated through the use of a variety of metrics. In conjunction with financial ratios, these metrics are used to gauge an entity's long-term viability. The Altman Z-Score model, developed in 1968, is a tool to examine the likelihood that a publicly-traded private company may file for bankruptcy.[4] It has since been used as a measure to analyze the financial health of state and local governments and continues to be widely accepted as a measure of an entity's financial health.[5]

The Altman Z-Score is a quantitative model designed to predict the financial distress of a business. It uses a blend of four traditional financial ratios and a statistical method known as multiple discriminant analysis. The Altman Z-Score is interpreted against discrimination ranges, which provide context as to what an individual Altman Z-Score means to an entity's financial health.

[4] The Postal Service, as a government entity, is not considered a "person" who may be a debtor under the Bankruptcy Code. *See* 11 U.S.C. §§ 101(41), 109(d). The Altman Z-Score is used as a metric that may be instructive in comparing the Postal Service with other business entities which may be subject to bankruptcy. Use of the Altman Z-Score does not suggest that the Postal Service has the potential to file for bankruptcy.
[5] *See* Mary Fischer, et al., *Fiscal Health Analysis of Texas and its Municipalities*, 13 J. Bus. & Econ. Res. 4 (2015).

**Table IV-3**
**Altman Z-Score, FY 2017**

| Ratio | Calculation | Ratio Value on 9/30/2017 | Weighting Factor | Product (col. 3 * col. 4) |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| **T1** | Working Capital/Total Assets | (1.8) | 1.2 | (2.2) |
| **T2** | Retained Earnings/Total Assets | (2.1) | 1.4 | (3.0) |
| **T3** | Earnings/Total Assets | (0.1) | 3.3 | (0.3) |
| **T4** | Capital/Total Liabilities | (0.7) | 0.6 | (0.4) |
| **Altman Z-Score** | | | | (5.9) |

*Negative values are denoted by (). Numbers may not add across due to rounding.*
*Source: Postal Service FY 2017 Form 10-K at 46.*

A lower Altman Z-Score reflects higher odds of bankruptcy[6] and financial distress. In particular, the discrimination ranges divide Altman Z-Scores into three zones:

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

The Altman Z-Score model used in this analysis is a revised Z-Score Model adapted specifically for non-manufacturing firms to calculate a score, without a capital turnover ratio (sales/total assets), so as to minimize the potential effect of different methods of financing assets.[7] The Postal Service's Altman Z-Score provides insight into the Postal Service's financial health, especially in light of the fact that the Postal Service has reached its maximum statutory borrowing limit from the Federal Financing Bank. Cash generated from operations is the only source of income available to satisfy daily operating expenses and investment in capital assets.

As shown in Table IV-3, the Postal Service's Altman Z-Score was negative 5.9 at the end of FY 2017. The Postal Service's FY 2017 Altman Z-Score was better than the FY 2016 score of negative 6.4. Higher cash balances and lower retirement-related expenses increased total assets and earnings compared to the prior year, resulting in improved ratios of Retained Earnings to Total Assets and Earnings to Total Assets.

[4] Although the Postal Service has reached its borrowing limit, it is ineligible for Federal bankruptcy protection under current law. *See* 11 U.S.C. §§ 101(41), 109.
[5] *See supra* at 11 n.4.

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

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

*Negative values are denoted by (). Numbers may not add across due to rounding.*
*Source: USPS FY 2006 Annual Report at 42.*

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

## DECONSTRUCTING THE ALTMAN Z-SCORE WORKING CAPITAL TO TOTAL ASSETS

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

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

An increasing Working Capital to Total Assets ratio over time is usually a positive sign, showing improving liquidity. A decreasing Working Capital to Total Assets ratio is usually a negative sign, indicating a greater amount of total current liabilities, and a reduced amount of working capital available. This ratio increased briefly for the Postal Service from FY 2008–FY 2009 (though still negative) and has declined in succeeding fiscal years.[8] The steep decline in this ratio after FY 2012 is the result of a higher percentage decline in working capital compared to total assets, largely a result of from the accrued defaulted prefunding retiree health payments.

## RETAINED EARNINGS TO TOTAL ASSETS

The retained earnings of a company are the portion of net earnings retained for future use.[9] They are "retained" to be reinvested in the firm or used to pay down debt. Retained earnings are calculated as follows:

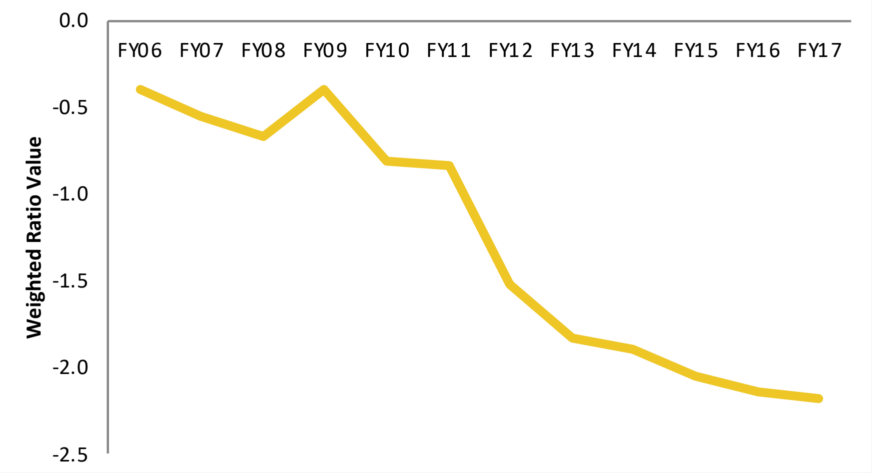
- Previous year's retained earnings + current year's net income (net loss)

The Retained Earnings to Total Assets ratio measures the company's effectiveness in using all of its assets to accumulate earnings. Retained earnings combined with the capital contribution

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

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

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

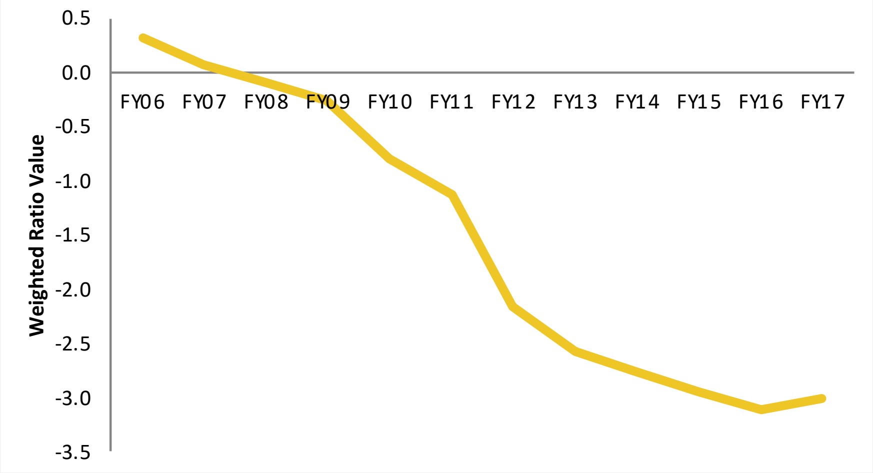



*Source: Postal Service FY 2006 to FY 2017 Forms 10-K and USPS Annual Reports.*

of the U.S. Government[10] represents the difference between assets and liabilities, and therefore it provides a measure of the extent to which a company relies on debt, or leverage. The lower the ratio of Retained Earnings to Total Assets, the more a company funds assets through borrowing, instead of through retained earnings. A lower ratio indicates an increased risk of financial distress if the firm cannot meet its debt obligations.

The Postal Service's Retained Earnings to Total Assets weighted ratio is shown in Figure IV-7. Until the increase in FY 2017, this ratio has steadily declined for the Postal Service since FY 2006. A decreasing Retained Earnings to Total Assets ratio is usually a negative sign, indicating possible problems with a company's profitability. As an entity grows and matures, this ratio is generally expected to increase. Recurring losses

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




*Source: Postal Service FY 2006 to FY 2017 Forms 10-K and USPS Annual Reports.*

[10] Total capital contributions of the U.S. Government are $3,132 billion as of September 30, 2017. See Postal Service FY 2017 Form 10-K at 47.

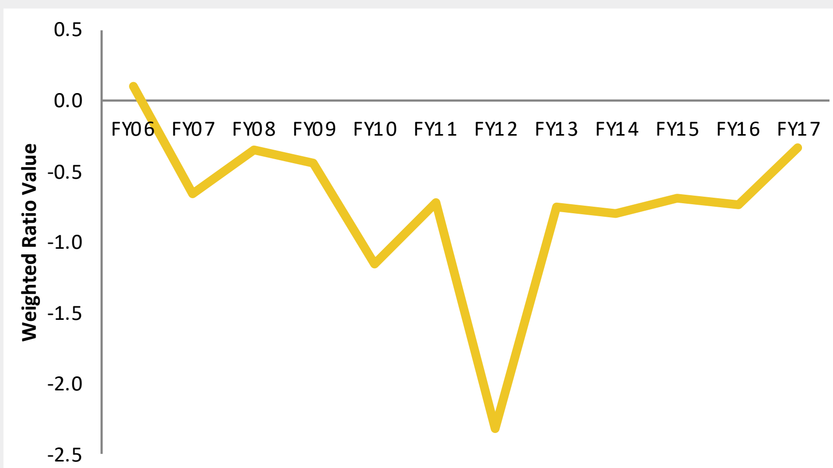
suffered after FY 2007 by the Postal Service have eroded its retained earnings, which is reflected in the substantial decline in this ratio. The slight uptick in the change in value for FY 2017 is due to the increased end-of-year cash balance resulting in a 8.6 percent growth in total assets.

## EARNINGS TO TOTAL ASSETS

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

FY 2006 showed a positive ratio. This was during the Postal Reorganization Act regime when revenue was required to cover costs (break-even). The effects of the Great Recession of 2008–2009 are captured in the large decrease in the ratio over those years. In addition, P.L. 111-68 reduced the RHBF prefunding contribution by $4.0 billion to $1.4 billion in 2009. No similar legislation was enacted in 2010. In 2011, P.L. 112-33 delayed the $5.5 billion payment due in 2011 to 2012. The dip in the ratio in 2012 is largely the result of two RHBF prefunding payments totaling $11.1 billion. The exigent surcharge in FY 2014 improved profitability through part of FY 2016.[11] The 8.6 percent increase in total assets, due to the increased cash balance, improved this ratio at the end of FY 2017.

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




*Source: Postal Service FY 2006 to FY 2017 Forms 10-K and USPS Annual Reports.*

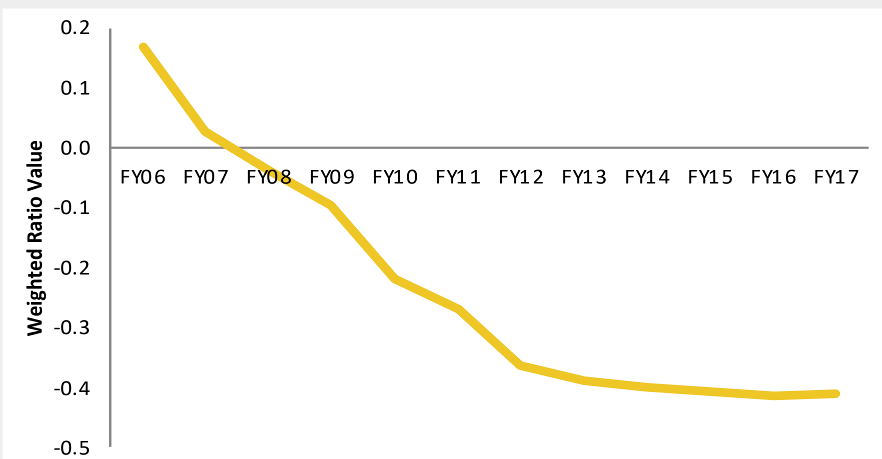
[11] *See* Docket No. R2013-11, Order Granting Exigent Price Increase, December 24, 2013 (Order No. 1926).

## CAPITAL TO TOTAL LIABILITIES

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

For purposes of the Altman Z-Score, capital is calculated as the book value of equity which for the Postal Service is capital contributions and retained earnings. The Postal Service's recurring net losses and increasing liabilities are reflected in the decline in this ratio. In FY 2017, the value of this ratio remains relatively flat from the prior year.

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



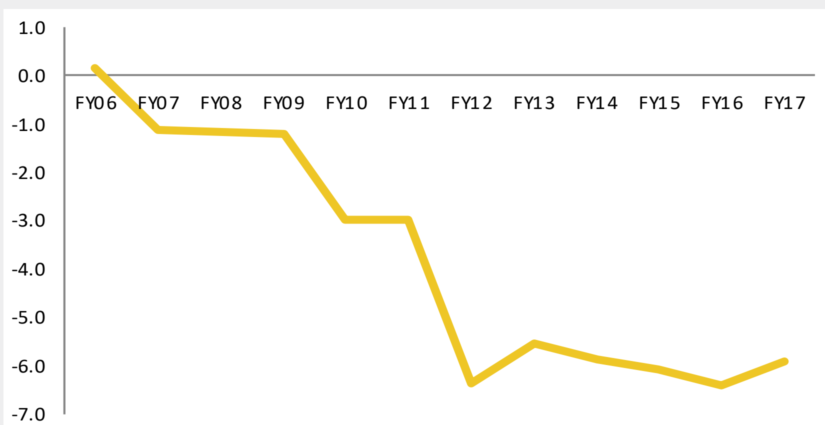

*Source: Postal Service FY 2006 to FY 2017 Forms 10-K and USPS Annual Reports.*

## SHIFT IN ALTMAN Z-SCORE

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

The Postal Service's slightly improved Altman Z-Score at the end of FY 2017 is the result of: (1) a higher balance in total assets due to an increased cash balance likely the result of limited investment in capital infrastructure and equipment and the nonpayment of retirement expenses and (2) reduced retirement-related expenses compared to the prior year's statutory prefunding of RHBF. The Postal Service defaulted on its FY 2017 payment of amortization on its retirement-related unfunded obligations.

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




*Source: Postal Service FY 2006 to FY 2017 Forms 10-K and USPS Annual Reports.*

# Appendix A
## Fiscal Year 2017 Volume, Revenue, Incremental Cost and Cost Coverage by Class
## Current Classification (Products)

| | Volume (000) | Revenue ($ 000) | Attributable (Incremental) Cost (000) | Total Vol Var & Prod Spec Cost (000) | Contribution to Institutional Cost ($ 000) | Rev./Pc. (Cents) | Cost/Pc. (Cents) | Contribution to Institutional Cost/Pc. (Cents) | Cost Coverage |
|---|---|---|---|---|---|---|---|---|---|
| **COMPETITIVE MAIL** | | | | | | | | | |
| Priority Mail Express | 29,763 | 765,969 | 329,481 | 329,262 | 436,488 | 2,573.591 | 1,107.028 | 1,466.564 | 232.5% |
| Priority Mail | 1,022,959 | 8,340,269 | 6,323,582 | 6,236,182 | 2,016,687 | 815.308 | 618.166 | 197.143 | 131.9% |
| Ground Parcels | 2,883,814 | 6,194,149 | 3,550,464 | 3,505,588 | 2,643,685 | 214.790 | 123.117 | 91.673 | 174.5% |
| First-Class Package Service | 959,629 | 2,786,807 | 1,936,496 | 1,929,861 | 850,310 | 290.405 | 201.796 | 88.608 | 143.9% |
| Competitive Domestic Services | | 852,962 | 428,797 | 428,670 | 424,166 | | | | 198.9% |
| Competitive Domestic Inframarginal | | | 194,320 | | | | | | |
| Competitive Domestic Group Specific Costs | | | 43,074 | | | | | | |
| **Total Competitive Domestic Mail** | **4,896,165** | **18,940,156** | **12,806,213** | **12,429,563** | **6,133,943** | **386.837** | **261.556** | **125.281** | **147.9%** |
| Competitive International Mail & Services | 207,266 | 1,749,387 | 1,053,036 | 1,052,563 | 696,351 | 844.030 | 508.060 | 335.970 | 166.1% |
| Total Competitive Inframarginal Costs | | | 24,713 | | | | | | |
| **Total Competitive Mail and Services** | **5,103,431** | **20,689,544** | **13,883,962** | **13,482,126** | **6,805,582** | **405.405** | **272.052** | **133.353** | **149.0%** |
| **MARKET DOMINANT MAIL** | | | | | | | | | |
| **First-Class Mail** | | | | | | | | | |
| Single-Piece Letters and Cards | 18,503,215 | 9,040,612 | 5,552,148 | 5,350,646 | 3,488,464 | 48.860 | 30.006 | 18.853 | 162.8% |
| Presort Letters and Cards | 38,795,454 | 14,604,136 | 4,570,664 | 4,501,582 | 10,033,472 | 37.644 | 11.781 | 25.862 | 319.5% |
| Flats | 1,448,266 | 1,991,588 | 1,532,900 | 1,529,877 | 458,688 | 137.515 | 105.844 | 31.672 | 129.9% |
| Parcels | 190,931 | 547,444 | 478,678 | 477,818 | 68,766 | 286.724 | 250.708 | 36.016 | 114.4% |
| First-Class Inframarginal Costs | | | 269,053 | | | | | | |
| **Total Domestic First-Class Mail** | **58,937,866** | **26,183,779** | **12,403,442** | **11,859,923** | **13,780,337** | **44.426** | **21.045** | **23.381** | **211.1%** |
| **MARKETING MAIL** | | | | | | | | | |
| High Density & Saturation Letters | 7,093,856 | 1,092,989 | 514,913 | 512,040 | 578,076 | 15.408 | 7.259 | 8.149 | 212.3% |
| High Density & Saturation Flats & Parcels | 11,252,248 | 1,989,139 | 1,262,624 | 1,243,097 | 726,515 | 17.678 | 11.221 | 6.457 | 157.5% |
| Carrier Route | 7,297,237 | 1,903,188 | 1,531,167 | 1,524,686 | 372,021 | 26.081 | 20.983 | 5.098 | 124.3% |
| Letters | 46,973,209 | 9,599,675 | 4,912,152 | 4,802,623 | 4,687,524 | 20.436 | 10.457 | 9.979 | 195.4% |
| Flats | 4,954,551 | 1,905,538 | 2,574,475 | 2,565,967 | (668,937) | 38.460 | 51.962 | (13.501) | 74.0% |
| Parcels | 40,582 | 46,923 | 72,765 | 72,758 | (25,842) | 115.626 | 179.306 | (63.680) | 64.5% |
| Every Door Direct Mail - Retail | 758,160 | 134,367 | 50,009 | 49,942 | 84,358 | 17.723 | 6.596 | 11.127 | 268.7% |
| Inbound NSA Mail Intl | 0 | 0 | 0 | | 0 | | | | |
| Marketing Mail Inframarginal Costs | | | 447,127 | | | | | | |
| **Total Marketing Mail** | **78,369,843** | **16,671,819** | **11,365,231** | **10,771,113** | **5,306,588** | **21.273** | **14.502** | **6.771** | **146.7%** |
| **PERIODICALS** | | | | | | | | | |
| Within County | 516,432 | 58,017 | 84,667 | 84,637 | (26,650) | 11.234 | 16.395 | (5.160) | 68.5% |
| Outside County | 4,784,313 | 1,316,722 | 1,898,131 | 1,892,867 | (581,409) | 27.522 | 39.674 | (12.152) | 69.4% |
| Periodicals Inframarginal Costs | | | 590 | | | | | | |
| **Total Periodicals** | **5,300,745** | **1,374,739** | **1,983,387** | **1,977,504** | **(608,649)** | **25.935** | **37.417** | **(11.482)** | **69.3%** |
| **PACKAGE SERVICES** | | | | | | | | | |
| Alaska Bypass | 1,306 | 33,700 | 17,426 | 17,426 | 16,274 | 2,581.279 | 1,334.749 | 1,246.530 | 193.4% |
| Bound Printed Matter Flats | 264,493 | 201,673 | 132,555 | 132,521 | 69,118 | 76.249 | 50.117 | 26.132 | 152.1% |
| Bound Printed Matter Parcels | 277,594 | 298,637 | 270,269 | 269,955 | 28,368 | 107.581 | 97.361 | 10.219 | 110.5% |
| Media and Library Mail | 76,497 | 267,122 | 352,714 | 351,941 | (85,592) | 349.194 | 461.084 | (111.890) | 75.7% |
| Package Services Inframarginal Costs | | | 810 | | | | | | |
| **Total Package Services** | **619,888** | **801,131** | **773,773** | **771,843** | **27,359** | **129.238** | **124.825** | **4.413** | **103.5%** |
| U.S. Postal Service Mail | 318,897 | | | | | | | | |
| Free Mail | 44,233 | | 40,265 | 40,261 | (40,265) | | 91.029 | | |
| **Total Market Dominant Mail** | **143,591,472** | **45,031,468** | **26,566,098** | **25,420,643** | **18,465,370** | **31.361** | **18.501** | **12.860** | **169.5%** |
| **Market Dominant Services** | | | | | | | | | |
| **Ancillary Services** | | | | | | | | | |
| Certified Mail | | 666,790 | 558,699 | 549,891 | 108,090 | | | | 119.3% |
| COD | | 4,171 | 2,621 | 2,621 | 1,549 | | | | 159.1% |
| Insurance | | 74,467 | 46,919 | 46,827 | 27,548 | | | | 158.7% |
| Registered Mail | | 30,382 | 21,869 | 21,866 | 8,513 | | | | 138.9% |
| Stamped Envelopes | | 12,199 | 7,929 | 7,925 | 4,270 | | | | 153.9% |
| Stamped Cards | | 916 | 319 | 319 | 598 | | | | 287.6% |
| Other Ancillary Services | | 433,913 | 218,882 | 216,794 | 215,031 | | | | 198.2% |
| Money Orders | | 152,373 | 156,391 | 154,776 | (4,017) | | | | 97.4% |
| Post Office Box Service | | 278,659 | 230,817 | 230,762 | 47,842 | | | | 120.7% |
| Caller Service | | 90,991 | 25,259 | 25,238 | 65,732 | | | | 360.2% |
| Other Special Services | | 38,292 | 12,730 | 12,730 | 25,563 | | | | 300.8% |
| Market Dominant Services Inframarginal Costs | | | 23,609 | 0 | | | | | |
| **Total Market Dominant Domestic Services** | | **1,783,154** | **1,306,044** | **1,269,748** | **477,110** | | | | |
| Outbound Single-Piece Mail Intl | 152,094 | 231,106 | 139,322 | 139,322 | 91,784 | | | | |
| Inbound Single-Piece Mail Intl | 643,636 | 707,352 | 741,160 | 741,160 | (33,808) | | | | |
| International Services | | 35,284 | 40,936 | 40,936 | (5,653) | | | | |
| Market Dominant International Inframarginal Costs | | | 936 | | | | | | |
| **Market Dominant International Mail & Services** | **795,731** | **973,742** | **922,354** | **921,418** | **51,387** | | | | |
| Other Income | | 1,110,346 | | | 1,110,346 | | | | |
| Other International Mail Attributable | | | 57,558 | 0 | (57,558) | | | | |
| **Total Mail and Services** | **149,490,633** | **69,588,253** | **42,736,015** | **41,151,493** | **26,852,238** | **46.550** | **28.588** | **17.962** | **162.8%** |
| Institutional Costs | | | 29,700,299 | | | | | | |
| Institutional Costs Paid by Competitive (%) | | | | | 22.91% | | | | |
| Appropriations: Revenue Forgone | | 47,944 | | | | | | | |
| Investment Income | | 58,405 | | | | | | | |
| **Total Revenues** | | **69,694,602** | | | | | | | |
| **Total Costs** | | | **72,436,314** | | | | | | |
| **Net Income (Loss)** | | **(2,741,712)** | | | | | | | |
| *Source: Library Reference PRC-FinRpt17-NP1* | | | | | | | | | |

# Appendix B
## Fiscal Year 2017 Volume, Revenue, Attributable Cost and Cost Coverage by Class
## Current Classification (Products)
## (USPS CRA Report)

| | Volume (000) | Revenue ($ 000) | Attributable (Incremental) Cost (000) | Total Vol Var & Prod Spec Cost (000) | Contribution to Institutional Cost ($ 000) | Rev./Pc. (Cents) | Cost/Pc. (Cents) | Contribution to Institutional Cost/Pc. (Cents) | Cost Coverage |
|---|---|---|---|---|---|---|---|---|---|
| **COMPETITIVE MAIL** | | | | | | | | | |
| Priority Mail Express | 29,763 | 765,969 | 329,435 | 329,262 | 436,534 | 2,573.591 | 1,106.875 | 1,466.717 | 232.5% |
| Priority Mail | 1,022,959 | 8,340,269 | 6,271,817 | 6,236,182 | 2,068,451 | 815.308 | 613.106 | 202.203 | 133.0% |
| Ground Parcels | 2,883,814 | 6,194,149 | 3,522,125 | 3,505,588 | 2,672,025 | 214.790 | 122.134 | 92.656 | 175.9% |
| First-Class Package Service | 959,629 | 2,786,807 | 1,933,331 | 1,929,861 | 853,476 | 290.405 | 201.466 | 88.938 | 144.1% |
| Competitive International Mail | 207,266 | 1,742,448 | 1,044,489 | 1,044,489 | 697,960 | 840.682 | 503.936 | 336.746 | 166.8% |
| Competitive Domestic Services | | 852,962 | 428,797 | 428,670 | 424,166 | | | | 198.9% |
| Competitive International Services | | 6,939 | 8,074 | 8,074 | (1,135) | | | | 85.9% |
| **Total Competitive Mail and Services** | **5,103,431** | **20,689,544** | **13,538,067** | **13,482,126** | **7,151,476** | **405.405** | **265.274** | **140.131** | **152.8%** |
| **MARKET DOMINANT MAIL** | | | | | | | | | |
| **First-Class Mail** | | | | | | | | | |
| Single-Piece Letters and Cards | 18,503,215 | 9,040,612 | 5,532,042 | 5,350,646 | 3,508,570 | 48.860 | 29.898 | 18.962 | 163.4% |
| Presort Letters and Cards | 38,795,454 | 14,604,136 | 4,564,788 | 4,501,582 | 10,039,347 | 37.644 | 11.766 | 25.878 | 319.9% |
| Flats | 1,448,266 | 1,991,588 | 1,532,900 | 1,529,877 | 458,688 | 137.515 | 105.844 | 31.672 | 129.9% |
| Parcels | 190,931 | 547,444 | 478,678 | 477,818 | 68,766 | 286.724 | 250.708 | 36.016 | 114.4% |
| Outbound Single-Piece Mail Intl | 152,094 | 231,106 | 139,322 | 139,322 | 91,784 | 151.949 | 91.603 | 60.347 | 165.9% |
| Inbound Single-Piece Mail Intl | 643,636 | 707,352 | 741,160 | 741,160 | (33,808) | 109.899 | 115.152 | (5.253) | 95.4% |
| Total First-Class Mail | 59,733,597 | 27,122,237 | 12,988,890 | 12,740,405 | 14,133,347 | 45.405 | 21.745 | 23.661 | 208.8% |
| **MARKETING MAIL** | | | | | | | | | |
| High Density & Saturation Letters | 7,093,856 | 1,092,989 | 514,913 | 512,040 | 578,076 | 15.408 | 7.259 | 8.149 | 212.3% |
| High Density & Saturation Flats & Parcels | 11,252,248 | 1,989,139 | 1,262,535 | 1,243,097 | 726,604 | 17.678 | 11.220 | 6.457 | 157.6% |
| Carrier Route | 7,297,237 | 1,903,188 | 1,530,886 | 1,524,686 | 372,302 | 26.081 | 20.979 | 5.102 | 124.3% |
| Letters | 46,973,209 | 9,599,675 | 4,912,152 | 4,802,623 | 4,687,524 | 20.436 | 10.457 | 9.979 | 195.4% |
| Flats | 4,954,551 | 1,905,538 | 2,574,440 | 2,565,967 | (668,903) | 38.460 | 51.961 | (13.501) | 74.0% |
| Parcels | 40,582 | 46,923 | 72,765 | 72,758 | (25,842) | 115.626 | 179.306 | (63.680) | 64.5% |
| Every Door Direct Mail - Retail | 758,160 | 134,367 | 50,009 | 49,942 | 84,358 | 17.723 | 6.596 | 11.127 | 268.7% |
| Inbound NSA Mail Intl | 0 | 0 | 0 | | 0 | | | | |
| Total Marketing Mail | 78,369,843 | 16,671,819 | 10,917,700 | 10,771,113 | 5,754,119 | 21.273 | 13.931 | 7.342 | 152.7% |
| **PERIODICALS** | | | | | | | | | |
| Within County | 516,432 | 58,017 | 84,667 | 84,637 | (26,650) | 11.234 | 16.395 | (5.160) | 68.5% |
| Outside County | 4,784,313 | 1,316,722 | 1,898,131 | 1,892,867 | (581,409) | 27.522 | 39.674 | (12.152) | 69.4% |
| Total Periodicals | 5,300,745 | 1,374,739 | 1,982,798 | 1,977,504 | (608,059) | 25.935 | 37.406 | (11.471) | 69.3% |
| **PACKAGE SERVICES** | | | | | | | | | |
| Alaska Bypass | 1,306 | 33,700 | 17,426 | 17,426 | 16,274 | 2,581.279 | 1,334.749 | 1,246.530 | 193.4% |
| Bound Printed Matter Flats | 264,493 | 201,673 | 132,555 | 132,521 | 69,118 | 76.249 | 50.117 | 26.132 | 152.1% |
| Bound Printed Matter Parcels | 277,594 | 298,637 | 270,269 | 269,955 | 28,368 | 107.581 | 97.361 | 10.219 | 110.5% |
| Media and Library Mail | 76,497 | 267,122 | 352,714 | 351,941 | (85,592) | 349.194 | 461.084 | (111.890) | 75.7% |
| **Total Package Services** | **619,888** | **801,131** | **772,963** | **771,843** | **28,168** | **129.238** | **124.694** | **4.544** | **103.6%** |
| U.S. Postal Service Mail | 318,897 | | | | | | | | |
| Free Mail | 44,233 | | 40,265 | 40,261 | (40,265) | | 91.029 | | |
| **Total Market Dominant Mail** | **144,387,203** | **45,969,926** | **26,702,616** | **26,301,125** | **19,267,310** | **31.838** | **18.494** | **13.344** | **172.2%** |
| **MARKET DOMINANT SERVICES** | | | | | | | | | |
| **Ancillary Services** | | | | | | | | | |
| Certified Mail | | 666,790 | 558,699 | 549,891 | 108,090 | | | | 119.3% |
| COD | | 4,171 | 2,621 | 2,621 | 1,549 | | | | 159.1% |
| Insurance | | 74,467 | 46,919 | 46,827 | 27,548 | | | | 158.7% |
| Registered Mail | | 30,382 | 21,869 | 21,866 | 8,513 | | | | 138.9% |
| Stamped Envelopes | | 12,199 | 7,929 | 7,925 | 4,270 | | | | 153.9% |
| Stamped Cards | | 916 | 319 | 319 | 598 | | | | 287.6% |
| Other Ancillary Services | | 433,913 | 218,882 | 216,794 | 215,031 | | | | 198.2% |
| Money Orders | | 152,373 | 156,391 | 154,776 | (4,017) | | | | 97.4% |
| Post Office Box Service | | 278,659 | 230,817 | 230,762 | 47,842 | | | | 120.7% |
| Caller Service | | 90,991 | 25,259 | 25,238 | 65,732 | | | | 360.2% |
| Other Special Services | | 38,292 | 12,730 | 12,730 | 25,563 | | | | 300.8% |
| International Services | | 35,284 | 40,936 | 40,936 | (5,653) | | | | 86.2% |
| **Total Market Dominant Services** | | **1,818,437** | **1,323,371** | **1,310,684** | **495,066** | | | | |
| Other Income | | 1,110,346 | | | 1,110,346 | | | | |
| Other International Mail Attributable | | | 0 | 57,558 | | | | | |
| **Total Mail and Services** | **149,490,633** | **69,588,253** | **41,564,055** | **41,151,493** | **28,024,199** | **46.550** | **27.804** | **18.746** | **167.4%** |
| Institutional Costs | | | 30,872,259 | | | | | | |
| Appropriations: Revenue Forgone | | 47,944 | | | | | | | |
| Investment Income | | 58,405 | | | | | | | |
| **Total Revenues** | | **69,694,602** | | | | | | | |
| **Total Costs** | | | **72,436,314** | | | | | | |
| **Net Income (Loss)** | | **(2,741,712)** | | | | | | | |

*Source: Library Reference PRC-FinRpt17-NP1*

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