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

Fiscal Year 2020

April 26, 2021

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Chapter I. Overview

Purpose of This Report

This report provides an in-depth analysis of the Postal Service's financial performance primarily using information reported in its FY 2020 Form 10-K measured against FY 2019 and its FY 2020 Integrated Financial Plan (Financial Plan).[1] Additionally, data filed with the FY 2020 Annual Compliance Report (ACR), such as the Cost and Revenue Analysis report (CRA), the Cost Segments and Components (CSC) report, and the Revenue, Pieces, and Weight (RPW) report, are utilized in developing this report.

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

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

Chapter 3 describes the calculation of attributable and institutional cost and examines the overall trends for Market Dominant and Competitive products and services. It includes comparisons of volume, revenue, and cost between FY 2019 and FY 2020, as well as trend analyses that highlight changes in volume, revenue, and cost that have occurred over time.

Chapter 4 disaggregates broad categories of costs into segments categorized by function and includes a discussion of labor costs and workhours. The Commission also develops a contribution margin income statement that facilitates analysis of the relationships between revenue, attributable costs, institutional costs, and overall net income or loss.

The Postal Service Remains Financially Unstable—Key Findings

During FY 2020, the COVID-19 pandemic had a significant impact on Postal Service volume, revenue, and expenses. The COVID-19 pandemic exacerbated market dominant volume

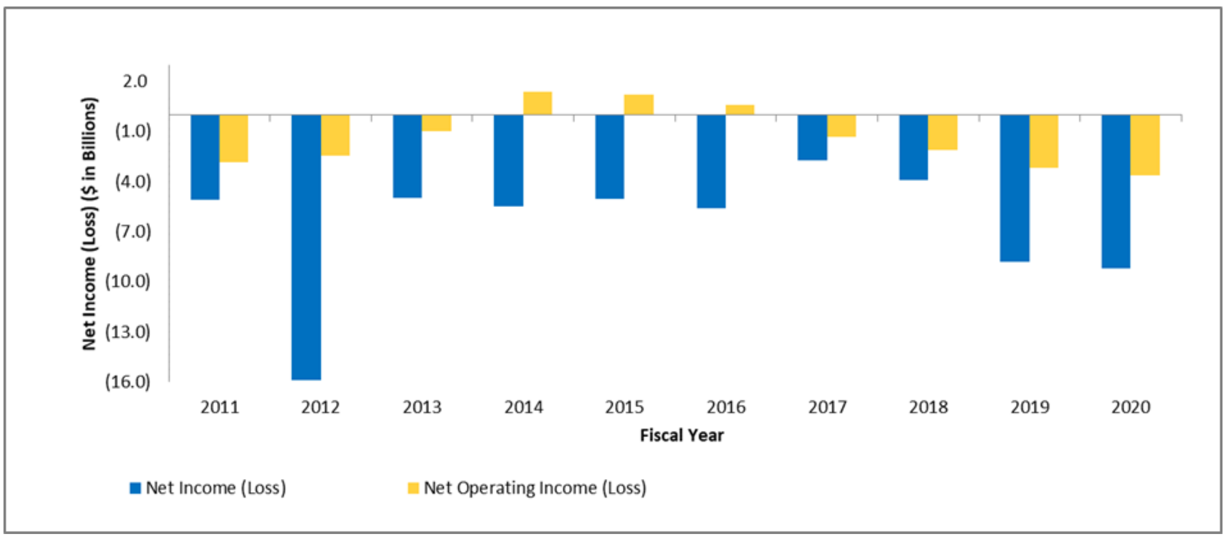
[1] The Integrated Financial Plan is a Postal Service report that includes the operating plan, capital investment plan, and financing plan for the fiscal year. This document is required to be filed as a periodic report pursuant to the 39 C.F.R. § 3050. The plan for FY 2020 originally filed on February 13, 2020 and revised on March 9, 2020 did not include the effects of the pandemic. See https://www.prc.gov/dockets/document/112610.

declines as many businesses that relied on mail were forced to close or reduce their operations, although package volumes increased due to a spike in e-commerce. The volume changes impacted overall revenues and costs, while changes in workforce hours in response to the pandemic-impacted labor costs.

In FY 2020, the Postal Service recorded a net loss from operations of $3.6 billion,[2] a $0.4 billion decline in profitability. The increase in the FY 2020 net operating loss is the result of higher operating expenses which were $2.4 billion higher than in FY 2019.[3]

When Non-operating Expenses (NOEs) are included,[4] the net operating loss of $3.6 billion becomes a total net loss of $9.2 billion. This is a decline of $0.4 billion compared to FY 2019. Figure I-1 shows net income (loss) and net operating income (loss) results for the period FY 2011 – FY 2020.

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



Source: United States Postal Service, 2011 Report on Form 10-K [Erratum], November 16, 2011; United States Postal Service, 2012 Report on Form 10-K, November 15, 2012; United States Postal Service, 2013 Report on Form 10-K, January 31, 2014; United States Postal Service, 2014 Report on Form 10-K, December 5, 2014; United States Postal Service, 2015 Report on Form 10-K, November 13, 2015; United States Postal Service, 2016 Report on Form 10-K, November 15, 2016; United States Postal Service, 2017 Report on Form 10-K, November 14, 2017; United States Postal Service, 2018 Report on Form 10-K, November 14, 2018 (Postal Service FY 2018 Form 10-K); United States Postal Service, 2019 Report on Form 10-K, November 14, 2019 (Postal Service FY 2019 Form 10-K); Postal Service FY 2020 Form 10-K (collectively, Postal Service Form 10-K, FY 2011–FY 2020).

[2] United States Postal Service, 2020 Report on Form 10-K, November 13, 2020 (Postal Service FY 2020 Form 10-K). Net income or loss from operations is also referred to as net operating income (loss). The Commission's calculation of net operating income (loss) differs from the controllable net income (loss) reported in Postal Service Form 10-K by a negative $226 million and $151 million for FY 2019 and FY 2020, respectively. The Postal Service excludes the difference in the normal cost of Retiree Health Benefits from its controllable income (loss) because it is the result of actuarial changes. Postal Service FY 2020 Form 10-K at 23.

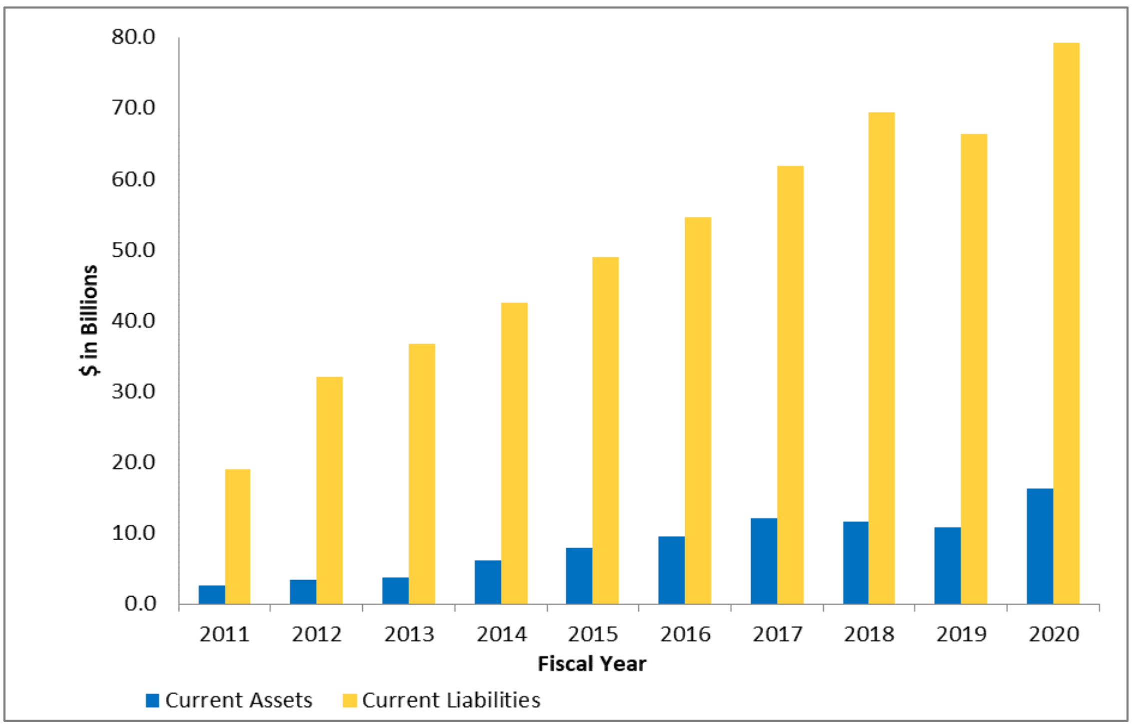
[3] Operating expenses include compensation and benefits, transportation, as well as supplies and services, depreciation and amortization, rent, utilities, vehicle maintenance, delivery vehicle fuel, information technology and communications, rural carrier equipment maintenance and miscellaneous other.

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

As seen in Figure I-1, the Postal Service has not had a profitable year in the last decade. Even when excluding NOEs, the Postal Service had posted a net operating income for only three of the last 10 years, FY 2014 through FY 2016, when the exigent price increase was in effect.[5]

These continuing losses have negatively affected the Postal Service's financial position, creating a substantial gap between the Postal Service's assets and liabilities. Although total assets increased by $10.3 billion during FY 2020, total liabilities also increased by $19.5 billion. At the end of FY 2020, the Postal Service recorded total assets of $35.9 billion and total liabilities of $116.6 billion. In FY 2020, the Postal Service continued to accrue unpaid retiree expenses, which, at the end of FY 2020 totaled $51.9 billion. In FY 2020, the Postal Service had current assets of $16.3 billion and current liabilities of $79.2 billion, as seen in Figure I-2.

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



Source: Postal Service Form 10-K, FY 2011–FY 2020

If current assets are insufficient to meet short-term liabilities, the Postal Service could have problems paying its creditors, at least in the short term. As seen in Figure I-2 above, the gap

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

between current assets and current liabilities has increased substantially since FY 2011. A restructuring of short-term debt to long-term debt in FY 2019 led to a $3.1 billion decrease in current liabilities, the only such decrease since FY 2011.

The Postal Service's liquidity continued to improve and was $25.4 billion at the end of FY 2020. This was an increase of $12.6 billion, or almost 100 percent, from FY 2019. Much of this increase is a result of the CARES Act,[6] which allowed the Postal Service access to an additional $10 billion from the U.S. Treasury to fund operating expenses. This financing is subject to terms and conditions as agreed upon by the Postal Service and the U.S. Treasury.

Financial sustainability of the Postal Service remains weak due to large personnel-related liabilities and the slow replacement of fully depreciated capital assets. Its overall financial condition is adversely impacted by insufficient current assets to cover current liabilities.

At the end of FY 2020:

- The Postal Service's total net loss was $9.2 billion.
    - The net deficit was $80.7 billion, consisting of an accumulated deficit of $83.8 billion offset by capital contributions of $3.1 billion. This is primarily the result of multiple years of net losses that started in FY 2007.
- The Postal Service's cash and cash equivalents total, excluding restricted cash, was $14.4 billion, an increase of $5.6 billion.
    - The Postal Service had the highest cash balance since FY 2006 with a 37 percent lower net capital asset base.
    - The cash ratio was 0.19, an increase of 0.05 compared to the prior year. The FY 2020 cash ratio was also higher than the 10-year average of 0.13.
- The Postal Service's operating revenue was $73.1 billion, which was $2.0 billion higher than the previous year, and $1.5 billion more than the pre-pandemic Integrated Financial Plan.
    - Pandemic induced e-commerce led to $6.4 billion or 26.5 percent more Competitive product revenue, the largest increase in over a decade.
    - Market Dominant revenue decreased by $4.0 billion in FY 2020, driven by pandemic-related business closings. Consumer price index (CPI)-based price increases were not enough to offset volume lost. Marketing Mail volume declined particularly sharply – the 11.5 billion piece volume loss was far

[6] Public Law 116-136, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). March 27, 2020.

larger than in previous years, accounting for 62.7 percent of the 18.3 billion piece loss over the last 10 years.

- Net operating expenses stood at $76.6 billion, which were $2.4 billion greater in FY 2020 than the prior year, and $1.0 billion more than the pre-pandemic Integrated Financial Plan.

    - Increased expenses for compensation (2.6%), transportation (7.7%), and supplies and services expenses (9.5%), were driven by pandemic-related increases in more labor-intensive package shipping, disruptions in air and highway transportation, and enhanced safety measures.

- Personnel-related expenses made up 77.0 percent of total expenses. While compensation costs grew in FY 2020, the increase in the growth rate of compensation costs slowed to 0.03 percent from 0.47 percent in 2019. This measure reflects cost management despite the added workload driven by the pandemic due to the use of additional overtime workhours and changes in the postal workforce mix.

    - Overtime hours increased by 12.6 million (9.3 percent) compared to FY 2019.

    - Total postal employees increased by a net of 10,948 or 1.7 percent. Over the past decade (FY 2011–FY 2020), the Postal Service has reduced its full-time and part-time workforce by approximately 61,000 employees and added approximately 59,000 non-career employees.

Chapter II. Postal Service Financial Status

Introduction

The Commission evaluates relationships of the essential components of the Postal Service's financial statements to analyze the Postal Service's profitability, stability, and long-term viability.

The Commission's analysis, primarily based upon the Postal Service's Form 10-K financial statements, provides a basis for comparing FY 2019 and FY 2020. The Commission also incorporates select key financial data from various relevant periods to support this analysis.

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

- Income Statements, which measure the Postal Service's financial performance (profit and loss) over the fiscal year

- Balance Sheets, which summarize the Postal Service's assets and liabilities held at the end of the fiscal year

- Statements of Changes in Net Deficiency, which combine the accumulated net deficit from operations and initial capital contributions

- Statements of Cash Flows, which measure the Postal Service's inflows and outflows of cash during the fiscal year

This chapter is divided into the following sections:

Analysis of Income Statements. This section reviews overall income and expenses and compares actual revenue and expenses with those forecasted for the current year and reported during the prior fiscal year. It also includes an analysis of key financial ratios that help the Commission further assess the Postal Service's profitability.

Analysis of Balance Sheets. This section begins with a summary of the Postal Service's assets and liabilities at the end of the fiscal year. The section also discusses changes in net deficiency, which occur because Postal Service liabilities exceed its assets. The remainder of the section provides a financial ratio analysis to assess both the short-term and long-term stability of the Postal Service.

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

Analysis of Income Statements

To facilitate a detailed financial analysis of the Postal Service's Income Statements, the Commission separately identifies elements of reported operating revenue and operating expenses. Net operating revenue includes mail and services revenue as well as government appropriations revenue.[7] Net operating expense is calculated as the total expenses minus accruals for certain unfunded retirement liabilities and the non-cash adjustments to the workers' compensation liability.[8] The unfunded retirement liabilities consist of three components: (1) amortization of unfunded liabilities for retiree health benefits in the Retiree Health Benefits Fund (RHBF), (2) for pensions in the Civil Service Retirement System (CSRS), and (3) the Federal Employees Retirement System (FERS) in the Civil Service Retirement and Disability Fund (CSRDF).[9]

The PAEA[10] established the RHBF to fund the long-term retiree health benefits for postal employees, retirees, and their survivors. From FY 2007 through FY 2016, the PAEA required the Postal Service to make specified annual payments into the RHBF. The Postal Service defaulted on its annual payments from years FY 2012 through FY 2017, leaving a $33.9 billion unfunded balance in the RHBF.[11] Beginning in FY 2017, these annual installment payments were replaced with annual amortization payments calculated by the Office of Personnel Management (OPM) for any remaining unfunded balance to liquidate the fund and ensure that RHB liabilities are fully funded by 2056. In addition, beginning in FY 2017, the Postal Service's share of healthcare premiums for retired employees has been paid from the RHBF. The Postal Service is also required to make annual contributions to the RHBF for the normal costs[12] of retiree health benefits. In FY 2020, the Postal Service did not make either the normal cost or the unfunded amortization payments, totaling $4.7 billion. At the end of FY 2020, the Postal Service had a total unpaid balance of $51.9 billion in retiree health benefit liabilities.[13]

The PAEA suspended the Postal Service's contributions for CSRS until after FY 2016. In June 2017, OPM revalued the CSRS liability at $26.9 billion and assessed annual installment payments in order to liquidate the unfunded liability by FY 2043. In FY 2020, the Postal Service did not pay its annual installment of $1.8 billion. As of September 30, 2020, the Postal Service had a total of $6.6 billion in unpaid CSRS liabilities for years FY 2017 through FY 2020.

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[7] In FY 2020, $73 billion (98.7 percent) of total Postal Service revenue came from the sale of postage and mail services. It received a small governmental appropriation for providing free mail for the blind and overseas voting and a few other programs.

[8] These adjustments and expenses are properly recognized as accrual entries on the Postal Service's Income Statements and are disaggregated by the Commission to provide an in-depth analysis of the financial results for FY 2020. The Postal Service considers these expenses non-controllable.

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

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

[11] For years FY 2007 through FY 2011, the Postal Service contributed $20.9 billion into the RHBF. Postal Service FY 2020 Form 10-K at 8.

[12] Normal costs represent the present value of the estimated retiree health benefits attributable to active employees' current year of service. *Id.* at 9.

[13] *Id.* at 10.

The Postal Service is also required to make annual amortization payments for unfunded FERS liabilities. FERS is a defined benefit plan that, up until FY 2013, had assets that exceeded its liabilities. Since FY 2013, liabilities have grown faster than assets, requiring the Postal Service to make annual amortization payments. These payments are calculated annually by the OPM to liquidate the unfunded liability over a 30-year period on a rolling basis. In FY 2020, the Postal Service did not make the FERS amortization payment of $1.3 billion. Since FY 2013, the Postal Service has accumulated total unpaid FERS liabilities of $4.8 billion.[14]

The Postal Service's FY 2020 net operating loss is $409 million more than the FY 2019 loss.

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

Table II-1
Analysis of Postal Service Income Statements, FY 2019 and FY 2020 ($ in Millions)

	FY 2019	FY 2020	$ Change	FY 2020 Plan	$ Change from Plan
Net Operating Revenue	**$ 71,154**	**$ 73,133**	**$ 1,979**	**$ 71,651**	**$ 1,482**
Operating Expense as Reported by the Postal Service	79,879	82,187	2,308	79,167	3,020
Less: Amortization of RHB Unfunded Liability	(789)	(810)	(21)	(900)	90
Amortization of CSRS Unfunded Liability	(1,617)	(1,817)	(200)	(1,617)	(200)
Amortization of FERS Unfunded Liability	(1,060)	(1,343)	(283)	(1,060)	(283)
Non-Cash Change to Workers' Compensation Liability	(2,155)	(1,605)	550	0	(1,605)
Net Operating Expense	**$ 74,258**	**$ 76,612**	**$ 2,354**	**$ 75,590**	**$ 1,022**
Interest Income	152	92	(60)	157	(65)
Interest Expense	240	214	(26)	255	(41)
Net Income (Loss) from Operations	**$ (3,192)**	**$ (3,601)**	**$ (409)**	**$ (4,037)**	**$ 436**
Amortization of RHBF Unfunded Liability	789	810	21	900	(90)
Amortization of CSRS Unfunded Liability	1,617	1,817	200	1,617	200
Amortization of FERS Unfunded Liability	1,060	1,343	283	1,060	283
Non-Cash Change to Workers' Compensation Liability	2,155	1,605	(550)	0	1,605
Net Loss	**$ (8,813)**	**$ (9,176)**	**$ (363)**	**$ (7,614)**	**$ (1,562)**

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. ACR2020, Library Reference USPS-FY20-5, December 29, 2020; Docket No. ACR2019, Library Reference USPS-FY19-5, December 27, 2019; FY 2012 Plan data from USPS Preliminary Financial Information (Unaudited), September 2020, November 13, 2020 (November 13, 2020, Preliminary Financial Information), file "2020.11.13 September 2020 Monthly Financial Report to the PRC.pdf."

Net operating loss occurs when the costs of running a business are not covered by revenue. Sustained net operating losses can indicate deterioration of the business. The Postal

[14] Form 10-K at 10.

Service's FY 2020 net operating loss is $409 million more than the FY 2019 loss, representing a decline in profitability.[15]

The COVID-19 pandemic had a significant impact on Postal Service operations during FY 2020.[16] Stay-at-home orders, business closings, and travel restrictions affected Postal Service volume, revenue, and expenses. Beginning in March 2020, stay-at-home orders were issued for the majority of the country to slow the spread of COVID-19. These restrictions closed many businesses throughout the country and limited travel.

Expenses increased in FY 2020. This was due to increases in compensation, transportation and supplies and services.

Operating revenue increased by approximately $2 billion compared to FY 2019. This increase in revenue was driven by significant package volume increases that resulted from a rise in fulfillment of online-ordered goods to households during the pandemic. Partially offsetting the increase in Competitive revenue was a significant decline in Market Dominant volume and revenue driven by pandemic-related business closings.[17]

Net operating expenses were $2.4 billion greater in FY 2020 than the prior year, primarily driven by increases in compensation, transportation, and supplies and services. The increase was largely caused by the pandemic-related increases in more labor-intensive package shipping, enhanced safety measures, and disruptions in air and highway transportation.[18]

When adding the adjustments back in, the net operating loss of $3.6 billion becomes a total net loss of $9.2 billion. This loss is $363 million higher than the total net loss in FY 2019. As shown in Table II-1, the slight improvement in the non-operating expenses results from higher retirement expenses fully offset by a favorable adjustment to the non-cash portion of workers' compensation expense.[19]

MARKET DOMINANT REVENUE COMPARED TO PRIOR YEAR

The discussion in this section summarizes the overall revenue by class for Market Dominant products. Chapter 3 disaggregates revenue by class and product. Table II-2 compares FY 2020 and FY 2019 revenue by class.

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[15] The Commission's calculation of net operating income (loss) differs from the controllable net income (loss) reported in Postal Service Form 10-K by negative $151 million and negative $226 million for FY 2019 and FY 2020, respectively. The Postal Service excludes the difference in the normal cost of RHBs from its controllable income (loss) because it is the result of actuarial changes. Postal Service FY 2020 Form 10-K at 23.

[16] *See also* United States Postal Service, Office of Inspector General, Report No. 20-257-R21, Impact of Pandemic on Postal Service Finances, March 29, 2021, available at ***https://www.uspsoig.gov/sites/default/files/document-library-files/2021/20-257-R21.pdf.***

[17] Form 10-K at 21.

[18] *Id.* at 31, 44, and 45.

[19] Workers' compensation is administered by the U.S. Department of Labor and its calculation reflects the impacts of changes in discount rates as well as actuarial revaluation of new cases and revaluation of existing ones. The decrease in the FY 2020 non-cash portion of workers' compensation expense was driven by a less significant decrease in discount rates in FY 2020 compared to FY 2019. Postal Service FY 2020 Form 10-K at 43.

Table II-2
Revenue by Market Dominant Class,[20] FY 2019 and FY 2020 ($ in Millions)

	FY 2019	FY 2020	$ Change	% Change
First-Class Mail	$ 25,462	$ 24,203	$ (1,259)	(4.9%)
Marketing Mail	16,407	13,959	(2,448)	(14.9%)
Periodicals	1,194	1,024	(170)	(14.3%)
Package Services	821	832	11	1.4%
Ancillary and Special Services	1,810	1,713	(97)	(5.4%)
Subtotal Market Dominant Mail and Services Revenue	**$ 45,695**	**$ 41,731**	**$ (3,964)**	**(8.7%)**
Other	1,299	779	(520)	(40.1%)
Total Market Dominant Mail and Services Revenue	**$ 46,994**	**$ 42,509**	**$ (4,484)**	**(9.5%)**

Decrease in revenue is denoted by ().
Numbers may not add across due to rounding.
Source: Library Reference PRC-LR-ACR2020/1, March 29, 2020; Docket No. ACR2020, Library Reference PRC-LR-ACR2019/1, March 25, 2020; Library Reference USPS-FY20-42, December 29, 2020.

Market Dominant Mail and Services revenue[21] declined 8.7 percent from the prior year. Revenue declined in all Market Dominant classes, except Package Services.

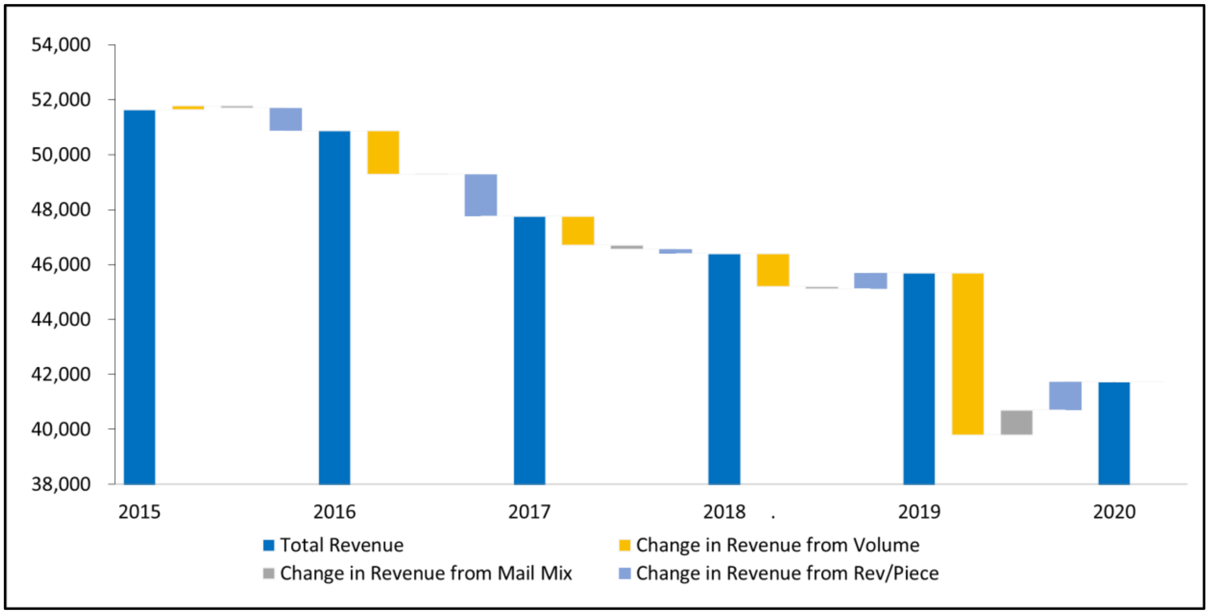
Changes in revenue per piece resulting from rate increases, volume changes, and migration between classes, products, and rate categories (known as mail mix fluctuations) affect total revenue. Figure II-1 isolates the change in Market Dominant revenue due to mail volume changes, mail mix, and average revenue per piece for each year since FY 2015. For overall Market Dominant products, increases in revenue per piece were not enough to offset volume decline and mail mix fluctuations. The volume impact was particularly dramatic in FY 2020.

Total Market Dominant Mail and Services revenue declined 8.7 percent from the prior year. Revenue declined in all Market Dominant classes, except Package Services.

As shown in Table II-2, the largest contributing factor to the overall decline in Market Dominant revenue was revenue losses in both First-Class Mail and Marketing Mail primarily caused by volume losses. First-Class Mail volume declined by 2.7 billion pieces, and Marketing Mail volume declined by 11.5 billion pieces compared with FY 2019. According to the Postal Service, pandemic-related volume losses began a rapid overall volume decline in March 2020, followed by a modest recovery in the third and fourth quarters.[22]

[20] Other Market Dominant revenue includes appropriations, miscellaneous item revenue, and revenue foregone.
[21] This excludes Other Market Dominant Mail revenue.
[22] Postal Service Form FY 2020 Form 10-K at 68.

Figure II-1
Change in Market Dominant Revenue Due to Changes in Mail Volume, Mail Mix, and Average Revenue per Piece, FY 2015-FY 2020 ($ in Millions)



Source: PRC derived from Docket No. ACR2015, Library Reference USPS-FY15-42, December 28, 2015; Docket No. ACR2016, Library Reference USPS-FY16-42, December 27, 2016; Docket No. ACR2017, Library Reference USPS-FY17-42, December 29, 2017; Docket No. ACR2018, Library Reference USPS-FY18-42, December 28, 2014; Library Reference USPS-FY19-42, December 27, 2019; Docket No. ACR2020, Library Reference USPS-FY20-43, December 29, 2020 (collectively, Postal Service RPW Report, FY 2015–FY 2020).

COMPETITIVE PRODUCT REVENUE COMPARED TO PRIOR YEAR

Total revenue from Competitive products increased $6.4 billion or 26.5 percent compared to FY 2019, resulting from volume increases in all products except for Priority Mail Express. Shipping and packages volume began to increase during the pandemic as online shopping increased. Table II-3 compares revenue for Competitive products between FY 2020 and FY 2019.

Total revenue from Competitive products increased 26.5 percent in FY 2020.

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

	FY 2019	FY 2020	$ Change	% Change
Priority Mail	$ 9,464	$ 11,529	$ 2,065	21.8%
Total Ground	7,271	9,195	1,924	26.5%
First-Class Package Service	4,466	6,228	1,762	39.4%
Priority Mail Express	716	697	(19)	(2.7%)
International	1,380	1,959	579	42.0%
Ancillary and Special Services	911	1,004	93	10.3%
Subtotal Competitive Products Mail and Services Revenue	$ 24,207	$ 30,611	$ 6,404	26.5%
Other Revenue	142	142	(0)	(0.2%)
Total Competitive Products Mail and Services Revenue	$ 24,349	$ 30,752	$ 6,403	26.3%

Decrease in revenue denoted by ().
Numbers may not add across due to rounding.
Source: Library Reference PRC-LR-ACR2020/1; Library Reference PRC-LR-ACR2019/1; Library Reference USPS-FY19-42.

EXPENSE ANALYSIS AS COMPARED TO PRIOR YEAR

As noted earlier, for purposes of understanding the Postal Service's financial position, the Commission differentiates between operating and total expenses. As shown in Table II-4, in FY 2020, total expenses increased by $2.3 billion (2.9 percent) while operating expenses increased by $2.4 billion (3.2 percent). The increase in operating expenses was due to increases in personnel ($1.5 billion) and transportation ($0.6 billion) expenses. A decline in the non-cash change to workers' compensation liability ($0.6 billion) offset increases in retirement amortization expenses ($0.5).

Table II-4
Total Expenses, FY 2019 and FY 2020 ($ in Millions)

	FY 2019	FY 2020	$ Change	% Change	% of Total Expenses FY 2019	% of Total Expenses FY 2020
Compensation & Benefits Expenses:						
Salaries and Benefits	$ 50,934	$ 52,411	$ 1,477	2.9%	63.8%	63.8%
Workers' Compensation - Cash Outlays	1,349	1,298	(51)	(3.8%)	1.7%	1.6%
Normal Costs of Retiree Health Benefits	3,774	3,850	76	2.0%	4.7%	4.7%
Other Personnel Related	105	123	18	17.1%	0.1%	0.1%
Subtotal Personnel Expenses Excluding Systemwide Personnel Expenses	**$ 56,162**	**$ 57,682**	**$ 1,520**	**2.7%**	**70.3%**	**70.2%**
Transportation	8,184	8,814	630	7.7%	10.2%	10.7%
Other Expenses	9,911	10,116	205	2.1%	12.4%	12.3%
Total Operating Expenses	**$ 74,258**	**$ 76,612**	**$ 2,354**	**3.2%**	**93.0%**	**93.2%**
Systemwide Personnel Expenses:						
Non-Cash Change to Workers' Compensation Liability	2,155	1,605	(550)	NMF	2.7%	2.0%
Amortization of RHB Unfunded Liability	789	810	21	2.7%	1.0%	1.0%
Amortization of FERS Unfunded Liability	1,060	1,343	283	26.7%	1.3%	1.6%
Amortization of CSRS Unfunded Liability	1,617	1,817	200	12.4%	2.0%	2.2%
Total Expenses	**$ 79,879**	**$ 82,187**	**$ 2,308**	**2.9%**	**100.0%**	**100.0%**

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

Numbers may not add across due to rounding.

Source: USPS Preliminary Financial Information (Unaudited), September 2020, November 13, 2020 (November 13, 2020, Preliminary Financial Information), file "2020.11.13 September 2020 Monthly Financial Report to the PRC.pdf."

PERSONNEL EXPENSES

The majority of Postal Service expenses are personnel-related. In FY 2020, personnel expenses excluding the non-cash adjustment to workers' compensation and amortization costs of unfunded retirement liabilities made up 75.3 percent of operating expenses; when these expenses are included, Postal Service labor costs are 77.0 percent of total expenses.

The Postal Service's labor costs are a large proportion of total costs. Compensation and benefits expenses made up 77.0 percent of total costs in FY 2020.

Table II-5 shows that total personnel expenses for FY 2020 increased by $1.5 billion from FY 2019, resulting from increases in personnel operating expenses. The decline in the non-cash adjustment to workers' compensation liability[23] fully offsets the increase in non-operating retirement expenses. Compensation, retirement, and health benefit expenses all increased during FY 2020.

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

Table II-5
Breakdown of Total Personnel Expenses, FY 2019 and FY 2020 ($ in Millions)

	FY 2019	FY 2020	$ Change	% Change
Total Compensation	$ 38,756	$ 39,754	$ 998	2.6%
Retirement	6,846	7,254	409	6.0%
Health Benefits-Current Employees	5,121	5,188	67	1.3%
Workers' Compensation - Cash Outlays	1,349	1,298	(51)	(3.8%)
Normal Costs of Retiree Health Benefits	3,774	3,850	76	2.0%
Other Compensation	317	338	21	6.6%
Total Personnel Operating Expenses	**$ 56,163**	**$ 57,682**	**$ 1,520**	**2.7%**
Non-Cash Change to Workers' Compensation Liability	2,155	1,605	(550)	NMF
Amortization of RHB Unfunded Liability	789	810	21	2.7%
Amortization of FERS Unfunded Liability	1,060	1,343	283	26.7%
Amortization of CSRS Unfunded Liability	1,617	1,817	200	12.4%
Total Personnel Expenses	**$ 61,784**	**$ 63,257**	**$ 1,474**	**2.4%**

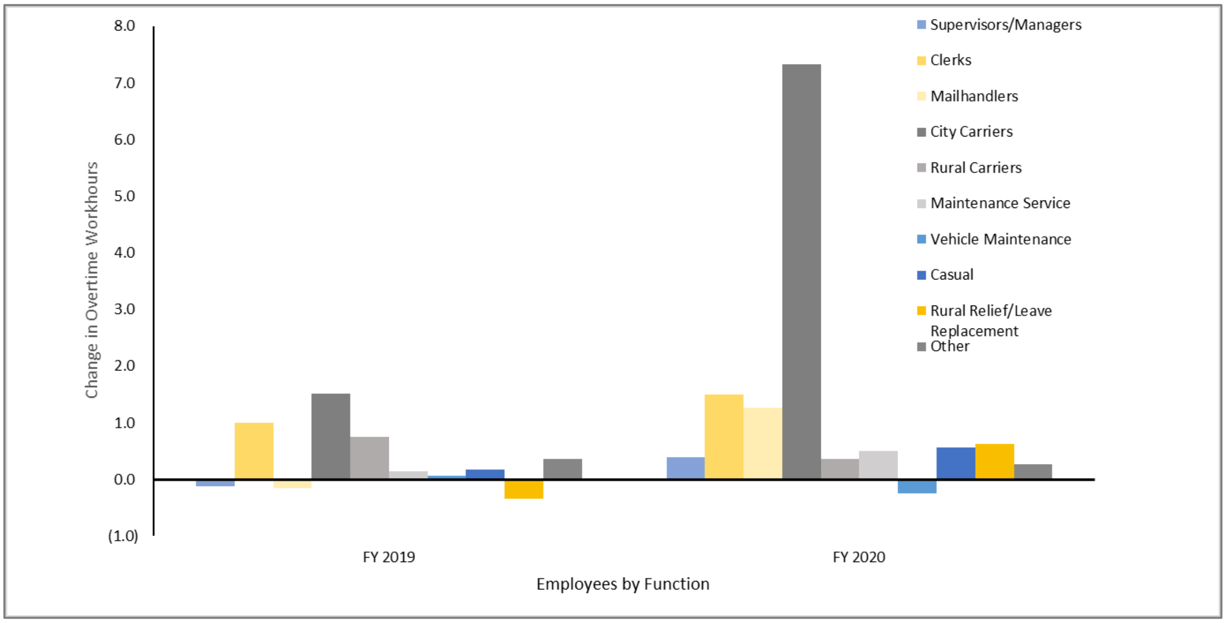
Decrease in expenses is denoted by (). NMF denotes not meaningful figures.
Numbers may not add across due to rounding.
Source: PRC derived from Postal Service National Trial Balance September 2020; Postal Service National Trial Balance September 2019.

The total compensation in FY 2020 increased by approximately $1 billion compared to FY 2019 primarily due to additional city carrier overtime hours.

Total compensation comprises salaries for employees (full-time career, part-time career, and non-career), overtime and leave pay, and performance or arbitration awards. There are several cost drivers for compensation, including contractual pay increases, inflation used to calculate semi-annual Cost of Living Allowances (COLAs), the number of overtime workhours, and the composition of the workforce. Total compensation in FY 2020 increased by approximately $1 billion compared to FY 2019 primarily due to additional city carrier overtime hours needed for the higher shipping and packages volumes, contractual wage increases, and new paid leave categories that resulted from the passage of the Families First Coronavirus Response Act (FFCRA).[24] Overtime hours increased by 12.6 million (9.3 percent) compared to FY 2019, resulting in a $0.6 billion increase in overtime compensation expense.

[24] Postal Service Form 10-K at 31.

Figure II-2
Change in Overtime Workhours, FY 2019 and FY 2020[25] (in Millions)



Source: PRC derived from National Payroll Hours Summary Report, Pay Period 20, 2020, September 2020, October 7, 2020; National Payroll Hours Summary Report, Pay Period 20, 2019, October 15, 2019.

The Postal Service's workforce comprises career (full-time and part-time) and non-career employees, including postal support employees, city carrier assistants, mail handler assistants, and other non-career employees. Table II-6 shows the number of employees by type for FY 2018-FY 2020.

Table II-6
Postal Service Employee Complement, FY 2018–FY 2020

	FY 2019	FY 2020	Change FY 2020 over FY 2019	FY 2018	Change FY 2019 over FY 2018
Career Employees	496,934	495,941	(993)	497,157	(223)
Postal Support Employees (PSE)	26,251	25,778	(473)	26,386	(135)
City Carrier Assistants (CCA)	42,121	38,079	(4,042)	42,115	6
Mailhandler Assistants (MHA)	6,369	12,927	6,558	6,274	95
Other Non-Career	61,433	71,308	9,875	62,515	(1,082)
Total On-Roll Employees	**633,108**	**644,033**	**10,925**	**634,447**	**(1,339)**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2020, October 7, 2020; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2019, October 15, 2019 (Postal Service September 2019 ORPES Report); United States Postal Service On-Roll and Paid Employee Statistics Report, September 2018, October 11, 2018 (Postal Service September 2018 ORPES Report).

In FY 2020, the Postal Service's total workforce increased by more than 10 thousand employees resulting from an increase in the non-career workforce of approximately 12

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

thousand positions, offset by a decrease of almost 1 thousand career positions. According to the Postal Service, the increase in the non-career workforce reflected the need to address the pandemic-related surge in shipping and packages volume.[26] The decline in career workforce positions resulted from normal attrition to align the workforce with declining mail volume.[27]

In May 2019, the Postal Service reached a 3-year agreement with the National Rural Letter Carriers Association (NRLCA), which includes modest general wage increases over the life of the contract and a reduction in the Postal Service share of health insurance premiums.[28]

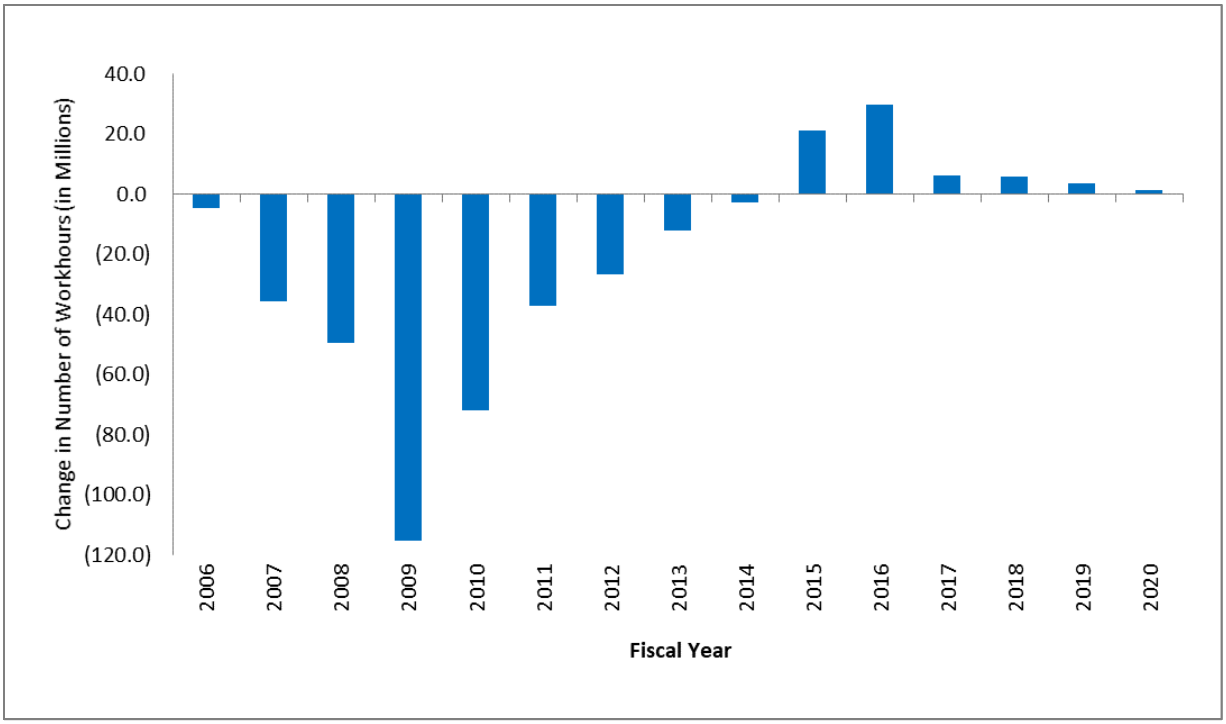
The new American Postal Workers Union, AFL-CIO (APWU) contract includes modest general wage increases, a reduction in Postal Service share of health insurance premiums, and wage improvements for postal support employees. The contract will expire on September 20, 2021.[29]

In January 2020, the Postal Service reached an agreement with the National Postal Mail Handlers Union, AFL-CIO (NPMHU), on a new three-year agreement which union membership ratified on April 7, 2020. The new contract includes modest wage increases, a reduction in health insurance premiums, increased flexibility to use mail handler assistants, and the elimination of non-career casual employees. The contract will expire on September 20, 2022.[30] In November 2020, the Postal Service reached a tentative agreement, subject to ratification, with the National Association of Letter Carriers, AFL-CIO (NALC) that provides wage increases and a reduction in health insurance premiums.[31]

Total workhours increased by approximately 1.1 million during FY 2020[32] Figure II-3 illustrates the change in total workhours since FY 2006.

[26] Postal Service Form 10-K at 32.
[27] *Id.*
[28] *Id.* at 78.
[29] *Id.*
[30] *Id.*
[31] Postal Service Quarter I, 2021 Form 10-Q, February 9, 2021, at 13.
[32] Postal Service FY 2020 Form 10-K at 32.

Figure II-3
Change in Total Workhours, FY 2006–FY 2020



Source: Postal Service Form 10-K, FY 2006–FY 2020.

An analysis of workhours by function shows that in FY 2020, workhours increased in Rural Delivery (2.8 percent), and Vehicle Maintenance (0.8 percent)., categories.[33] Workhours declined in Mail Processing (0.8 percent), Customer Service (0.8 percent), City Delivery (0.04 percent), Plant & Equipment (1.6 percent) as shown in Table II-7 and Other (1.2 percent).

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

Table II-7
Workhours by Function (Thousands of Workhours), FY 2018–FY 2020

	FY 2019	FY 2020	% Change FY 2020 over FY 2019	FY 2018	% Change FY 2019 over FY 2018
Mail Processing	194,905	193,286	(0.8%)	198,029	(1.6%)
Customer Service	168,992	167,676	(0.8%)	169,372	(0.2%)
Delivery Service:					
City Delivery	425,894	425,728	(0.04%)	426,353	(0.1%)
Rural Delivery	211,505	217,396	2.8%	204,874	3.2%
Maintenance:					
Plant & Equipment	62,525	61,540	(1.6%)	63,302	(1.2%)
Vehicle	30,822	31,058	0.8%	29,990	2.8%
Other	78,566	77,642	(1.2%)	77,697	1.1%
Total Workhours	**1,173,208**	**1,174,326**	**0.1%**	**1,169,617**	**0.3%**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Library Reference USPS-FY20-7, December 29, 2020; Docket No. ACR2019, Library Reference USPS-FY19-7, December 27, 2019; Library Reference USPS-FY18-7, December 28, 2018.

The Postal Service defines productive hourly wage rates as the labor costs per work hour by cost segment/craft.[34] This metric reflects the effect of wage levels, the composition of workers, overtime, pay premiums, and leave usage on hourly labor costs. Table II-8 shows the productive hourly wage rates.[35] The productive hourly wage rate for building equipment (3 percent) and headquarters (3.6 percent) decreased compared to the prior year. The productive hourly wage rate for supervisors (2.6 percent), clerks (5.1 percent), mailhandlers (0.8 percent), vehicle drivers (4.6 percent), city delivery carriers (1.9 percent), rural carriers (0.2 percent), building services (6.6 percent), operating equipment (7.4 percent), and motor vehicle service (4.2 percent) all increased compared to the prior year.

[34] USPS-FY20-17 Preface at 1.

[35] The productive hourly wage rate is a measure of total compensation and benefits costs per hour worked. Compensation includes overtime, annual, sick, or holiday pay and any other hourly pay premiums.

Table II-8
Productive Hourly Wage Rates ($ per Workhour), FY 2018–FY 2020

	FY 2019	FY 2020	% Change FY 2020 over FY 2019	FY 2018	% Change FY 2019 over FY 2018
Supervisors & Technicians	$ 52.78	$ 54.17	2.6%	$ 52.52	0.5%
Clerks	40.61	42.69	5.1%	40.87	(0.6%)
Mailhandlers	41.45	41.80	0.8%	41.27	0.5%
City Delivery Carriers	42.34	43.17	1.9%	41.31	2.5%
Vehicle Drivers	45.41	47.52	4.6%	45.67	(0.6%)
Rural Carriers	38.17	38.25	0.2%	36.72	3.9%
Building Services	42.96	45.80	6.6%	43.37	(0.9%)
Operating Equipment	54.36	58.41	7.4%	55.32	(1.7%)
Building Equipment	55.32	53.65	(3.0%)	51.36	7.7%
Motor Vehicle Service	50.66	52.78	4.2%	49.86	1.6%
Headquarters	71.36	68.81	(3.6%)	68.07	4.8%

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
NMF = Not Meaningful Figure
Source: Library Reference USPS-FY20-7, December 29, 2020; Library Reference USPS-FY19-7, December 28, 2019; Library Reference USPS-FY18-7, December 28, 2018.

Workers' compensation expenses declined by $0.6 billion in FY 2020. Workers' compensation expenses consist of a cash payment and a non-cash change in long-term workers' compensation liability. The cash payment is paid to the United States Department of Labor for the current year's cost of medical and compensation benefits and an administrative fee. The non-cash change in long-term workers' compensation expense includes actuarial revaluations of existing cases and new cases, initial costs of new cases for the year, and any changes in the discount rate used to estimate the amount of current funds needed to settle all claims in the current year. These factors cause the non-cash portion of workers' compensation to fluctuate year to year. In FY 2020, the non-cash component of long-term workers' compensation expense declined slightly by $51 million compared to the prior year. The portion of long-term workers' compensation expense attributable to the impact of discount rate changes resulted in a $0.6 billion increase.[36] Table II-9 disaggregates components factoring into the workers' compensation expense for the past two years.

[36] Postal Service FY 2020 Form 10-K at 43.

Table II-9
Components of Workers' Compensation Expense, FY 2019 and FY 2020 ($ in Millions)

	FY 2019	FY 2020	$ Change	% Change
Medical and Compensation Claims Payments	$ 1,266	$ 1,216	$ (50)	(3.9%)
Administrative Fee	83	82	(1)	(1.2%)
Cash Outlays	**$ 1,349**	**$ 1,298**	**$ (51)**	**(3.8%)**
(Decrease) Increase in Long Term Workers' Compensation Obligation	2,155	1,605	(550)	(25.5%)
Workers' Compensation Expense	**$ 3,504**	**$ 2,903**	**$ (601)**	**(17.2%)**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
NMF = Not Meaningful Figure
Source: Postal Service FY 2020 Form 10-K at 42-43.

NON-PERSONNEL EXPENSES

Transportation is by far the biggest non-personnel Postal Service expense. It accounts for 10.7 percent of total expenses. Table II-10 shows transportation expenses by category.

Table II-10
Transportation Expenses by Category, FY 2019 and FY 2020 ($ in Millions)

	FY 2019	FY 2020	$ Change	% Change
Highway Transportation	$ 4,517	$ 4,753	$ 236	5.2%
Air Transportation	3,070	3,461	391	12.7%
International Transportation	556	555	(1)	(0.2%)
Other Transportation	41	45	4	9.8%
Total Transportation	$ 8,184	$ 8,814	$ 630	7.7%

Decrease in expenses is denoted by (). Numbers may not add across due to rounding.
Source: Postal Service FY 2020 Form 10-K at 43-44.

Purchased transportation costs represent the largest non-personnel Postal Service expense, at about 10.7 percent of total expenses. Total transportation expenses increased by 7.7 percent in FY 2020.

Total transportation expenses increased by 7.7 percent from FY 2019. Air transportation expenses increased by 12.7 percent compared to last year resulting from the pandemic-related package volume increases and travel restrictions, slightly offset by lower average jet fuel prices.[37] Highway transportation expenses increased by 5.2 percent resulting from an increase in miles driven due to pandemic-related shifts in modes of transportation.[38] A decline in international transportation (including only expenses related to outbound mail) of 0.2

[37] Postal Service FY 2020 Form 10-K at 44.
[38] *Id.*

percent slightly offsets these expenses. This decline resulted from volume declines in Priority Mail International and other international service volumes.[39]

Table II-11 shows all other non-personnel-related expenses increased by $0.2 billion in FY 2020. Increases in supplies and services, depreciation, rent and utilities, and information technology partially offset declines in vehicle maintenance, delivery vehicle fuel, rural carrier equipment maintenance, and other expenses. The $0.3 billion increase in supplies and services was largely the result of additional COVID-19 related expenses.[40] Miscellaneous other expenses consist mainly of travel, training, repairs, and contingency accounts.

Table II-11
Other Non-Personnel Expenses, FY 2019 and FY 2020 ($ in Millions)

	FY 2019	FY 2020	$ Change	% Change
Supplies and Services	$ 2,819	$ 3,088	$ 269	9.5%
Depreciation and Amortization	1,697	1,706	9	0.5%
Rent and Utilities	1,714	1,757	43	2.5%
Vehicle Maintenance Services	627	618	(9)	(1.4%)
Delivery Vehicle Fuel	491	432	(59)	(12.0%)
Information Technology and Communications	916	946	30	3.3%
Rural Carrier Equipment Maintenance	588	586	(2)	(0.3%)
Miscellaneous Other	1,059	983	(76)	(7.2%)
Total Other Non-Personnel Expenses	**$ 9,911**	**$ 10,116**	**$ 205**	**2.1%**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service FY 2020 Form 10-K at 44.

Comparison of Postal Service Actual Results to Operating Plan

Each year the Postal Service develops an integrated financial plan that includes forecasts of volume, revenue, and expenses for the following year.[41] This section compares the Postal Service's forecasts with actual results. The Postal Service's FY 2020 Operating Plan, as outlined in its 2020 Integrated Financial Plan (IFP), projected a net loss of $7.6 billion in FY 2020.[42] The actual total net loss of $9.2 billion was $1.6 billion more than the Postal Service estimated. Total revenue was $1.4 billion more than planned. Total operating expenses were $1.0 billion more than planned with net retirement accruals slightly over budget by $0.4 billion. However, if the $1.6 billion change in non-cash worker's compensation is excluded from the comparison, the Postal Service's projected net loss was in line with its actual net loss. Table II-12 compares actual FY 2020 results with the estimated results in the Operating Plan.

[39] *Id.*
[40] *Id.*
[41] *See also* United States Postal Service, Office of Inspector General, Report No. 21-037-R21, Pandemic Volume and Revenue Projected Scenarios, February 10, 2021, available at https://www.uspsoig.gov/sites/default/files/document-library-files/2021/21-037-R21.pdf.
[42] United States Postal Service, Integrated Financial Plan, Fiscal Year 2020, February 13, 2020, at 1 (Postal Service FY 2020 IFP); *see also* Postal Service September 2020 IFP Report.

Table II-12
Actual and Operating Plan Income Statements, FY 2020 ($ in Billions)

	FY 2020 Actual		FY 2020 Operating Plan		$ Change	
Total Revenue	$	73.2	$	71.8	$	1.4
Total Operating Expense		76.8		75.8		1.0
Net Operating Income/(Loss)	**$**	**(3.6)**	**$**	**(4.0)**	**$**	**0.4**
Non-Cash Change to Workers' Compensation		1.6		0.0		1.6
RHBF Unfunded Liability Amortization		0.8		0.9		(0.1)
FERS Unfunded Liability Amortization		1.3		1.1		0.3
CSRS Unfunded Liability Amortization		1.8		1.6		0.2
Total Net Income/(Loss)	**$**	**(9.2)**	**$**	**(7.6)**	**$**	**(1.6)**

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 2020, November 13, 2020, file "2020.11.13 September 2020 Monthly Financial Report to the PRC.pdf".

As seen in Table II-13, total revenue from Market Dominant mail was $3.9 billion less than expected, while Competitive mail was $5.2 billion greater than anticipated. First-Class and Marketing Mail revenues were less than projected, resulting from continuing migration to electronic communication exacerbated by pandemic-related volume declines.[43] Periodicals and Other Mail revenues were also less than the plan.[44]

[43] Form 10-K at 26.
[44] Other mail includes Market Dominant Package Services, Special Services, and Other Ancillary Services.

Table II-13
Actual and Operating Plan Revenue by Categories Shown in IFP,[45] FY 2020 ($ in Billions)[46]

	FY 2020 Actual	FY 2020 Operating Plan	$ Change
First-Class Mail	$ 23.8	$ 24.4	$ (0.6)
Periodicals	1.0	1.2	(0.2)
Marketing Mail	14.0	16.0	(2.0)
Other	3.2	4.2	(1.0)
Competitive and Other Parcels	28.8	23.6	5.2
International	2.4	2.4	(0.0)
Total Mail Revenue	**$ 73.1**	**$ 71.8**	**$ 1.3**

Decrease in revenue is denoted by ().
Numbers may not add across due to rounding.
Source: USPS Preliminary Financial Information (unaudited), September 2020, November 13, 2020, file "2020.11.13 September 2020 Monthly Financial Report to the PRC.pdf"; Postal Service Fiscal Year 2020 Integrated Financial Plan, February 13, 2020.

Total volume was less than expected, primarily due to lower than expected volume in USPS Marketing Mail and First-Class Mail. Table II-14 compares volumes for FY 2020 with the volume projected in the Operating Plan.

Table II-14
Actual and Operating Plan Volume by Categories Shown in IFP,[47] FY 2020 (in Billions)

	FY 2020 Actual	FY 2020 Operating Plan	Change
First-Class Mail	52.6	54.0	(1.4)
Periodicals	4.0	4.4	(0.4)
Marketing Mail	64.2	72.7	(8.5)
Other	0.9	0.3	0.6
Competitive and Other Parcels	6.7	6.0	0.7
International	0.7	0.7	0.0
Total Mail Volume	**129.2**	**138.1**	**(8.9)**

Decrease is denoted by (). Numbers may not add due to rounding.
Source: Postal Service September 2020 PFI Report at 2; Postal Service FY 2020 IFP at 3

[45] The Postal Service FY 2020 IFP isolates volume from International and Parcels from the other categories. *See* Postal Service FY 2020 IFP at 3.
[46] Total mail revenue excludes investment income.
[47] The Postal Service FY 2020 IFP isolates revenue and volume from International and Parcels from the other categories. *See* Postal Service FY 2020 IFP at 3.

Total expenses were $3.0 billion more than anticipated, the combined result of higher than expected operating and non-operating expenses. Total operating expenses were $1.0 billion more than expected; compensation and benefits ($0.6 billion), transportation ($0.3 billion), and supplies and services ($0.2 billion) were all higher than planned. Excluding the non-cash workers' compensation adjustment,[48] non-operating expenses were $0.4 billion higher than anticipated resulting from lower discount rates used in OPM's actuarial calculation of the unfunded FERS and CSRS annual installment payments.[49]

Total non-personnel expenses were $0.4 billion more than projected, resulting from higher than anticipated transportation and supplies and services expenses.

Table II-15
Actual and Operating Plan Expenses, FY 2020 ($ in Billions)

	FY 2020 Actual	FY 2020 Operating Plan	$ Change
Compensation & Benefits	$ 57.7	$ 57.1	$ 0.6
Transportation	8.8	8.5	0.3
Supplies & Services	3.1	2.9	0.2
Depreciation and Amortiation	1.7	1.7	0.0
Rent/Utilities/Other	5.3	5.5	(0.2)
Total Operating Expenses	**$ 76.6**	**$ 75.6**	**$ 1.0**
Workers' Compensation Adj.	1.6	0.0	1.6
RHB Unfunded Amortization	0.8	0.9	(0.1)
FERS Unfunded Amortization	1.3	1.1	0.3
CSRS Unfunded Amortization	1.8	1.6	0.2
Total Expenses	**$ 82.2**	**$ 79.2**	**$ 3.0**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service September 2020 PFI Report at 3; Postal Service FY 2020 IFP at 1.

[48] The Postal Service excludes the non-cash adjustment to workers' compensation from plan because it is dependent on actuarial assumptions, interest rates, and other factors outside of Postal Service management's control. *See IFP at 1.*
[49] FY 2020 Form 10-K at 35.

Financial Ratio Analysis

Financial ratios assist in interpreting accounting information. The Commission calculated key financial ratios to facilitate its analysis of the Postal Service's financial performance between FY 2006 and FY 2020. These ratios provide a concise and systematic way to organize financial data into meaningful information. The historic accounting information used in ratio analysis is not adjusted for inflation in order to maintain consistency with Generally Accepted Accounting Principles (GAAP) and comparability over time and also because some postal expenses, such as labor, retirement, and workers' compensation, are impacted by cost indexes other than inflation.

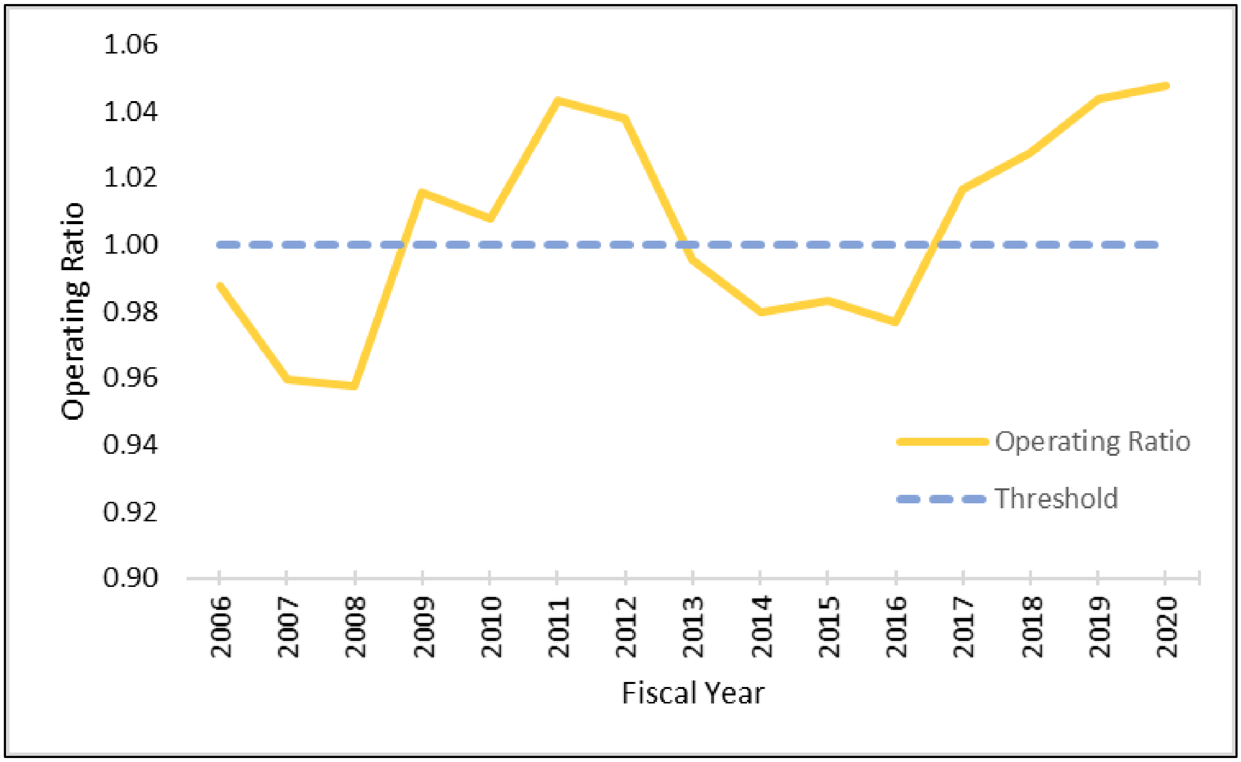
OPERATING RATIO

The operating ratio measures how well an organization can control operating expenses while generating revenue. The Commission measures this by comparing the Postal Service's total operating expenses to its total operating revenue. An operating ratio greater than 1.0 indicates a net operating loss, and a ratio less than 1.0 indicates a net operating profit.[50] In the period reflected in Figure II-4, the Postal Service had a net operating profit in FY 2006 through FY 2008 and FY 2014 through FY 2016. An increasing operating ratio indicates a deterioration in the Postal Service's ability to reduce its operating expenses while generating revenue. As seen in Figure II-4, although the Postal Service's operating ratio has fluctuated annually, it has trended upward since FY 2016; average growth in operating expense has increased at a higher rate than the growth in revenue over this period. Notably, for FY 2020, operating revenue and operating expenses are the highest in more than a decade.

Notably for FY 2020, operating revenue and operating expenses are higher than they have been in more than a decade.

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

Figure II-4
Operating Ratio Trend Since FY 2006

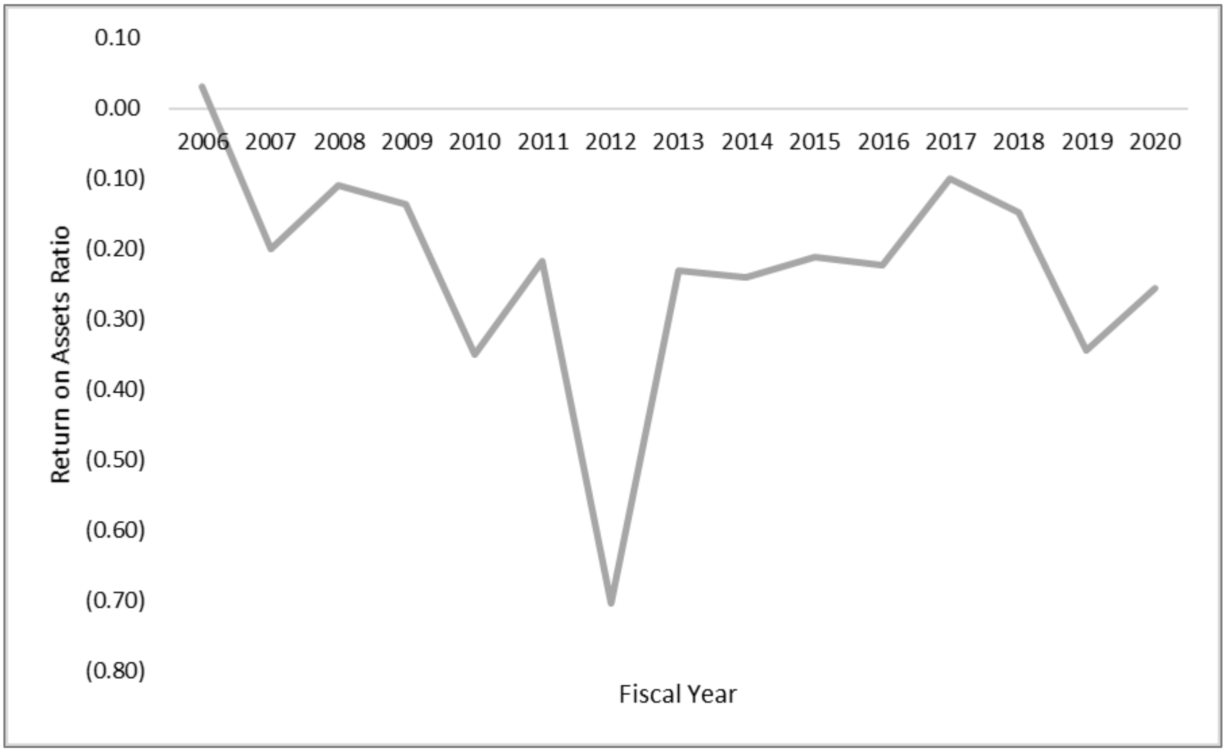


Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2020.

RETURN ON ASSETS

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

Figure II-5
Return on Assets Trend Since FY 2006



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2020.

The Postal Service's total assets are cash and cash equivalents, receivables and property, plant, and equipment. At the end of FY 2020, the Postal Service had a negative return on assets ratio of 0.26, an improvement compared to the prior year's ratio of 0.34. This resulted from a larger increase in total assets driven by an increase in cash from the issuance of notes payable and the addition to noncurrent assets of operating lease rights. In FY 2020, the Postal Service had the highest cash balance since FY 2006 with a 37 percent lower net asset base.[51]

In FY 2020, the Postal Service had the highest cash balance since FY 2006.

At the end of FY 2019, the Postal Service had a negative return on assets ratio of 0.34, a decline of 0.20 compared to the end of FY 2018. This was the result of the large increase in the Postal Service's net loss.

FY 2006 was the last year that showed a positive ratio. This was during the Postal Reorganization Act regime when revenue was required to cover costs (break-even). From FY 2007 through FY 2010, the percentage change in year-to-year net losses was greater than the percentage change in year-to-year total assets, resulting in increasingly negative ratios. During this period, the Postal Service began using available debt to invest in capital

[51] Net asset base includes property, plant, and equipment which has declined from $23.1 billion in FY 2006 to $14.6 billion in FY 2020.

and fund its operations. From FY 2006 through FY 2011, the Postal Service used $13 billion of its $15 billion allowable debt.[52] The sharp decline in FY 2012 was largely the result of two RHB prefunding payments totaling $11.1 billion. The improvement in FY 2014 through FY 2016 was primarily the result of revenue generated from the exigent surcharge[53] and improving cash balances resulting from defaults on annual RHB prefunding payments. The improvement in FY 2017 resulted from lower retirement-related health benefit expenses compared to the statutory prefunding of the RHB and a decrease in non-cash workers' compensation expense from higher discount rates.

Analysis of Balance Sheets

This section analyzes the Postal Service's financial situation and use of resources based on data from Balance Sheets prepared according to GAAP. The analysis compares two points in time, September 30, 2020 (FY 2020) and September 30, 2019 (FY 2019). Table II-16 compares certain categories in the Postal Service's asset and liability structure for FY 2020 with FY 2019.

Table II-16
Structure of Assets and Liabilities, FY 2019 and FY 2020 ($ in Millions)

				% of Total Assets	
Assets	**FY 2019**	**FY 2020**	**$ Change**	**FY 2019**	**FY 2020**
Cash and Cash Equivalents (includes Restricted Cash)	$ 9,161	$ 14,712	$ 5,551	35.7%	41.0%
Receivables	1,461	1,359	(102)	5.7%	3.8%
Supplies and Prepayments	178	224	46	0.7%	0.6%
Total Current Assets	10,800	16,295	5,495	42.1%	45.4%
Noncurrent Assets	14,833	19,609	4,776	57.9%	54.6%
Total Assets	**$ 25,633**	**$ 35,904**	**$ 10,271**	**100.0%**	**100.0%**
				% of Total Liabilities	
Liabilities	**FY 2019**	**FY 2020**	**$ Change**	**FY 2019**	**FY 2020**
Retiree Benefits	$ 47,205	$ 51,865	$ 4,660	48.6%	44.5%
Short-Term Debt	0	3,000	3,000	0.0%	2.6%
Deferred Revenue-Prepaid Postage	2,225	2,489	264	2.3%	2.1%
Other Current Liabilities	16,852	21,821	4,969	17.3%	18.7%
Total Current Liabilities	66,282	79,175	12,893	68.2%	67.9%
Workers' Compensation Costs, Noncurrent	17,170	18,754	1,584	17.7%	16.1%
Long-Term Debt	11,000	11,000	0	11.3%	9.4%
Other Noncurrent Liabilities	2,713	7,683	4,970	2.8%	6.6%
Total Noncurrent Liabilities	30,883	37,437	6,554	31.8%	32.1%
Total Liabilities	**$ 97,165**	**$ 116,612**	**$ 19,447**	**100.0%**	**100.0%**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service FY 2020 Form 10-K at 59.

[52] Postal Service Form 10-K, Balance Sheet, FY 2007–FY 2010.
[53] *See* Docket No. R2013-11, Order Granting Exigent Price Increase, December 24, 2013 (Order No. 1926).

At the end of FY 2020, total assets increased by $10.3 billion compared to the prior period, driven by increases in cash and the addition of operating lease rights, recorded as a noncurrent asset. Current assets are the sum of cash and cash equivalents, receivables and supplies, and prepayments, easily converted to cash for financing operations. Noncurrent assets, mainly buildings and equipment (capital assets), are more difficult to convert to cash in the short term.

At the end of FY 2020, the Postal Service had increased its cash balance by $5.5 billion compared to FY 2019, primarily resulting from $3 billion issuances of notes payable during FY 2020 and a deferral of approximately $1.2 billion in payments for the Postal Service's share of Social Security benefits.[54] Noncurrent assets increased by $4.8 billion resulting from the Postal Service's adoption of Accounting Standards Codification (ASC) 842 on October 1, 2019, which requires most leases to be recorded on the balance sheet as both a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term.[55]

Liabilities at the end of FY 2020 totaled $116.6 billion, 68 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 missed payments for statutory RHB prefunding and amortization of unfunded RHB liabilities, and defaulted payments for amortization of unfunded CSRS and FERS liabilities. The Postal Service continued to accrue unpaid retirement expenses, which totaled $51.9 billion at the end of FY 2020. This includes accruals for FY 2012 through FY 2016, when the Postal Service could not pay down the liability along with the amortization payments on the RHB unfunded liability. This obligation is 65.5 percent of current liabilities. Additionally, at the end of FY 2020, the Postal Service had an additional $3 billion in short-term debt compared to FY 2019. Long-term liabilities consist mainly of workers' compensation liability ($18.8 billion) and the total net debt owed to the Federal Financing Bank ($11 billion).

At the end of FY 2020, the Postal Service recorded an $80.7 billion net deficit.

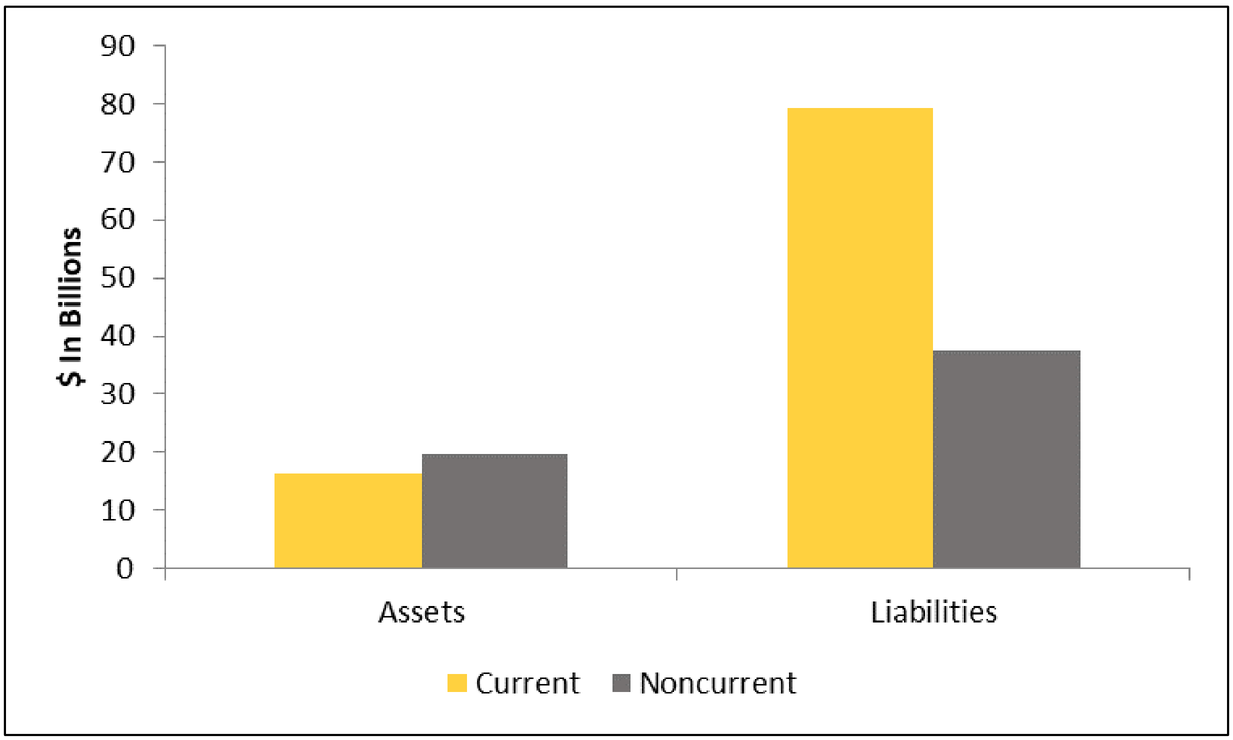
On the Balance Sheets, net deficiency represents the difference between total assets and total liabilities. This indicates whether assets were financed by borrowing (liability) or by capital contributions and accumulated earnings from prior years. Net deficiency occurs when liabilities are greater than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

At the end of FY 2020, the Postal Service recorded an $80.7 billion net deficit consisting of an accumulated deficit of $83.8 billion offset by capital contributions of $3.1 billion. This is primarily the result of multiple years of net losses, starting in FY 2007.

[54] Under the CARES Act, payment for the employer share of Social Security benefits through December 31, 2020 are deferred until December 31, 2021 and December 31, 2022. Postal Service Form 10-K at 50.
[55] *Id.* at 65.

Figure II-6 shows the mix of the Postal Service's asset and liability structure as of September 30, 2020. The shortage of current assets (45.4 percent of total assets) to cover current liabilities (68 percent of total liabilities) adversely affects the Postal Service's financial condition. The Postal Service does not have a sufficient amount of current assets to pay for current liabilities, including the congressionally mandated retirement health benefit payments that the Postal Service accumulated in years FY 2012 through FY 2017. Non-current assets comprise 54.6 percent of total assets, while non-current liabilities only comprise 32.1 percent of total liabilities.

Figure II-6
Comparison of Postal Service's FY 2020 Current and Noncurrent Assets and Liabilities



Source: PRC derived from Postal Service FY 2020 Form 10-K at 59.

Working capital is the difference between current assets and current liabilities. Negative working capital indicates an excess of current liabilities over current assets. In FY 2020, the Postal Service's working capital was negative $62.9 billion.

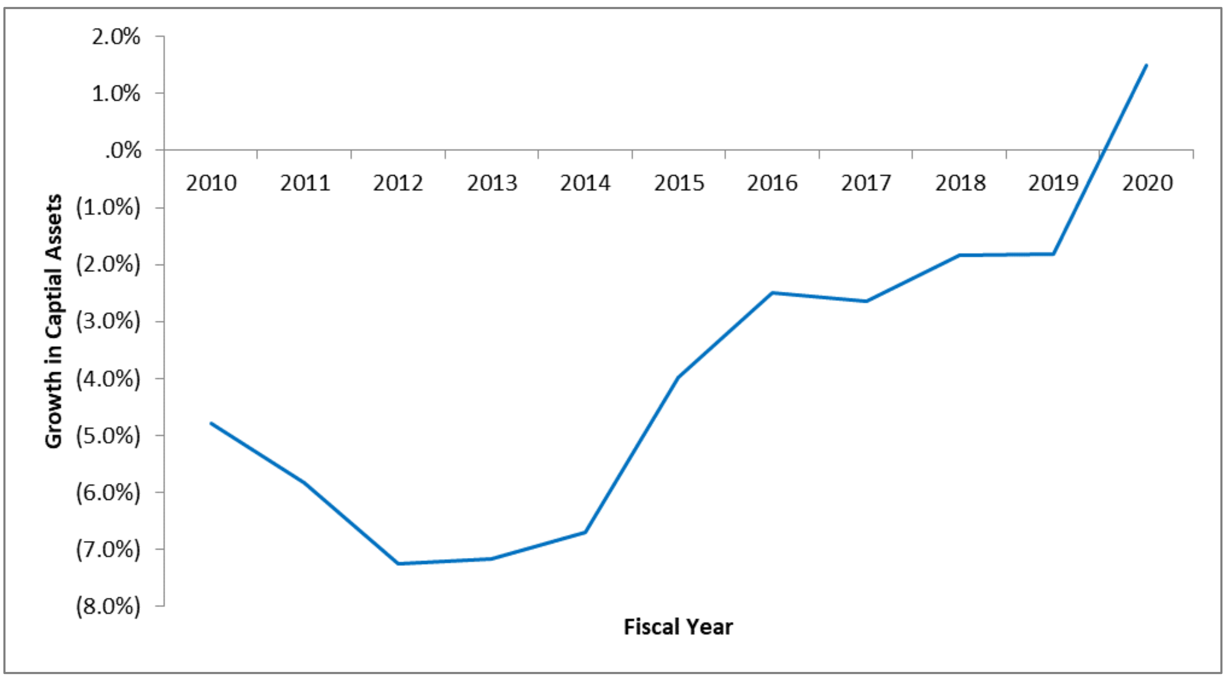
During FY 2020, total assets increased by $10.3 billion, primarily due to a $5.5 billion increase in the cash balance. The increase in cash resulted from the issuance of notes payable due to the Federal Financing Bank, deferral of employer contributions of social security, nonpayment of retiree benefits amortization and normal cost, and increased revenue from additional shipping and package volume. Total liabilities increased by a net of $9.2 billion mainly due to personnel-related liabilities, such as the accrual of the unpaid retirement expenses for FY 2020 and the issuance of notes payable.

Assets

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

While the Postal Service continues to limit its capital expenditures, FY 2020 was the first year since FY 2007 that the Postal Service recorded growth in capital assets.

Figure II-7
Percent Change in Capital Assets, FY 2010–FY 2020



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2020.

FY 2020 was the first year that the Postal Service recorded positive growth in capital assets since FY 2007. The Postal Service recorded a 1.5 percent growth in capital, compared to the negative growth of 1.8 percent in FY 2019. The Postal Service purchased $1.8 billion in property and equipment, offset by $1.7 billion in depreciation.

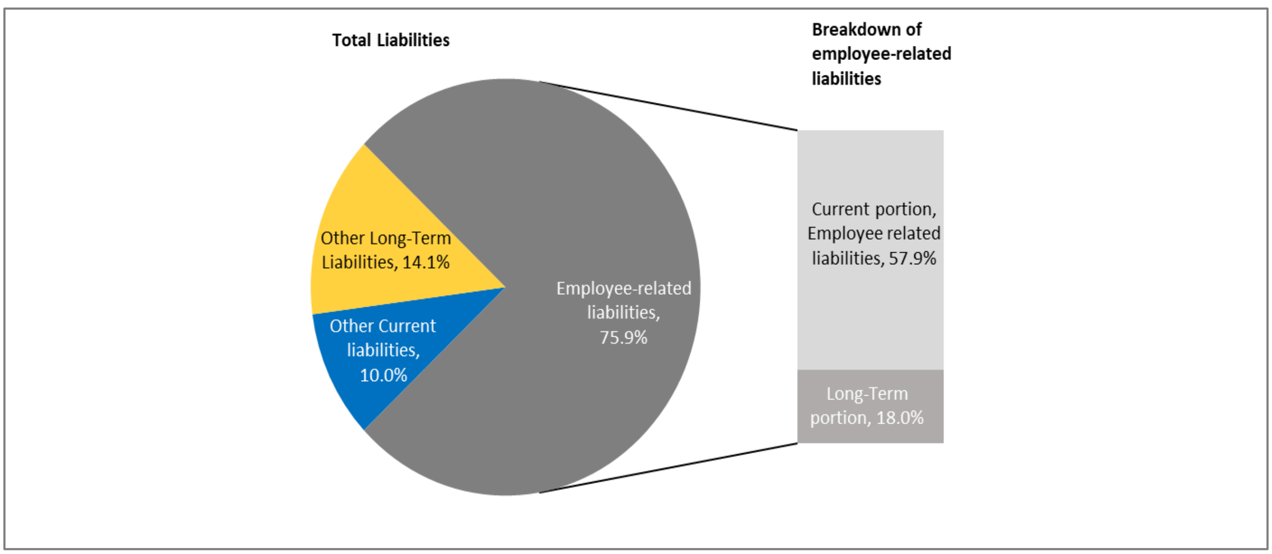
The Postal Service continues to limit its capital expenditures to necessary safety, customer support, and high-return investments.[56] During FY 2020, the Postal Service purchased 9,500 new vehicles at an approximate cost of $0.4 billion.[57] According to the Postal Service, its delivery fleet includes approximately 140,000 vehicles that are at least 20 years old and require significant maintenance.[58]

Liabilities

In FY 2020, total liabilities increased by $19.4 billion, largely due to higher balances in retirement-related liabilities, a $3.0 billion balance of the current portion of debt, and noncurrent operating lease liabilities.

The long-term portion of workers' compensation increased by $1.6 billion in FY 2020. This is highly sensitive to discount and inflation rates in actuarial adjustment and to new and existing claims. Figure II-8 shows the current breakdown of the Postal Service's liabilities as of September 30, 2020.

Figure II-8
Postal Service Liabilities Structure, September 30, 2020



Source: PRC derived from Postal Service FY 2020 Form 10-K at 59.

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

[56] Postal Service FY 2020 Form 10-K at 41.
[57] *Id.* at 47.
[58] *Id.*

CSRDF and the RHBF.[59] The CSRDF provides pension benefits to retired and disabled Federal employees, including Postal Service employees covered by CSRS and FERS.[60]

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

Balance Sheet Trend Analysis

To facilitate its analysis, the Commission applies key financial ratios to the Postal Service's Balance Sheet to further assess the current and historical financial stability of the Postal Service. Table II-17 summarizes the key balance sheet ratios used in this analysis.

Table II-17
Postal Service Balance Sheet Ratios FY 2019 and FY 2020

	FY 2019	FY 2020	Change
Debt Ratio	3.79	3.25	(0.54)
Current Ratio	0.16	0.21	0.04
Cash Ratio	0.14	0.19	0.05

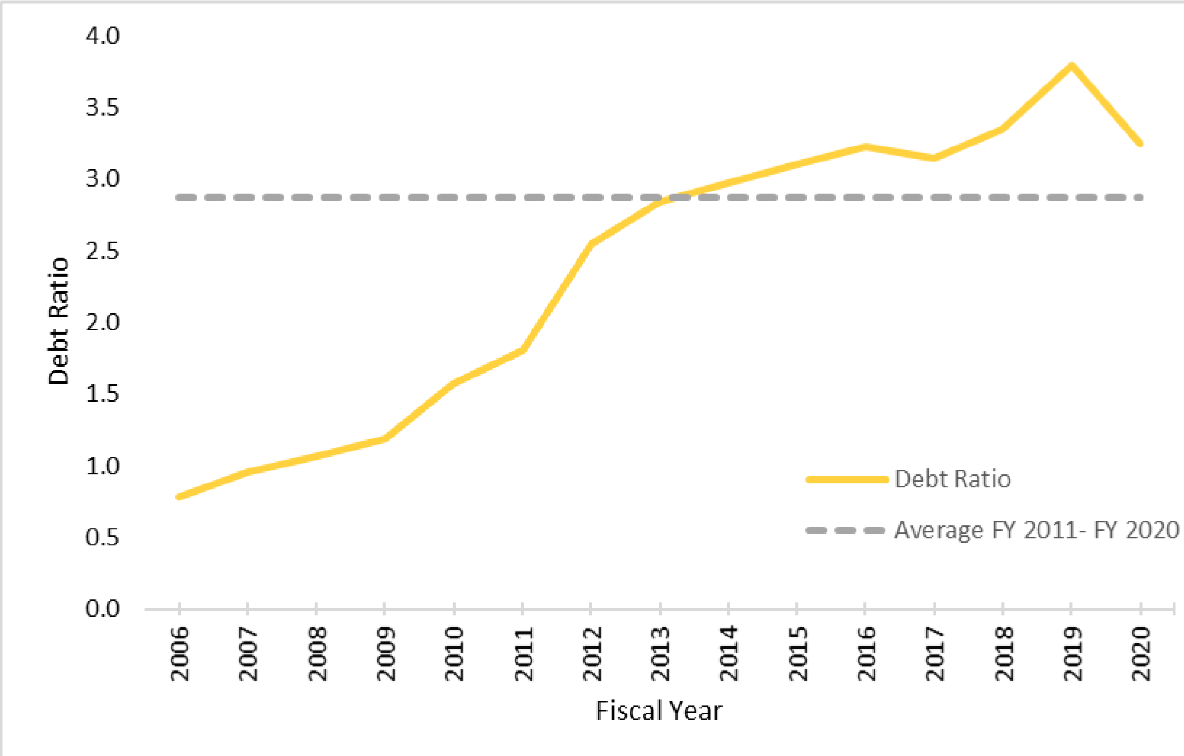
Source: PRC derived from Postal Service FY 2020 Form 10-K.

DEBT RATIO

Debt ratio is the percentage of total liabilities an entity has on its balance sheet to its total assets. The higher the ratio, the greater the risk that the entity's debt level may impede its ability to respond to challenges and opportunities effectively. Figure II-9 reflects the Postal Service's debt ratio trend since FY 2006.

[59] *See* 5 U.S.C. § 8909a.
[60] *See* 5 U.S.C. § 8348.

Figure II-9
Debt Ratio, FY 2006–FY 2020



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2020.

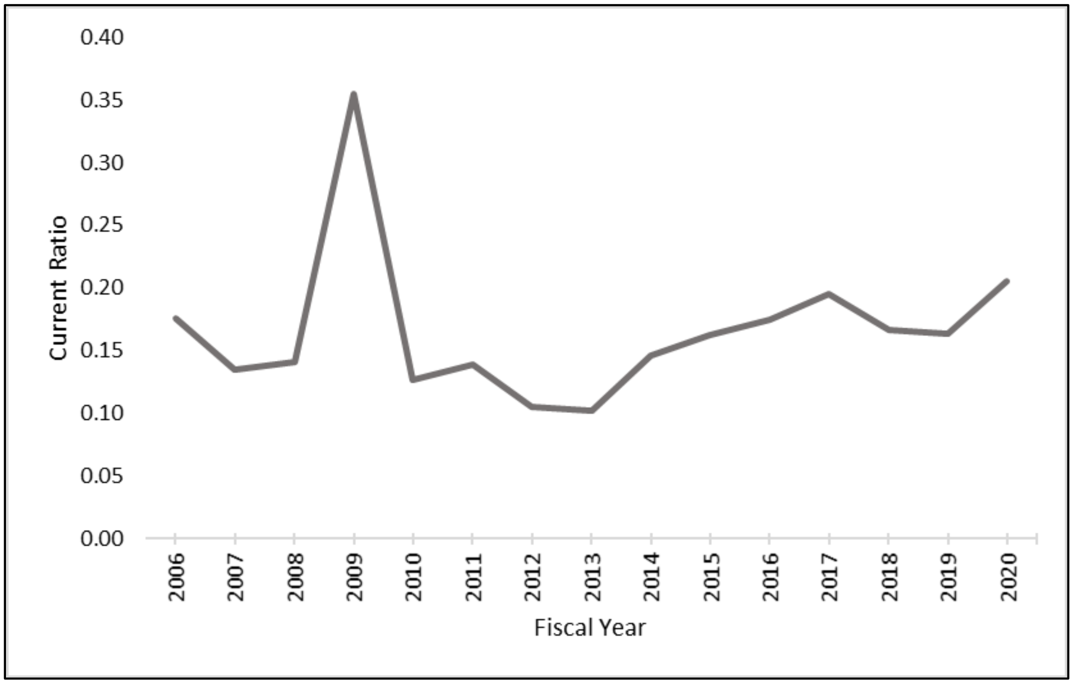
The ratio is generally a conservative measurement because the liabilities are carried at estimated amounts of expected cash outflows. At the same time, some assets may be understated because no adjustments have been made to restate for fair value. For example, land or a fully depreciated building or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

At the end of FY 2020, the debt ratio decreased to 3.25 from the 3.79 debt ratio for FY 2019. The decrease is the result of the higher growth of total assets and comparatively slower growth in total liabilities. The Postal Service's FY 2020 debt ratio was higher than the average 10-year debt ratio of 2.87. This ratio is indicative of the Postal Service's insufficient resources to invest in capital and pay down its liabilities.

CURRENT RATIO

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

Figure II-10
Current Ratio, FY 2006–FY 2020



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2020.

At the end of FY 2020, the Postal Service had a current ratio of 0.21, an increase of 0.05 from the end of FY 2019. This is higher than the Postal Service's ten-year average of 0.15.

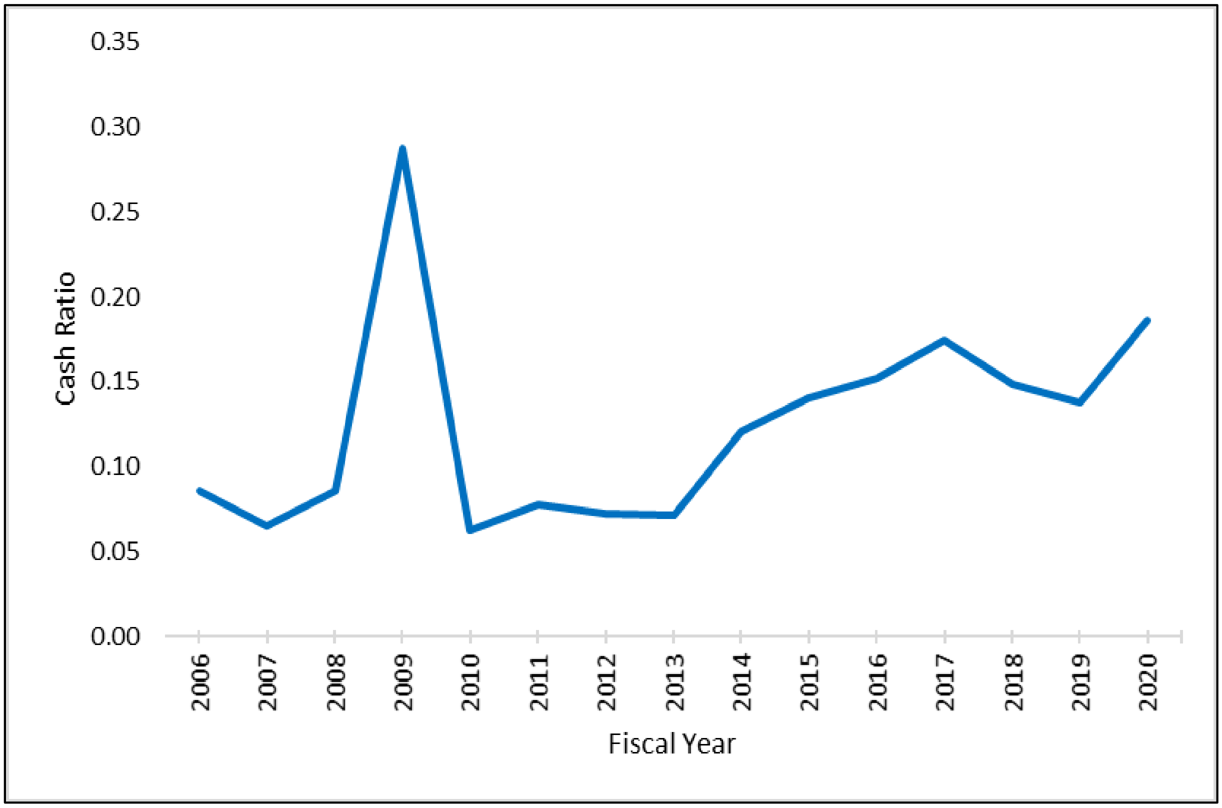
The increase in the ratio resulted from a smaller increase in current liabilities compared to current assets. Current liabilities increased by $12.9 billion (19.5 percent) due to higher retirement liabilities and a $3 billion increase in short-term debt. Current assets increased by $5.5 billion (50.9 percent) compared to the end of FY 2019 as a result of an increase in cash. It is worth noting that approximately $1.2 billion included in the FY 2020 cash balance is a deferred payment due within the next two years.

The reduction of statutory prefunding payments in FY 2009 resulted in a higher current ratio. A combination of increasing current liabilities and increasing cash has helped the current ratio remain relatively flat.

CASH RATIO

The cash ratio compares total liquid assets to its current liabilities. The ratio measures an entity's ability to pay current liabilities with available cash or cash equivalents. Figure II-11 illustrates the cash ratio from FY 2006 through FY 2020.

Figure II-11
Cash Ratio, FY 2006–FY 2020



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2020.

The Postal Service had a cash ratio of 0.19 at the end of FY 2020. This is an increase compared to the prior year's cash ratio of 0.14. The FY 2020 cash ratio is also higher than the 10-year average of 0.12. This increase is the result of a $5.6 billion increase in cash compared to FY 2019. In FY 2008 and FY 2009, the Postal Service's cash balances increased by $533 million and $2.7 billion, respectively, which increased the cash ratio. During FY 2011 through FY 2019, the Postal Service's cash balance gradually increased along with its current liabilities.

Analysis of Statements of Cash Flows

At the end of FY 2020, the Postal Service's total cash and cash equivalents, excluding $0.3 billion in restricted cash, was $14.4 billion. Cash and cash equivalents excluding restricted cash were $5.6 billion higher than at the end of FY 2019. At the end of FY 2020, the Postal Service had $1 billion in available borrowing authority remaining from the PAEA-mandated debt ceiling of $15 billion. Table II-18 compares the Postal Service's cash flows from FY 2012 to FY 2020.

Table II-18
Postal Service Statements of Cash Flows, FY 2012–FY 2020 ($ in Millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Net Income/(Loss)	$ (15,906)	$ (4,977)	$ (5,508)	$ (5,060)	$ (5,591)	$ (2,742)	$ (3,913)	$ (8,813)	$ (9,176)
Non-Cash Items and Other Cash Flows	15,475	5,911	8,822	7,939	8,327	6,565	6,680	11,278	13,545
Cash Flows From Investing Activities:	0	0	0	0	0	0	0	0	0
Decrease (Increase) in Restricted Cash	(28)	(79)	66	13	(20)	(38)	16	(91)	12
Purchase of Property and Equipment	(705)	(667)	(781)	(1,222)	(1,428)	(1,344)	(1,409)	(1,419)	(1,810)
Proceeds From Sale of Property and Equipment	148	158	129	120	206	58	32	27	32
Net Cash Used in Investing Activities	(585)	(588)	(586)	(1,089)	(1,242)	(1,324)	(1,361)	(1,483)	(1,766)
Cash Flows From Financing Activities:	0	0	0	0	0	0	0	0	0
Increase (Decrease) in Debt	1,200	0	0	0	0	0	(1,800)	1,800	3,000
Payments for Capital Leases	(51)	(59)	(58)	(62)	(51)	(63)	(58)	(48)	(40)
Net Change in Revolving Credit Line	800	0	0	0	0	0	0	(4,000)	0
U.S. Government Appropriations - Expensed	(129)	(48)	(90)	0	0	0	0	0	0
Net Cash (Used) Provided by Financing Activities	1,820	(107)	(148)	(62)	(51)	(63)	(1,858)	(2,248)	2,960
Net Increase/(Decrease) in Cash	804	803	2,580	1,728	1,443	2,436	(452)	(1,266)	5,563
Cash Balance Beginning of Year	1,283	1,283	2,326	4,906	6,634	8,077	10,513	10,061	8,795
Cash Balance End of Year	**$ 2,087**	**$ 2,086**	**$ 4,906**	**$ 6,634**	**$ 8,077**	**$ 10,513**	**$ 10,061**	**$ 8,795**	**$ 14,358**
Debt Outstanding	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 13,200	$ 11,000	$ 14,000

Numbers may not add across due to rounding.
Source: PRC derived from Postal Service Form 10-K, FY 2012–FY 2020.

Table II-19 illustrates the current liquidity position of the Postal Service. The Postal Service's liquidity is limited to cash and cash equivalents (excluding restricted cash) and available borrowing authority. During FY 2020, the Postal Service was issued $3 billion in short-term debt from its revolving credit facility payable in April 2021. An additional $11 billion, consisting of fixed-rate and floating-rate notes with various maturities, is recorded as long-term debt.[61]

As a result of the CARES Act, the Postal Service is allowed access to an additional $10 billion from the U.S. Treasury to fund operating expenses. This additional financing is subject to terms and conditions as agreed upon by the Postal Service and the U.S. Treasury.[62]

[61] Postal Service FY 2020 Form 10-K at 48.
[62] In January 2021, the Postal Service and the U.S. Treasury agreed to the terms and conditions, as amended by the Consolidated Appropriations Act, 2021 that allow the Postal Service to request up to $10 billion in funding from the U.S. Treasury for COVID-19 related expenses that will not need to be repaid. Postal Service Quarter 1, 2021 Form 10-Q, February 9, 2021, at 9.

Table II-19
Total Postal Service Liquidity (in $ Millions)
End of FY 2019 Compared to FY 2020

	FY 2019	FY 2020
Cash and Cash Equivalents	$ 8,795	$ 14,358
Current Portion of Debt	0	3,000
Long-Term Debt	11,000	11,000
Total Debt	**$ 11,000**	**$ 14,000**
Statutory Debt Limit	15,000	15,000
Available Debt	4,000	1,000
CARES Act Borrowing Authority	0	10,000
Total Liquidity (Cash + Available Debt)	**$ 12,795**	**$ 25,358**

Source: Postal Service FY 2020 Form 10-K at 59 and 69.

CASH FLOW RATIO ANALYSIS

Cash flow ratios are applied in the Commission's analysis to illustrate the Postal Service's financial solvency. The asset efficiency ratio, current liability ratio, and long-term debt ratio are all helpful indicators of the Postal Service's current and historical ability to pay down debt and remain financially solvent.

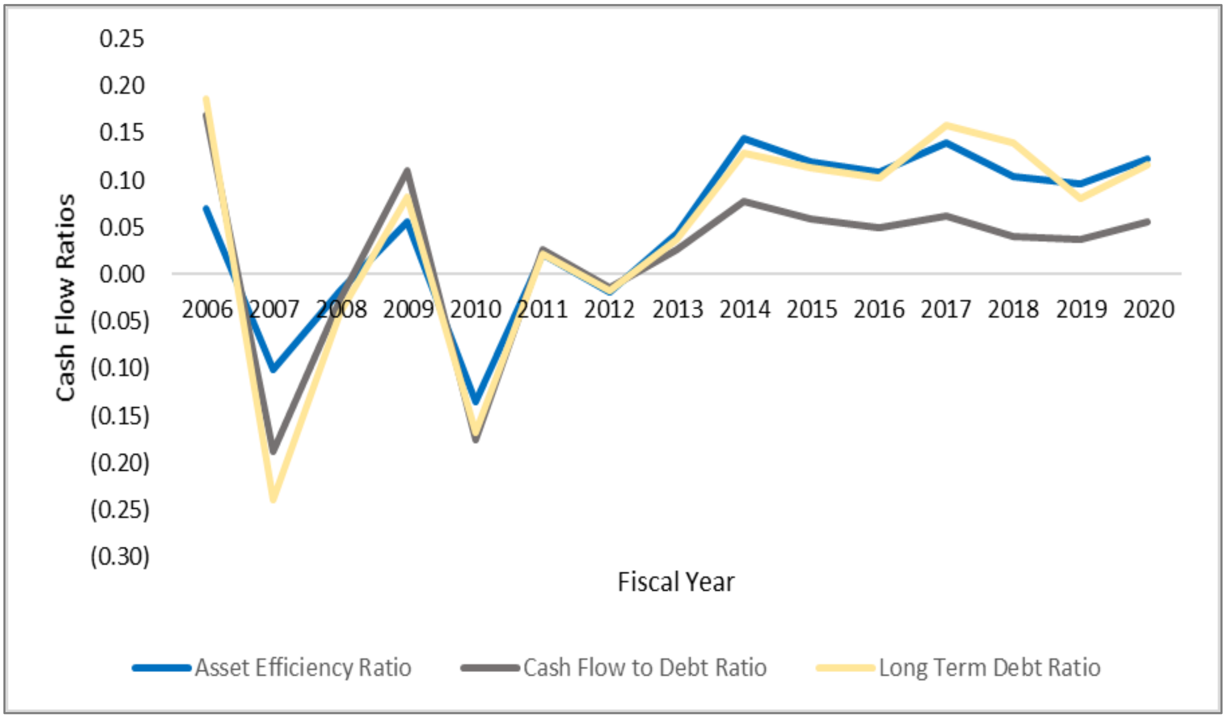
Table II-20
Cash Flow Ratios, FY 2019 and FY 2020

	FY 2019	FY 2020	Change
Asset Efficiency Ratio	0.10	0.12	0.03
Cash Flow to Debt Ratio	0.04	0.06	0.02
Long Term Debt Ratio	0.08	0.12	0.04

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

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

Figure II-12
Cash Flow Ratio Trend Analysis FY 2006–FY 2020



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2020.

The asset efficiency ratio compares operating cash flows to total assets. It measures how efficiently an entity uses its assets to generate cash. At the end of FY 2020, the Postal Service had an asset efficiency ratio of 0.12, which is slightly higher than the prior year. The FY 2020 asset efficiency ratio was 0.05 higher than the historical 10-year average of 0.07. Cash flow from operations and total assets increased in FY 2020. From FY 2006 to FY 2011, the ratio was quite volatile. The ratio gradually ticked up from FY 2012 through FY 2014 as a result of the Postal Service defaulting on RHB liabilities and increases in revenue from the exigent surcharge. From FY 2017 through FY 2019, both cash from operations and total assets declined slightly, resulting in a relatively flat trend. This ratio illustrates the Postal Service's inability to generate sufficient operating cash, using its total assets.

The Postal Service had an operating cash flow ratio of 0.06 at the end of FY 2020, which is an increase of 0.02 from the prior year and higher than the historical 10-year average. The operating cash flow ratio measures an entity's ability to generate cash that can be used to cover current debt. In FY 2020, both cash flow from operations and current liabilities increased compared to FY 2019. In FY 2007 and FY 2008, the ratio was below zero resulting from negative operating cash flows caused by payments to the RHBF. FY 2012 was the first year the Postal Service defaulted on its RHB payment, which increased cash from operations and increased current liabilities. Since FY 2012, the Postal Service has been unable to pay down its unfunded retirement liabilities, and the cumulative missed payments increase the current liability on the balance sheet. The increase in operating cash from these defaulted payments was not enough to offset revenue loss from declining volume, resulting in a relatively flat increase in operating cash and gradually increasing current liabilities.

The long-term debt ratio compares the Postal Service's cash from operations to its long-term debt. It illustrates the Postal Service's ability to pay down long-term debt using cash it generates from operations. Long-term debt includes non-current workers' compensation expense and non-current portions of debt owed to the Federal Financing Bank. At the end of FY 2020, the Postal Service had a long-term debt ratio of 0.12, an increase of 0.04 from the end of FY 2019. Although cash increased, the Postal Service remains unable to generate sufficient cash to pay down its total debt.

Chapter III. Volume, Revenue, and Cost Trends

Overview

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

The first section describes the calculation of attributable cost and institutional cost and notes methodological changes implemented in FY 2020, with significant cost impacts. It also examines the overall trends for Market Dominant and Competitive products and services.

The second and third sections analyze Market Dominant (organized by class) and Competitive products, respectively. These sections contain analyses that compare volume, revenue, and cost between FY 2019 and FY 2020[63]; trend analyses that highlight changes in volume, revenue, and cost that have occurred over the last 10 years; and analyses by cost segment.

Overall Volume, Revenue, and Cost Trends

Attributable and Institutional Cost Calculation

39 U.S.C. § 3622(c)(2) defines attributable cost as the "direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type[.]" In Order No. 3506, the Commission determined that attributable product costs include volume-variable costs,[64] which, in the aggregate, increase as volume increases and decrease as volume decreases; product-specific fixed costs, which are costs caused by a specific product but do not vary with volume; and inframarginal costs developed as part of the estimation of each product's incremental costs.[65] Attributable costs for classes and Competitive products collectively also include group-specific costs, which are costs caused by a group of products in combination rather than by an individual product, and inframarginal costs developed as part of the estimation of incremental costs for classes and Competitive products collectively. Attributable costs are equal to

[63] FY 2019 volume, revenue, and cost data that are not depicted in tables in this section can be found in the corresponding section of the FY 2019 Financial Report.
[64] Total volume-variable cost is calculated by multiplying total cost by the volume variability ratio for each cost segment.
[65] 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).

incremental costs, which reflect the total marginal costs of the volume in a class, or a product, or Competitive products collectively.[66]

The Commission intends to provide insight into the cost of the activities performed in handling mailpieces and analyze changes in cost for certain cost segments. Attributable cost is distributed to products using distribution keys that reflect the underlying cost driver.[67] These costs are piggybacked to include the indirect costs of each activity.

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

Methodological Changes

In FY 2020, two methodological changes significantly shifted costs between products. The Commission approved a change to the cost attribution procedures for Special Purpose Routes (SPRs). That methodological change shifted costs for city carrier activities from letter and flat-shaped mail to packages, and consequently, from Market Dominant products to Competitive products.[68]

The Commission also approved a change to the In-Office Cost System (IOCS) methodology for sampling city carriers. This change increased attributable costs overall, but primarily for domestic Competitive Mail and Services. However, for some products, including First-Class Mail Single-Piece Letters and Cards, USPS Marketing Mail Flats, and USPS Marketing Mail Parcels, the methodological change resulted in a significant decrease in attributable costs.[69]

Market Dominant Products and Services

Table III-1 illustrates the changes in total volume, revenue, attributable cost, and contribution to institutional cost for Market Dominant products and services between FY 2019 and FY 2020.

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[66] Incremental costs are sub-additive, meaning that the sum of the attributable costs of all products in a class is not equal to the attributable cost of the class as a whole. The Postal Service generally exhibits declining marginal costs. As a result, the incremental cost of a class includes additional inframarginal costs that are not included in the incremental cost of the individual products within the class. For this reason, product attributable costs do not add to total attributable cost in Tables III-20, III-23, and III-25.

[67] 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.

[68] *See* Docket No. RM2019-6, Proposal One, Order No. 5405, January 14, 2020.

[69] *See* Docket No. RM2020-10, Proposal Three, Order No. 5405, September 25, 2020.

Table III-1
Market Dominant Volume, Revenue, and Cost, FY 2019 and FY 2020

	FY 2019	FY 2020	% Change
Volume (Millions)	136,897	122,054	(10.8%)
Revenue ($ Millions)	45,695	41,731	(8.7%)
Attributable Cost ($ Millions)	28,891	26,922	(6.8%)
Contribution to Institutional Cost ($ Millions)	16,804	14,809	(11.9%)

Negative values are denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Market Dominant volume and revenue have been declining for several years, as customers moved from traditional paper communication and correspondence to electronic alternatives.[70] In FY 2020, the COVID-19 pandemic further exacerbated the decline, forcing many businesses to close or reduce their operations. Total Market Dominant revenue decreased by 8.7 percent in FY 2020 due to the decrease in Market Dominant volume. On a unit basis, revenue increased from $0.33 per piece in FY 2019 to $0.34 in FY 2020.

Total attributable cost for Market Dominant products decreased by 6.8 percent from FY 2019. However, the average unit attributable cost increased from $0.21 per piece in FY 2019 to $0.22 in FY 2020.

Total Market Dominant contribution to institutional cost decreased by $2.0 billion, or 11.9 percent in FY 2020, as Market Dominant volume decreased by 14.8 billion pieces, or 10.8 percent.

Market Dominant products accounted for 94.5 percent of total mail volume, a drop of 1.5 percentage points from FY 2019. Revenue from these products as a percentage of total revenue from mail and services decreased from 64.2 percent to 57.1 percent. Market Dominant attributable cost as a percentage of total attributable cost decreased from 64.3 percent in FY 2019 to 58.0 percent in FY 2020.

Several Market Dominant products failed to generate sufficient revenue to cover attributable cost, resulting in negative contributions for these products. The total negative contribution to institutional cost from these products amounted to $1.8 billion in FY 2020; in FY 2019, the negative contribution from these products was $1.7 billion. Eight domestic mail products and services failed to cover their attributable cost: USPS Marketing Mail Flats ($780.0 million), USPS Marketing Carrier Route ($53.6 million), USPS Marketing Mail Parcels ($15.3 million), Periodicals Outside County ($725.3 million), Periodicals In-County ($48.8 million), Package

The Postal Service lost $1.8 billion from underwater products in FY 2020.

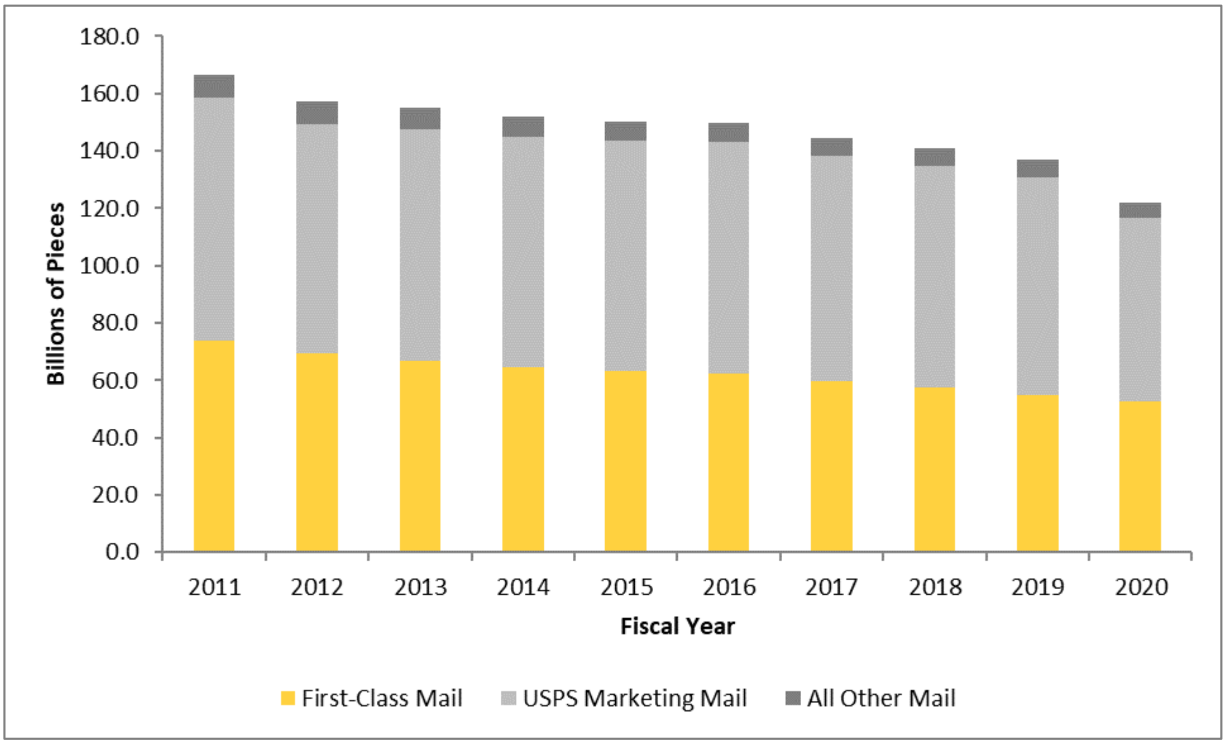
[70] Postal Service FY 2020 Form 10-K at 23.

Services Bound Printed Matter Parcels ($18.6 million) Package Services Media Mail/Library Mail ($91.2 million), and Money Orders ($3.7 million). In addition, Inbound Letter Post had a negative contribution in FY 2020.

Market Dominant Volume Trends

Figure III-1 shows the total volume for Market Dominant products over the last 10 years. Over the last decade, volume for Market Dominant products declined by 47.1 billion pieces.

Figure III-1
Market Dominant Volume, FY 2011–FY 2020



Source: Docket No. ACR2011, Library Reference USPS-FY11-1, December 29, 2011; Docket No. ACR2012, Library Reference USPS-FY12-1, December 28, 2012; Docket No. ACR2013, Library Reference USPS-FY13-1, December 27, 2013; Docket No. ACR2014, Library Reference USPS-FY14-1, December 29, 2014; Docket No. ACR2015, Library Reference USPS-FY15-1, December 29, 2015; Docket No. ACR2016, Library Reference USPS-FY16-1, December 29, 2016; Docket No. ACR2017, Library Reference USPS-FY17-1, December 29, 2017; Docket No. ACR2018, Library Reference USPS-FY18-1, December 28, 2018; Library Reference USPS-FY19-1, December 27, 2019; Library Reference USPS-FY20-1, December 29, 2020, (collectively, Postal Service CRA Report, FY 2011–FY 2020).

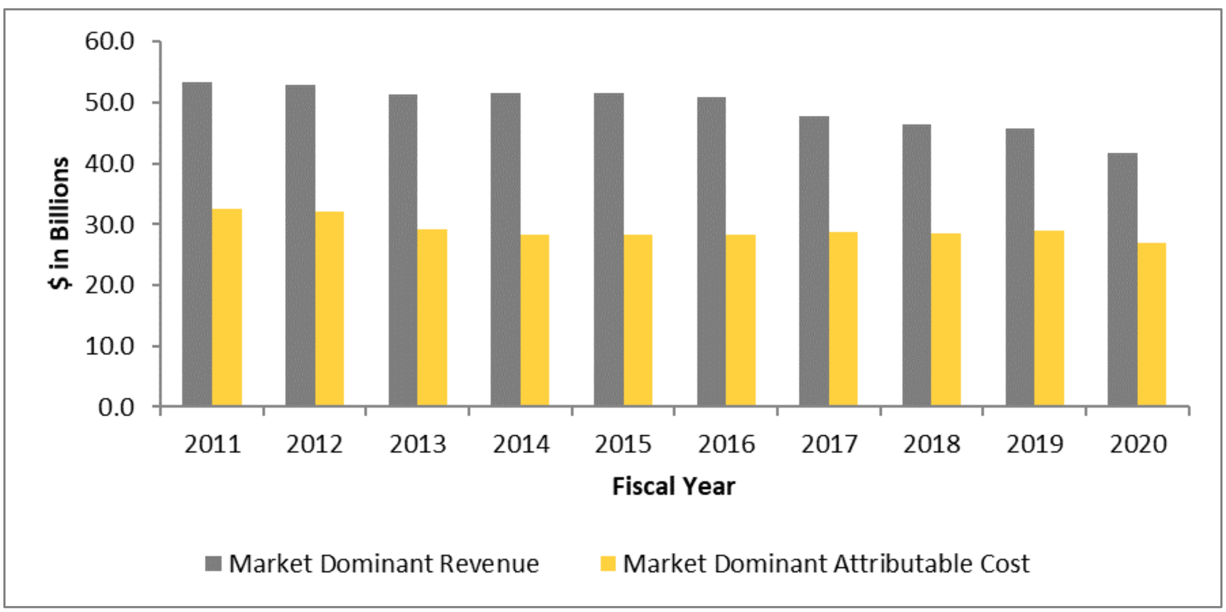
First-Class Mail volume has declined every year over the last decade, resulting in a loss of 25.9 billion pieces.

In FY 2020, First-Class Mail and USPS Marketing Mail accounted for 96.0 percent of total Market Dominant volume. First-Class Mail volume has declined every year over the last decade, resulting in a loss of 25.9 billion pieces, representing a 33.0 percent loss in volume. USPS Marketing Mail volume has also declined considerably over the last decade. The loss in USPS Marketing Mail volume in FY 2020 was far larger than in previous years, accounting for 62.7 percent of the 18.3 billion pieces lost over the last 10 years.

Market Dominant Revenue and Cost Trends

Total Market Dominant revenue and attributable cost have also declined over the past decade. Figure III-2 compares annual revenue and attributable cost from FY 2011 to FY 2020. Over that period, total revenue declined by 21.9 percent while total attributable cost declined by 17.0 percent.

Figure III-2
Market Dominant Revenue and Attributable Cost, FY 2011–FY 2020



Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Competitive Products and Services

The COVID-19 pandemic caused a surge in e-commerce, resulting in higher Competitive product volume in FY 2020.[71] Revenue for Competitive products also increased significantly. Table III-2 compares the total volume, revenue, and cost of these products and services between FY 2019 and FY 2020.

Table III-2
Competitive Volume, Revenue, and Cost, FY 2019 and FY 2020

	FY 2019	FY 2020	% Change
Volume (Millions)	5,672	7,130	25.7%
Revenue ($ Millions)	24,207	30,611	26.5%
Attributable Cost ($ Millions)	15,960	19,426	21.7%
Contribution to Institutional Cost ($ Millions)	8,247	11,185	35.6%

Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

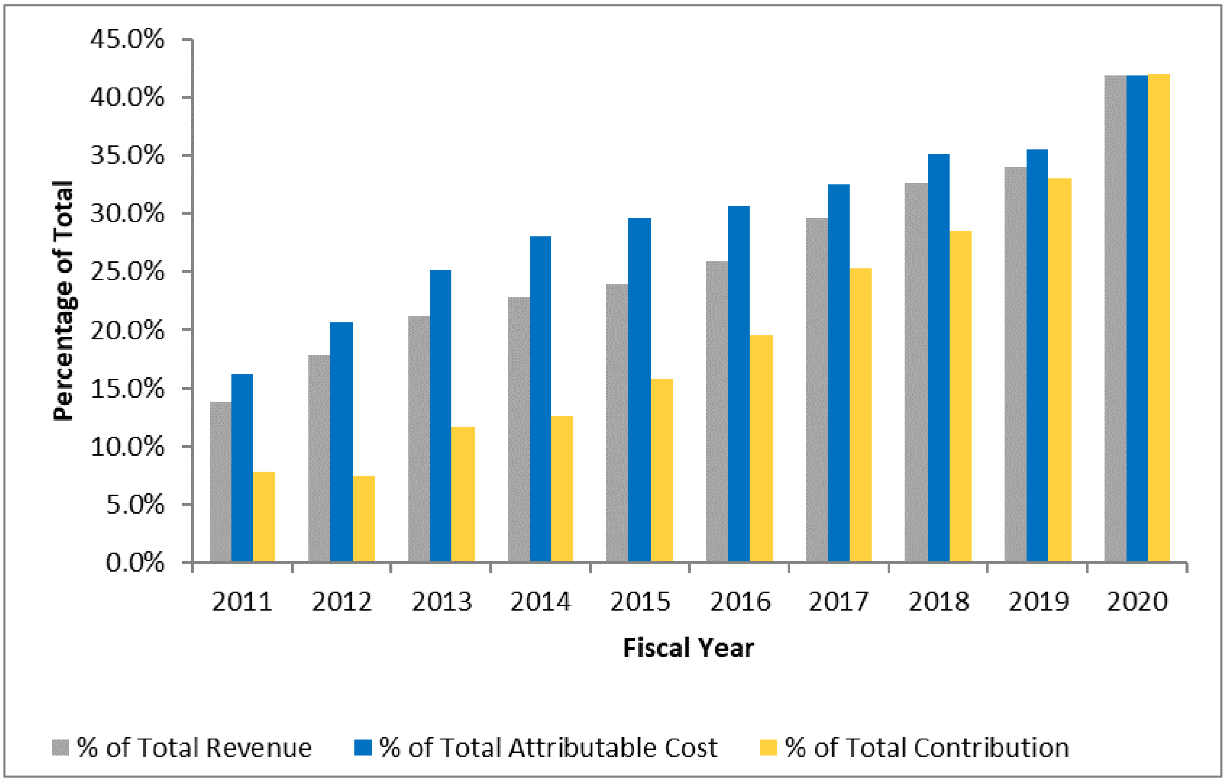
Volume for Competitive products grew 25.7 percent in FY 2020 compared with 0.2 percent in FY 2019. In FY 2020, both revenue and unit revenue increased. Revenue increased by 26.5 percent, or $6.4 billion, while unit revenue increased by 0.6 percent. Attributable cost increased by 21.7 percent in FY 2020; however, on a unit basis, attributable cost decreased by 3.2 percent, primarily due to a change in mail mix. Contribution to institutional cost also increased, both in the aggregate and on a unit basis. In FY 2020, contribution to institutional cost increased by 35.6 percent and 7.9 percent on a unit basis.

Competitive products' share of contribution to institutional cost has steadily increased from just 7.8 percent in FY 2011 to 42.0 percent in FY 2020.

As shown in Figure III-3, the Competitive products' share of total Postal Service revenue and attributable cost has increased more than 20 percentage points since FY 2011. Competitive products' share of contribution to institutional cost has also steadily increased from just 7.8 percent in FY 2011 to 42.0 percent in FY 2020.

[71] Postal Service FY 2020 Form 10-K at 21.

Figure III-3
Competitive Percent Share of Total Postal Service Revenue, Cost, and Contribution to Institutional Cost, FY 2011–FY 2020

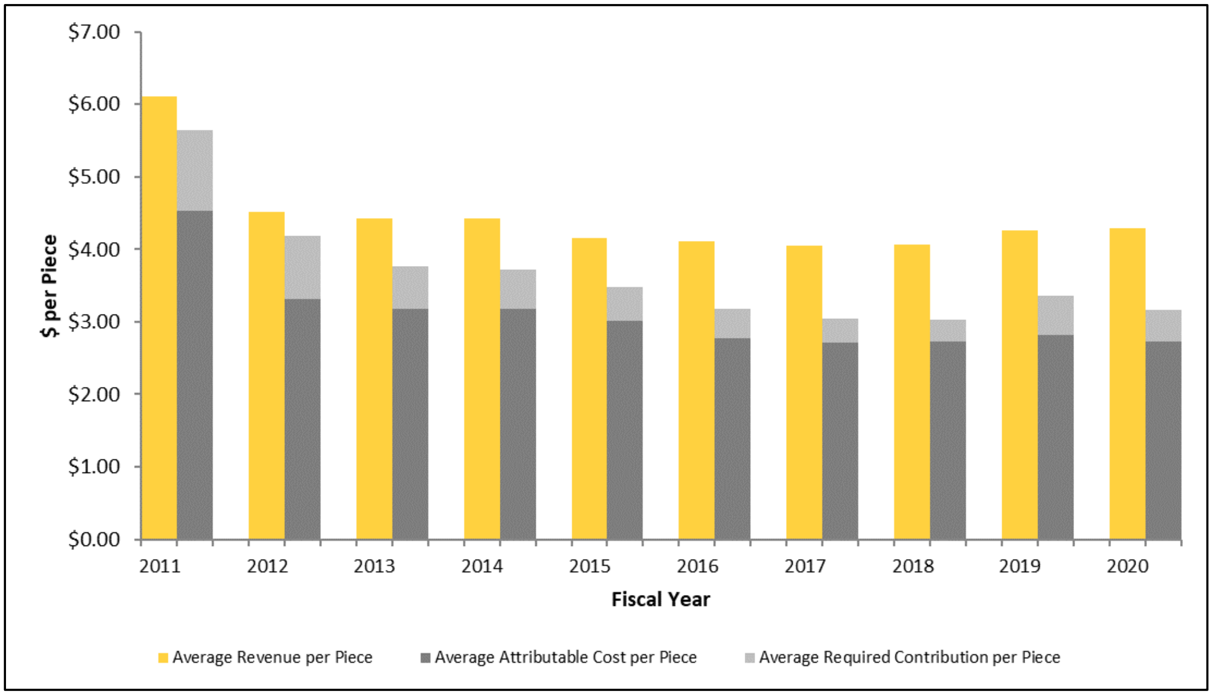


Source: Docket No. ACR2010, Library Reference USPS-FY10-1, December 29, 2010; Docket No. ACR2011, Library Reference USPS-FY11-1, December 29, 2011; Docket No. ACR2012, Library Reference USPS-FY12-1, December 28, 2012; Docket No. ACR2013, Library Reference USPS-FY13-1, December 27, 2013; Docket No. ACR2014, Library Reference USPS-FY14-1, December 29, 2014; Docket No. ACR2015, Library Reference USPS-FY15-1, December 29, 2015; Docket No. ACR2016, Library Reference USPS-FY16-1, December 29, 2016; Docket No. ACR2017, Library Reference USPS-FY17-1, December 29, 2017; Docket No. ACR2018, Library Reference USPS-FY18-1, December 28, 2018; Docket No. ACR2019, Library Reference USPS-FY19-1, December 27, 2019; Library Reference USPS-FY20-1, December 29, 2029 (collectively, Postal Service CRA Report, FY 2011–FY 2020).

Figure III-4 illustrates the changes in average unit revenue and cost from FY 2011 to FY 2020. Competitive products are required to cover their required contribution to institutional cost collectively.[72] Figure III-4 shows the minimum required contribution as an average cents per piece. Since FY 2011, average unit revenue for Competitive products and services exceeded the combined average unit attributable cost and required contribution per piece.

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

Figure III-4
Competitive Average Unit Revenue and Cost, FY 2011–FY 2020

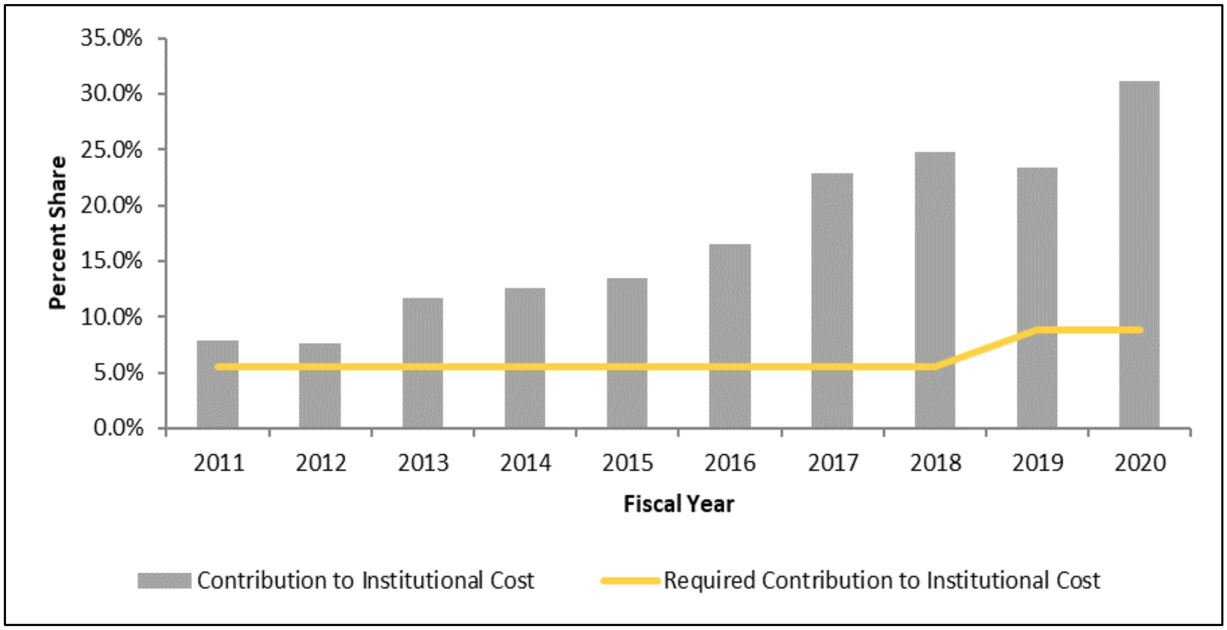


Source: Postal Service CRA Report, FY 2011–FY 2020.

Through FY 2020, total contribution to institutional cost from Competitive products continued to exceed the required contribution to institutional cost.[73] As shown in Figure III-5, the contribution from Competitive products has increased significantly in recent years. However, the increase in FY 2020 is particularly large compared with other years. Previous large increases in the share of institutional cost contributed by Competitive products resulted primarily from Market Dominant products transferred to the Competitive product list.

[73] *See* Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019 (Order No. 4963).

Figure III-5
Competitive Contribution to Institutional Cost, FY 2011–FY 2020



Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Market Dominant Volume, Revenue, and Cost Trends by Class

First-Class Mail

There are five products assigned to First-Class Mail: Single-Piece Letters/Postcards; Presorted Letters/Postcards; Flats; Outbound Single-Piece First-Class Mail International; and Inbound Letter Post. For comparison purposes in this report, the products are grouped into letters, flats, and "all other."[74]

USPS Marketing Mail

Seven products comprise USPS Marketing Mail: Letters, Flats, Parcels, Carrier Route, High Density and Saturation Letters, High Density and Saturation Flats/Parcels, and Every Door Direct Mail—Retail (EDDM-R). For comparison purposes, the products have been grouped into letters and flats.

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

USPS MARKETING MAIL LETTERS COMPARED WITH FY 2019

Table III-11 summarizes the FY 2020 change in volume and revenue of letter-shaped USPS Marketing Mail. Both volume and revenue decreased for letter-shaped USPS Marketing Mail. Although volume and revenue were favorably impacted by the increase in political and election mail associated with the 2020 general elections,[75] the effect of the COVID-19 pandemic on volume and revenue was overwhelmingly negative. Despite price increases in FY 2020,[76] the loss of volume for both Letters and High Density and Saturation Letters resulted in lower revenue in FY 2020 than in FY 2019.

Table III-11
USPS Marketing Mail Letters Volume and Revenue, FY 2019 and FY 2020

	Mail Volume (Millions)				Mail Revenue ($ in Millions)			
	FY 2019	FY 2020	Increase or Decrease	Percent Change	FY 2019	FY 2020	Increase or Decrease	Percent Change
Letters	45,966	38,408	(7,559)	(16.4%)	9,735	8,156	(1,578)	(16.2%)
High Density and Saturation Letters	7,254	6,533	(721)	(9.9%)	1,199	1,103	(96)	(8.0%)
Total Letters	**53,220**	**44,940**	**(8,279)**	**(15.6%)**	**10,934**	**9,260**	**(1,674)**	**(15.3%)**

Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Table III-12 summarizes the FY 2020 change in attributable cost for USPS Marketing Mail letters.[77] Overall, attributable cost decreased 6.4 percent for USPS Marketing Mail letters in FY 2020. The Covid-19 pandemic affected attributable cost in two ways, it increased costs on the unit basis and decreased volume. Since High Density and Saturation Letters is a relatively low-volume product compared with USPS Marketing Mail Letters, the average is closer to the increase in the attributable cost of USPS Marketing Mail Letters (reduction of 6.4 percent). On a unit basis, attributable cost for both Letters, and High Density and Saturation Letters increased in FY 2020, 11.2 percent and 10.9 percent, respectively.

Table III-12
USPS Marketing Mail Letters Attributable Cost and Average Unit Attributable Cost, FY 2019 and FY 2020

	Attributable Cost ($ in Millions)				Unit Attributable Cost (Cents per Piece)			
	FY 2019	FY 2020	Increase or Decrease	Percent Change	FY 2019	FY 2020	Increase or Decrease	Percent Change
Letters	5,124	4,759	(365)	(7.1%)	11.1	12.4	1.2	11.2%
High Density and Saturation Letters	586	585	(1)	(0.1%)	8.1	9.0	0.9	10.9%
Total Letters	**5,710**	**5,344**	**(366)**	**(6.4%)**	**10.7**	**11.9**	**1.2**	**10.8%**

Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

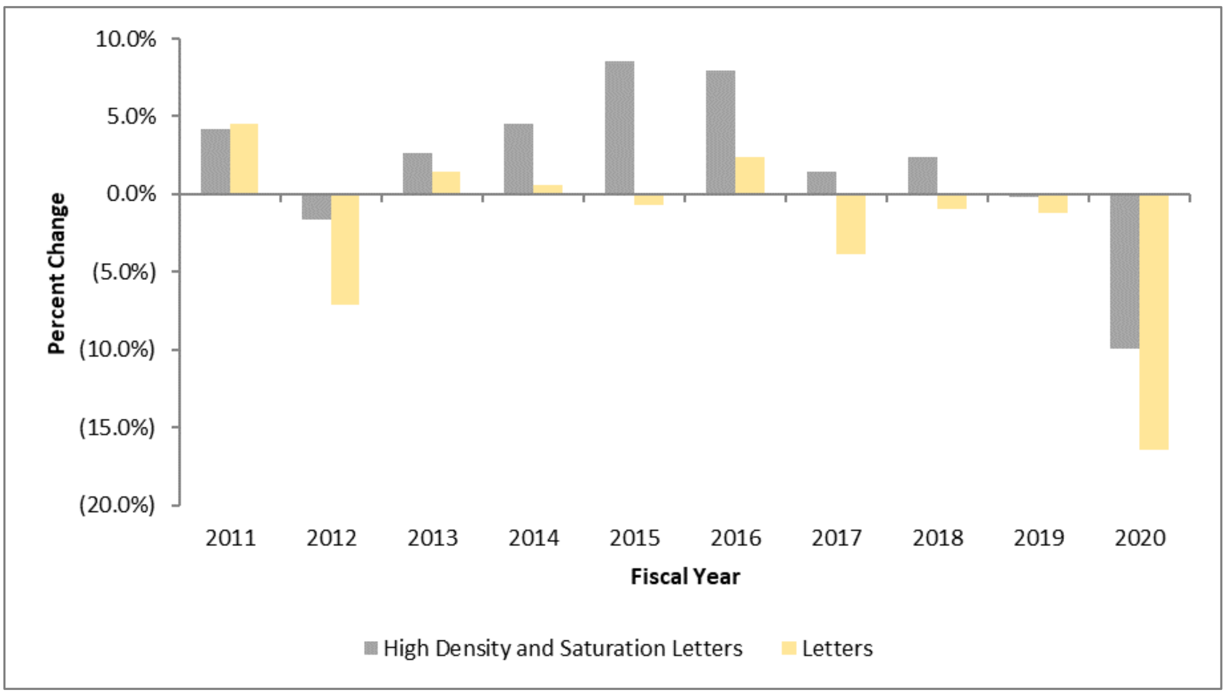
[75] Postal Service FY 2020 Form 10-K at 26.
[76] *See* Docket No. R2020-1, Order No. 5321, Order on Price Adjustments for USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 22, 2019, and Order No. 5373, Order Approving Price Adjustments and Related Mail Classification Changes for First-Class Mail, December 20, 2019.
[77] Marketing Mail letters refers to letter-shaped Marketing Mail which is the sum of the Letters and High Density and Saturation products.

TRENDS IN USPS MARKETING MAIL LETTERS

In FY 2020, USPS Marketing Mail Letters volume fell 15.6 percent. This steep decrease in volume resulted in the lowest USPS Marketing Mail Letters volume in a decade.

As shown in Figure III-10, after years of substantial volume changes, USPS Marketing Mail letters volume changes became more moderate until FY 2020. The change in volume for both categories of letters in FY 2020 is the largest over the past decade. For High Density and Saturation Letters, although volume increased every year from FY 2012 to FY 2018, the volume losses in FY 2019 and FY 2020 wiped out 43.0 percent of the increase in volume over those years. Annual changes in USPS Marketing Mail Letters volume have been relatively small in recent years, with FY 2020 being an extraordinary exception. The decrease in volume in FY 2020 resulted in the lowest USPS Marketing Mail Letters volume in a decade.

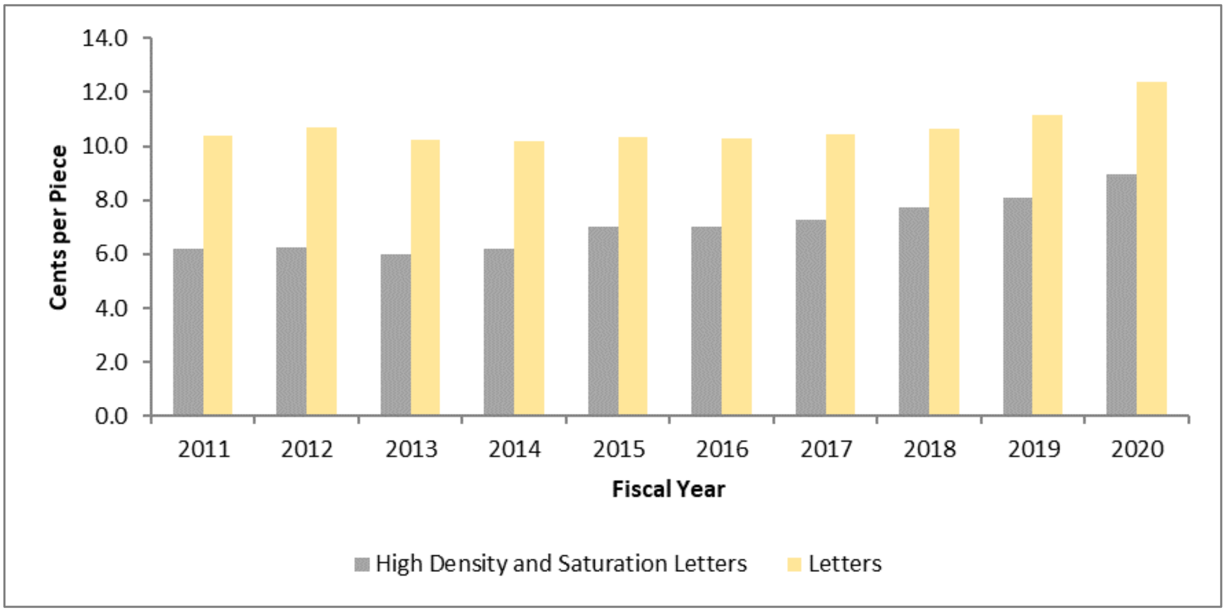
Figure III-10
Percent Change in USPS Marketing Mail Letters Volume, FY 2011–FY 2020



Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Figure III-11 shows the average unit attributable cost for USPS Marketing Mail letters since FY 2011. Average unit attributable cost for High Density and Saturation Letters and USPS Marketing Mail Letters has been on an upward trend in recent years. The average unit attributable cost for USPS Marketing Mail Letters has increased for the last 4 years, while High Density and Saturation Letters average unit attributable cost has increased since FY 2014. Even so, the FY 2020 increase in average unit attributable cost for both products was particularly large compared with previous years.

Figure III-11
USPS Marketing Mail Letters Average Unit Attributable Cost, FY 2011–FY 2020



Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

USPS MARKETING MAIL FLATS COMPARED WITH FY 2019

Table III-13 summarizes the FY 2020 changes in volume and revenue for flat-shaped USPS Marketing Mail.[78] Volume for all flat-shaped USPS Marketing Mail declined substantially in FY 2020. Carrier Route flats experienced the largest decrease (20.6 percent) in FY 2020. The volume declines for USPS Marketing Mail Flats and EDDM-R were nearly as large, 16.2 percent and 18.4 percent, respectively. Volume for High Density and Saturation Flats/Parcels decreased 10.2 percent.

Revenue for flat-shaped USPS Marketing Mail declined 14.3 percent in FY 2020. Large decreases in volume resulted in large revenue decreases for all flat-shaped USPS Marketing Mail in FY 2020. Carrier Route experienced the largest drop in revenue (19.8 percent).

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

Table III-13
USPS Marketing Mail Flat Volume and Revenue, FY 2019 and FY 2020

	Mail Volume (Millions)				Mail Revenue ($ in Millions)			
	FY 2019	FY 2020	Increase or Decrease	Percent Change	FY 2019	FY 2020	Increase or Decrease	Percent Change
High Density and Saturation Flats/Parcels	11,607	10,427	(1,180)	(10.2%)	2,071	1,867	(205)	(9.9%)
Carrier Route	6,359	5,048	(1,311)	(20.6%)	1,672	1,341	(331)	(19.8%)
Flats	3,818	3,199	(619)	(16.2%)	1,562	1,344	(219)	(14.0%)
Every Door Direct Mail – Retail	649	530	(120)	(18.4%)	120	99	(21)	(17.4%)
Total	**22,433**	**19,203**	**(3,230)**	**(14.4%)**	**5,425**	**4,650**	**(775)**	**(14.3%)**

Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Table III-14 summarizes the FY 2020 change in USPS Marketing Mail flats attributable cost. Total attributable cost for flat-shaped USPS Marketing Mail decreased 9.6 percent in FY 2020 due to the loss of flat-shaped USPS Marketing Mail volume. On a unit basis, attributable cost increased for all flat-shaped USPS Marketing Mail products in FY 2020.

Table III-14
USPS Marketing Mail Flats Attributable Cost and Average Unit Attributable Cost
FY 2019 and FY 2020

	Attributable Cost ($ in Millions)				Unit Attributable Cost (Cents per Piece)			
	FY 2019	FY 2020	Increase or Decrease	Percent Change	FY 2019	FY 2020	Increase or Decrease	Percent Change
High Density and Saturation Flats/Parcels	1,499	1,437	(62)	(4.1%)	12.9	13.8	0.9	6.7%
Carrier Route	1,673	1,394	(279)	(16.7%)	26.3	27.6	1.3	5.0%
Flats	2,307	2,124	(183)	(7.9%)	60.4	66.4	6.0	9.9%
Every Door Direct Mail – Retail	46	38	(8)	(16.8%)	7.1	7.2	0.1	2.0%
Total	**5,525**	**4,993**	**(531)**	**(9.6%)**	**24.6**	**26.0**	**1.4**	**5.6%**

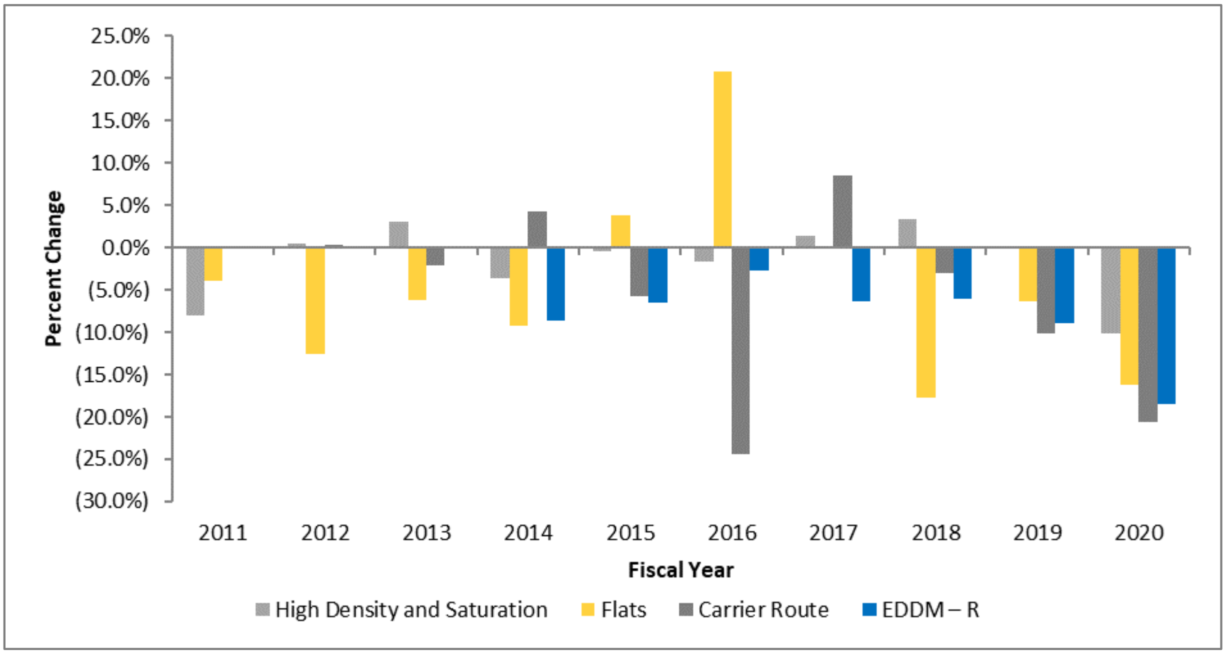
Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

TRENDS IN USPS MARKETING MAIL FLATS

Flat-shaped USPS Marketing Mail has lost nearly a third of its volume over the last decade. As shown in Figure III-12, volume decreased considerably for all flat-shaped USPS Marketing Mail categories in FY 2020. For High Density and Saturation Flats/Parcels, the large decline in FY 2020 comes after relatively small decreases from FY 2012 to FY 2019. The volume decreases for Flats and Carrier Route were also unusually large in FY 2020, although volume for both has been on a downward trend for years.[79]

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

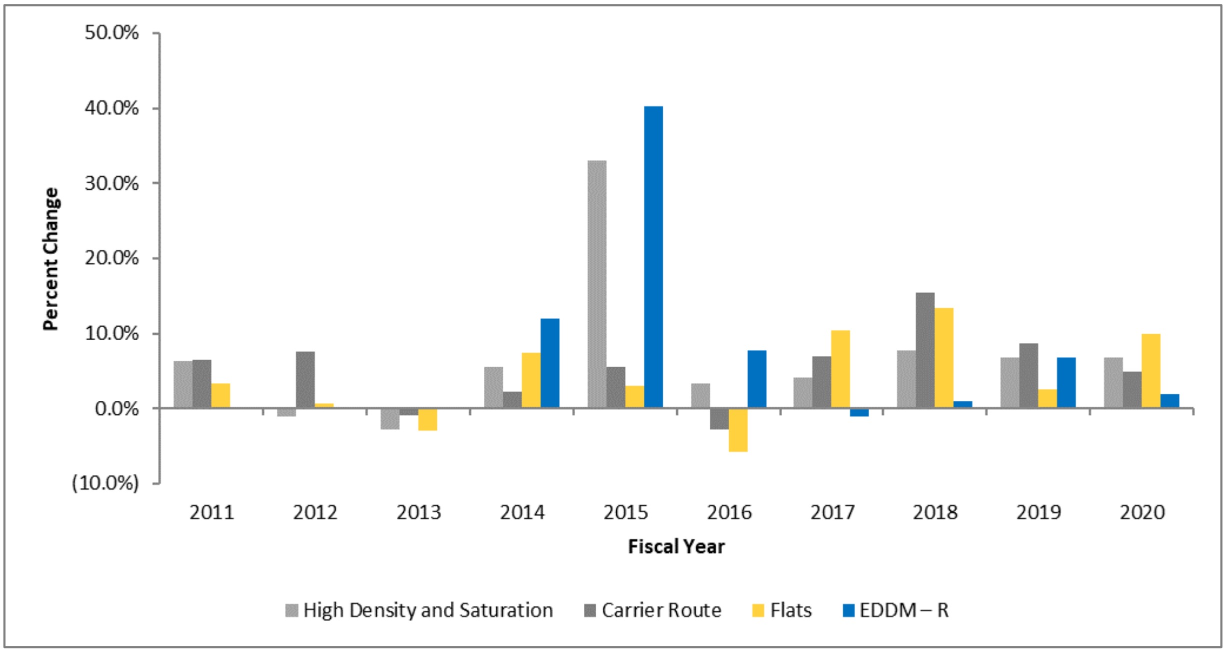
Figure III-12
USPS Marketing Mail Flats Percent Change in Volume, FY 2011–FY 2020



Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

The average unit attributable cost of each flat-shaped USPS Marketing Mail product has increased significantly over the last decade. Figure III-13 illustrates the annual changes in average unit attributable cost. Over the last decade, the average unit attributable cost increased nearly every year for flat-shaped USPS Marketing Mail products. The FY 2020 increases were similar to previous increases for flat-shaped USPS Marketing Mail products.

Figure III-13
USPS Marketing Mail Flats Percent Change in Average Unit Attributable Cost
FY 2011–FY 2020



Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Table III-15 compares the change in the average unit attributable cost between FY 2019 and FY 2020 by cost segment. With the exception of USPS Marketing Mail Flats, mail processing unit cost decreased, while city carrier in-office unit cost increased for all USPS Marketing Mail flats products. For USPS Marketing Mail Flats mail processing unit cost increased, while city carrier in-office unit cost decreased. Rural carrier unit costs increased for all USPS Marketing Mail flat shaped products. City carrier street unit costs increased for USPS Marketing Mail Flats only. However, as previously discussed, city carrier in-office unit costs were affected by a costing methodology change.

Table III-15
Change in USPS Marketing Mail Flats Average Unit Attributable Cost by Cost Segment, FY 2019 and FY 2020

	High Density and Saturation	Carrier Route	Flats	EDDM-R
Mail Processing				
FY 2019	1.7906	8.4318	32.7557	0.2137
FY 2020	1.6708	7.8054	38.0007	0.1747
% Change	**(6.7%)**	**(7.4%)**	**16.0%**	**(18.2%)**
City Carrier In-Office				
FY 2019	1.4086	6.5614	12.5872	1.3441
FY 2020	1.8684	7.7470	11.4994	1.8286
% Change	**32.6%**	**18.1%**	**(8.6%)**	**36.0%**
City Carrier Street				
FY 2019	5.4544	5.5262	4.8294	4.5456
FY 2020	4.8093	5.3949	5.0062	4.1820
% Change	**(11.8%)**	**(2.4%)**	**3.7%**	**(8.0%)**
Rural Carriers				
FY 2019	3.6605	4.1299	3.9017	0.5598
FY 2020	4.5930	4.9502	4.7320	0.6713
% Change	**25.5%**	**19.9%**	**21.3%**	**19.9%**

Source: PRC derived from Docket No. ACR2019, Library Reference USPS-FY19-24, December 27, 2019; Library Reference USPS-FY20-24, December 29, 2020.

Periodicals

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

PERIODICALS COMPARED WITH FY 2019

Table III-16 summarizes the FY 2020 changes in volume and revenue for Periodicals. In FY 2020, Periodicals volume declined by 629 million pieces, or 13.6 percent, with most of the decrease occurring in Outside County publications. In FY 2020, Outside County volume decreased 13.6 percent, nearly double the rate of decrease in FY 2019. Total revenue for Periodicals declined 14.3 percent in FY 2020. The decline in total revenue is due, in part, to the loss of volume and to a decrease in unit revenue for both Outside County and In-County Periodicals resulting from a lower average weight compared with FY 2019.[80]

Table III-16
Periodicals Volume and Revenue, FY 2019 and FY 2020

	Mail Volume (Millions)				Mail Revenue ($ in Millions)			
	FY 2019	FY 2020	Increase or Decrease	Percent Change	FY 2019	FY 2020	Increase or Decrease	Percent Change
In-County	499	469	(30)	(6.0%)	56	51	(5)	(9.3%)
Outside County	4,135	3,537	(599)	(14.5%)	1,138	973	(165)	(14.5%)
Total	**4,635**	**4,006**	**(629)**	**(13.6%)**	**1,194**	**1,024**	**(170)**	**(14.3%)**

Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Table III-17 compares total attributable cost and average unit attributable cost for Periodicals for FY 2019 and FY 2020. Total Periodicals attributable cost decreased by $67 million, or 3.6 percent. The decrease in Outside County exceeded the increase in In-County attributable cost. However, on a unit basis, both In-County and Outside County costs increased in FY 2020.

Table III-17
Periodicals Attributable Cost and Average Unit Attributable Cost, FY 2019 and FY 2020

	Attributable Cost ($ in Millions)				Unit Attributable Cost (Cents per Piece)			
	FY 2019	FY 2020	Increase or Decrease	Percent Change	FY 2019	FY 2020	Increase or Decrease	Percent Change
In-County	96	100	3	3.6%	19.3	21.3	2.0	10.2%
Outside County	1,769	1,698	(70)	(4.0%)	42.8	48.0	5.2	12.3%
Total	**1,866**	**1,798**	**(67)**	**(3.6%)**	**40.3**	**44.9**	**4.6**	**11.5%**

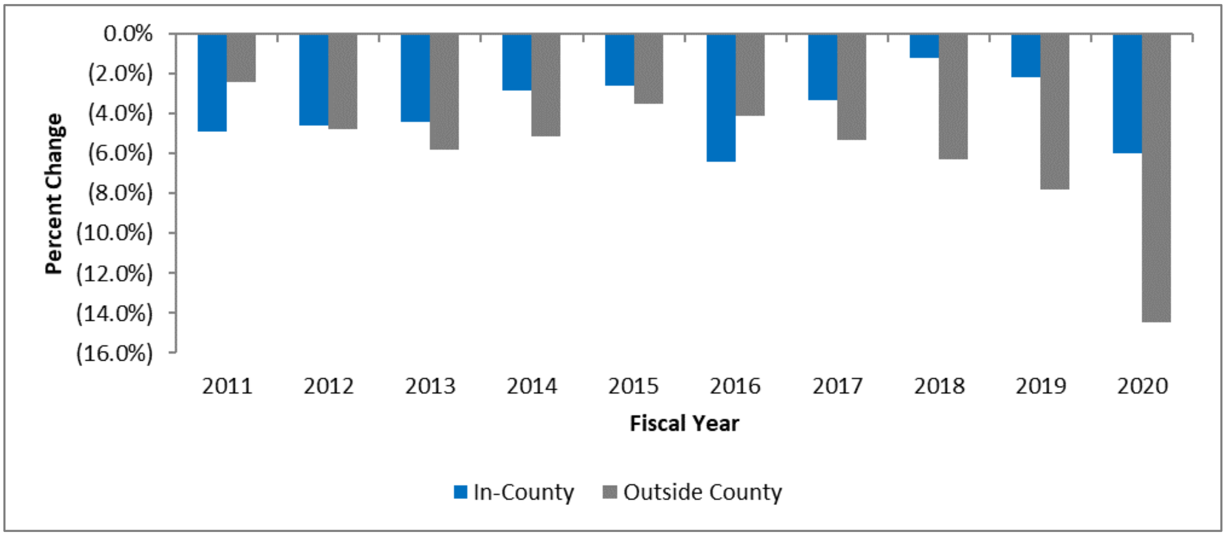
Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

TRENDS IN PERIODICALS

As shown in Figure III-14, Periodicals volume has continued to decline, in large part due to the availability of electronic alternatives. For In-County Periodicals, the decline in FY 2020 is similar to declines seen in recent years. Volume loss for Outside County Periodicals far exceeds volume losses in previous years, even though losses in volume have accelerated in recent years. Over the last decade, volume for Outside County Periodicals decreased by 46.2 percent or 3.0 billion pieces.

[80] *See* Docket No. ACR2020, Responses of the United States Postal Service to Questions 1-26 of Chairman's Information Request No. 3, January 22, 2021, Question 4.

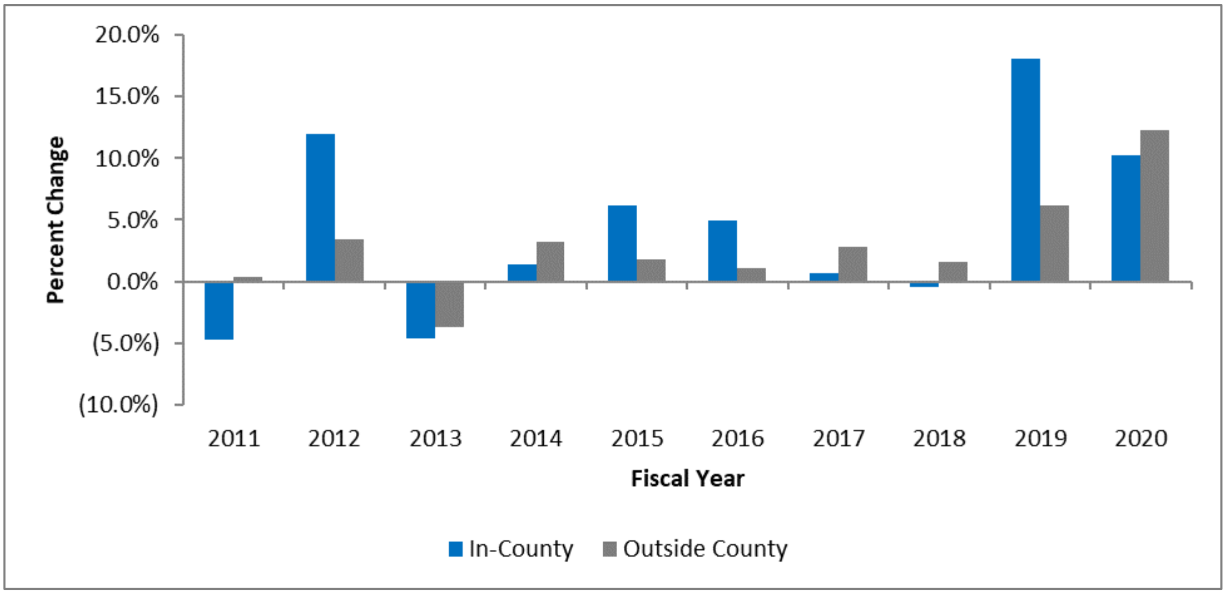
Figure III-14
Periodicals Percent Change in Volume, FY 2011–FY 2020



Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

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

Figure III-15
Periodicals Percent Change in Average Unit Attributable Cost, FY 2011–FY 2020



Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Table III-18 disaggregates the average unit attributable cost of Outside County Periodicals for FY 2019 and FY 2020. As shown in Table III-18, the average city carrier in-office unit cost increased while average mail processing unit cost decreased in FY 2020. Unit cost for rural carriers increased in FY 2020, while the unit city carrier street cost decreased. As previously discussed, methodological changes involving city carrier costs reduced costs attributed to Outside County Periodicals. Unit transportation cost also decreased, likely due to lower average weight for Outside County Periodicals in FY 2020 than in FY 2019.

Table III-18
Outside County Periodicals Average Unit Attributable Cost by Segment, FY 2019 and FY 2020

	Unit Attributable Cost (Cents per Piece) FY 2019	FY 2020	Percent Change
Mail Processing	19.41	17.12	(11.8%)
City Carrier In-Office	6.19	7.75	25.2%
City Carrrier Street	4.29	3.59	(16.3%)
Rural Carriers	4.09	4.26	4.1%
Transportation	4.26	3.63	(14.8%)
All Other	1.22	1.53	25.1%

Source: PRC derived from Postal Service CSC Report, FY 2019–FY 2020.

Package Services

The Package Services class consists of four products: Alaska Bypass Service; Bound Printed Matter (BPM) Flats; BPM Parcels; and Media Mail/Library Mail. Table III-19 summarizes the FY 2020 changes in volume and revenue for Package Services. Overall, Package Services volume decreased 8.2 percent in FY 2020. However, Media Mail/Library Mail volumes were significantly higher compared with FY 2019.

Two Package Services products had higher revenue in FY 2020 than in FY 2019, resulting in slightly higher revenue for the Package Services class overall. On a unit basis, revenue increased slightly for all Package Services products in FY 2020.

Table III-19
Package Services Volume and Revenue, FY 2019 and FY 2020

	Mail Volume (Millions)				Mail Revenue ($ in Millions)			
	FY 2019	FY 2020	Increase or Decrease	Percent Change	FY 2019	FY 2020	Increase or Decrease	Percent Change
Alaska Bypass	1	1	(0)	(0.7%)	32	32	0	1.5%
Bound Printed Matter Flats	254	211	(43)	(17.0%)	191	161	(30)	(15.5%)
Bound Printed Matter Parcels	286	261	(25)	(8.9%)	315	289	(25)	(8.1%)
Media Mail/Library Mail	80	98	18	22.1%	284	349	65	23.0%
Total	**622**	**571**	**(51)**	**(8.2%)**	**821**	**832**	**11**	**1.3%**

Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

As shown in Table III-20, attributable cost increased in the aggregate for all Package Services products compared with FY 2019, except for BPM Flats. In FY 2020, Alaska Bypass Service cost, which consists entirely of Cost Segment 14 transportation, increased both in the aggregate and on a unit basis, 7.1 percent and 7.9 percent, respectively. The attributable cost of BPM Parcels increased 3.8 percent due to a large increase in unit cost (13.9 percent) compared with FY 2019. Although BPM Flats attributable cost decreased in FY 2020, attributable cost increased 16.3 percent on a unit basis. Only Media Mail/Library Mail experienced a unit cost decrease in FY 2020. A 5.0 percent decrease in the average weight per piece for Media/Library Mail and, to a lesser extent, efficiency improvements contributed to the decrease in average unit attributable cost for Media Mail/Library Mail.

Table III-20
Package Services Attributable Cost and Average Unit Attributable Cost, FY 2019 and FY 2020

	Attributable Cost ($ in Millions)				Unit Attributable Cost (Cents per Piece)			
	FY 2019	FY 2020	Increase or Decrease	Percent Change	FY 2019	FY 2020	Increase or Decrease	Percent Change
Alaska Bypass	20	22	1	7.1%	1,598.5	1,725.0	126.5	7.9%
Bound Printed Matter Flats	133	128	(5)	(3.4%)	52.2	60.7	8.5	16.3%
Bound Printed Matter Parcels	297	308	11	3.8%	103.8	118.1	14.4	13.9%
Media/Library Mail	397	441	44	11.0%	495.5	450.5	(45.1)	(9.1%)
Total	**848**	**899**	**52**	**6.1%**	**136.4**	**157.6**	**21.2**	**15.5%**

Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Table III-21 shows the FY 2020 percent change in unit attributable cost for selected cost segments. As shown in Table III-21, city carrier in-office activities increased substantially for all three products, primarily due to the change in In-Office Cost System (IOCS) methodology for sampling city carriers. For BPM Flats and Media Mail/Library Mail unit mail processing cost decreased in FY 2020, while it increased moderately for BPM Parcels.

For BPM Flats, while unit attributable cost increased overall in FY 2020, in addition to the mail processing unit cost, unit costs decreased for motor vehicles service and motor vehicle service drivers. For this product, transportation unit cost increased 35.9 percent. In FY 2020, highway transportation costs per mile increased due to a national shortage of truck drivers and higher average fuel costs.[81]

For BPM Parcels, unit attributable cost increased for most cost segments in FY 2020. In addition to city carrier in-office, transportation and vehicle service driver unit costs increased most substantially compared with FY 2019.

Although city carrier in-office unit cost increased by 113.6 percent in FY 2020, unit cost decreases in the remaining segments resulted in a decrease in Media Mail/Library Mail's unit attributable cost in FY 2020.

[81] Postal Service FY 2020 Form 10-K at 22.

Table III-21
Package Services Percent Change in Average Unit Attributable Cost by Segment, FY 2020

	BPM Flats	BPM Parcels	Media Mail/ Library Mail
Mail Processing	(5.0%)	8.7%	(11.6%)
City Carrier In-Office	82.5%	164.4%	113.6%
City Carrier Street	12.6%	22.5%	(3.8%)
Vehicle Service Driv.	(24.1%)	37.0%	(20.0%)
Rural Carriers	24.4%	10.2%	(11.1%)
Motor Vehicle Service	(2.2%)	6.5%	(22.1%)
Transportation	35.9%	42.7%	(7.5%)
All Other	9.1%	(2.8%)	(24.1%)
Total Attributable Cost	**16.3%**	**13.9%**	**(9.1%)**

Source: PRC derived from Postal Service CSC Report, FY 2019 and FY 2020.

Market Dominant Special Services

The Special Services class consists of 11 products: eight domestic products and three international products. Three Special Services products: Ancillary Services,[82] Address Management Services, and International Ancillary Services, include a number of distinct services.

Special Services include Certified Mail, Insurance, Money Orders, Post Office Box Service, and other services that enhance Market Dominant products. As shown in Table III-22, total revenue for Special Services declined $98 million in FY 2020. Revenue decreased for all services in FY 2020 except Insurance and Post Office Box Service.

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

Table III-22
Market Dominant Ancillary Services and Special Services Revenue, FY 2019 and FY 2020

	Revenue ($ in Millions) FY 2019	Revenue ($ in Millions) FY 2020	Increase or Decrease	Percent Change
Certified Mail	654	598	(56)	(8.5%)
COD	4	3	(1)	(17.7%)
Insurance	78	93	15	19.4%
Registered Mail	24	21	(3)	(12.5%)
Stamped Envelopes & Cards	13	13	(0)	(0.4%)
Other Ancillary Services	390	374	(15)	(3.9%)
Money Orders	163	153	(10)	(5.9%)
Post Office Box	294	298	4	1.3%
Other Services	191	159	(32)	(16.6%)
Total Services	**1,810**	**1,713**	**(98)**	**(5.4%)**

Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Table III-23 shows that attributable cost for Special Services decreased $131 million in FY 2020. Although the attributable cost appears to have decreased most substantially for Post Office Box service in FY 2020, the decrease was primarily due to a change in costing methodology that shifted facility-related costs between mail and services.[83]

Table III-23
Market Dominant Ancillary Services and Special Services Attributable Cost
FY 2019 and FY 2020

	Attributable Cost ($ in Millions) FY 2019	FY 2020	Increase or Decrease	Percent Change
Certified Mail	478	485	7	1.4%
COD	3	3	0	0.0%
Insurance	41	32	(9)	(22.3%)
Registered Mail	17	14	(2)	(13.6%)
Stamped Envelopes & Cards	11	10	(1)	(5.5%)
Other Ancillary Services	247	268	21	8.5%
Money Orders	155	157	2	1.6%
Post Office Box	256	130	(125)	(49.0%)
Other Services	95	71	(24)	(25.4%)
Total Services	**1,323**	**1,192**	**(131)**	**(9.9%)**

Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

[83] See Docket No. RM2020-1, Order on Analytical Principles Used in Periodic Reporting, August 17, 2020 (Order No. 5637).

Competitive Volume, Revenue, and Cost by Product

Competitive products consist of both domestic and international products. Domestic Competitive products include Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; First-Class Package Service; Retail Ground; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services; Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies. There were also 560 Domestic Competitive NSA products in effect during FY 2020. 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 2020, there were also 771 International Outbound NSAs and 18 International Inbound NSAs.

The products are grouped into several broad categories to facilitate comparisons. Table III-24 summarizes the FY 2020 changes in volume and revenue for Competitive products and services. Although total volume for Competitive products has been on an upward trend for years, in FY 2020, volume increased dramatically due to the surge in e-commerce related to the COVID-19 pandemic.[84] Total volume for Competitive products increased 25.7 percent, with only Priority Mail Express losing volume compared with FY 2019. Among domestic Competitive products, First-Class Package Service volume increased most substantially in FY 2020, increasing 32.2 percent versus 9.7 percent in FY 2019. International volume more than doubled in FY 2020.

Total Competitive product revenue increased 26.5 percent, or $6.4 billion, in FY 2020. Revenue for every domestic Competitive product except Priority Mail Express increased, mirroring the changes in volume. On a unit basis, for domestic Competitive products overall, revenue increased by approximately 2.9 percent.

[84] Postal Service FY 2020 Form 10-K at 26.

Table III-24
Competitive Products Volume and Revenue, FY 2019 and FY 2020

	Mail Volume (Millions)				Mail Revenue ($ in Millions)			
	FY 2019	FY 2020	Increase or Decrease	Percent Change	FY 2019	FY 2020	Increase or Decrease	Percent Change
Priority Mail Express	26	24	(2)	(7.9%)	716	697	(19)	(2.7%)
First-Class Package Service	1,398	1,848	450	32.2%	4,466	6,228	1,761	39.4%
Priority Mail	1,085	1,262	176	16.2%	9,464	11,529	2,065	21.8%
Ground Parcels	2,997	3,584	587	19.6%	7,271	9,195	1,924	26.5%
International	166	413	247	149.0%	1,380	1,959	579	42.0%
Domestic Services					911	1,004	93	10.3%
Total Competitive	**5,672**	**7,130**	**1,458**	**25.7%**	**24,207**	**30,611**	**6,403**	**26.5%**

Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Table III-25 summarizes the FY 2020 changes in attributable cost. Total attributable cost for Competitive products increased 21.7 percent, or approximately $3.5 billion, in FY 2020. While the increase in attributable cost is primarily due to the increase in volume, costing methodology changes implemented in FY 2020 also increased costs attributed to Competitive products. On a unit basis, attributable costs decreased or increased modestly for all Competitive products in FY 2020.

Table III-25
Competitive Products Attributable Cost and Unit Attributable Cost, FY 2019 and FY 2020

	Attributable Cost ($ in Millions)				Unit Attributable Cost (Cents per Piece)			
	FY 2019	FY 2020	Increase or Decrease	Percent Change	FY 2019	FY 2020	Increase or Decrease	Percent Change
Priority Mail Express	301	280	(20)	(6.7%)	1,149	1,163	14	1.2%
First-Class Package Service	3,014	3,907	893	29.6%	216	211	(4)	(1.9%)
Priority Mail	7,045	8,284	1,239	17.6%	649	657	8	1.2%
Ground Parcels[1]	3,846	4,693	847	22.0%	128	131	3	2.2%
International	981	1,451	470	47.9%	592	352	(240)	(40.6%)
Domestic Services	483	345	(138)	(28.6%)				
Total Competitive	**15,960**	**19,426**	**3,466**	**21.7%**	**281**	**272**	**(9)**	**(3.2%)**

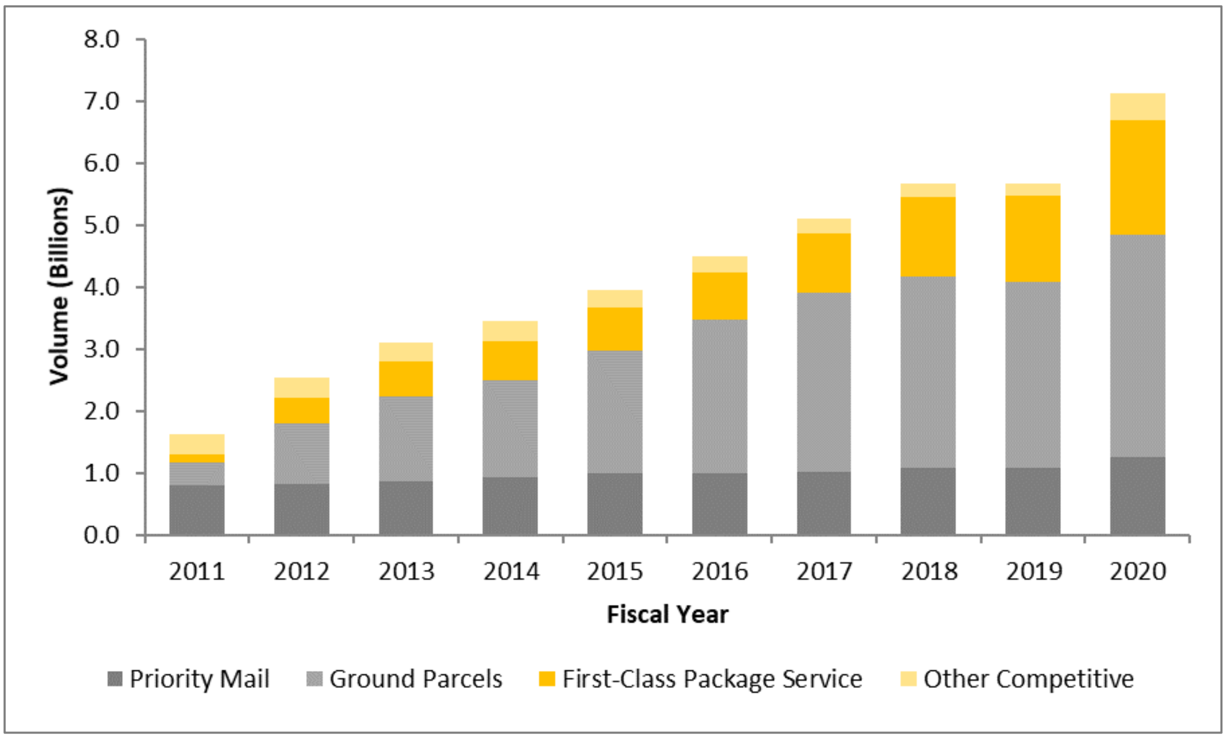
Negative values denoted by ().
Source: Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.
[1] In the FY 2019 Financial Analysis Report, attributable cost for this category did not include group-specific cost.

Competitive products attributable cost has grown rapidly over the last decade and now comprises 42.0 percent of the total attributable cost.

Trends in Competitive Products

With the exception of FY 2019, Competitive product volume has exceeded 10 percent growth each year since FY 2012.[85] Figure III-16 highlights the growth in Competitive categories since FY 2011. It illustrates the large increase in FY 2020, compared with previous years.

Figure III-16
Competitive Products Volume by Category, FY 2011–FY 2020



Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

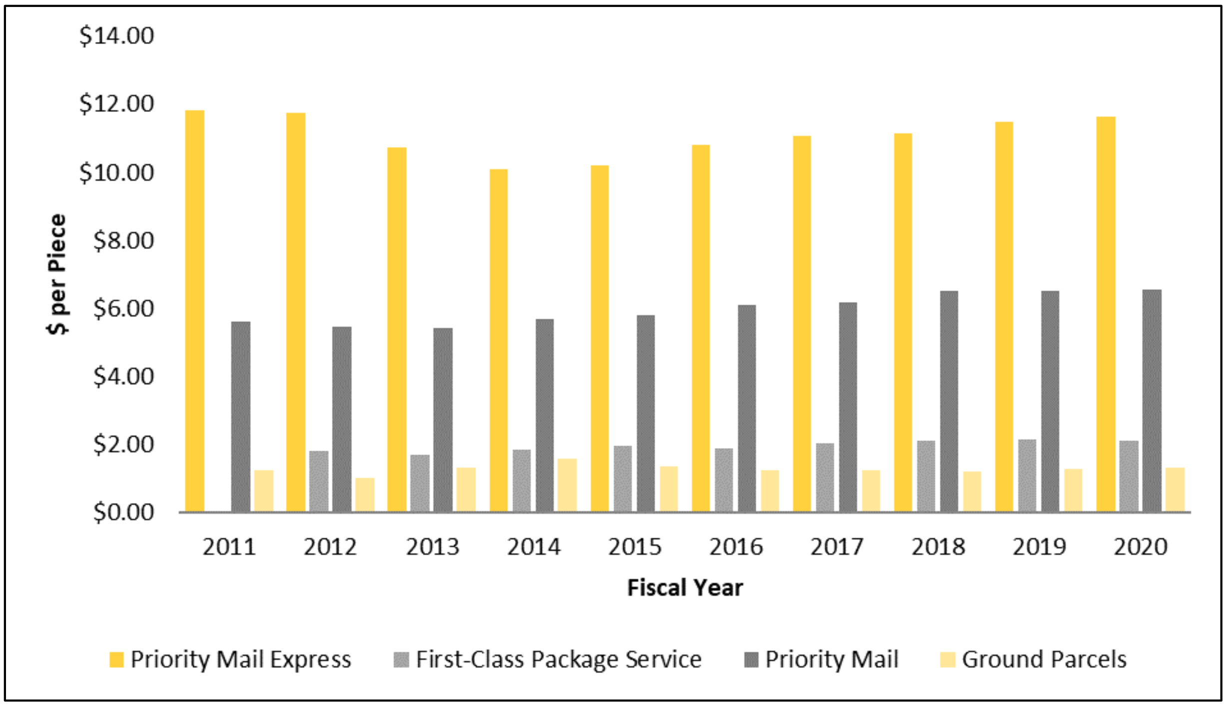
Competitive products attributable cost has grown rapidly over the last decade and now comprises 42.0 percent of the total attributable cost. The increase in total attributable cost over time includes the effects of mail classification changes that resulted in transfers of products from the Market Dominant to the Competitive product list. These include the transfer of Commercial First-Class Mail Parcels to a new Lightweight Commercial Parcels

[85] The transfer of First-Class Mail commercial parcels and lightweight Standard Mail parcels from the market dominant product list to the Competitive product list was completed by FY 2012.

category, USPS Marketing Mail lightweight parcels to the Competitive ground parcels category, single-piece Parcel Post from Market Dominant products to the Competitive Standard Post product, and First-Class Mail single-piece retail Parcels to the First-Class Package Service product.[86]

Figure III-17 shows the average unit attributable cost by category from FY 2011 to FY 2020. With the exception of ground parcels, the average unit attributable cost for Competitive products has generally trended upward in recent years.

Figure III-17
Competitive Products Average Unit Attributable Cost by Category, FY 2011–FY 2020

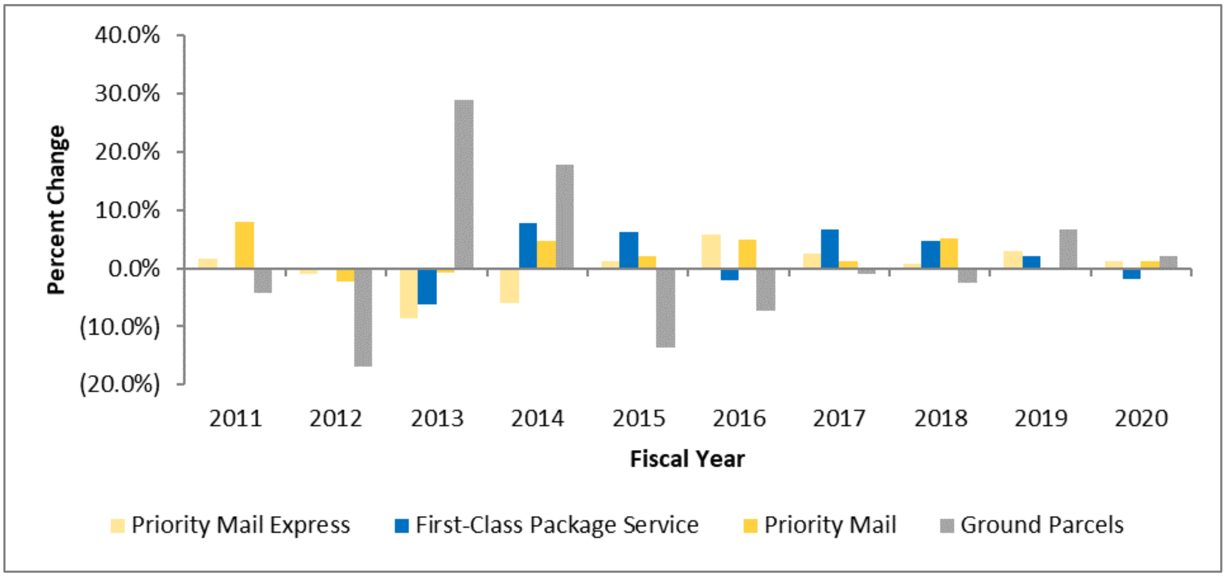


Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Figure III-18 shows the percent change in average unit attributable cost by category from FY 2011 to FY 2020. Increases and decreases in unit attributable cost have generally become smaller in magnitude in recent years.

[86] See Docket No. MC2011-22, Order Adding Lightweight Commercial Parcels to the Competitive Product List, April 6, 2011 (Order No. 710); Docket No. MC2010-36, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011 (Order No. 689); Docket No. MC2012-13 Competitive Product List Order Conditionally Granting Request to Transfer Parcel Post to the Competitive Product List, July 19, 2012 (Order No. 1411); and Docket No. MC2015-7, Order Conditionally Approving Transfer, July 20, 2017 (Order No. 4009).

Figure III-18
Competitive Products Percent Change in Average Unit Attributable Cost by Category
FY 2011–FY 2020



Source: FY 2011–FY 2013 ACD; Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1; Docket No. ACR2017, Library Reference PRC-LR-ACR2017/1; Docket No. ACR2018, Library Reference PRC-LR-ACR2018/1; Docket No. ACR2019, Library Reference PRC-LR-ACR2019/1; Library Reference PRC-LR-ACR2020/1.

Chapter IV. Cost and Profit Analysis

Introduction

Chapter 4 divides the broad categories of costs analyzed in Chapter 2 into segments categorized by function and explores how operations impact these costs and how they impact total net income/loss. As stated in Chapter 2 (*see* Table II-5), the single largest cost for the Postal Service is employee salaries and benefits. This chapter contains a discussion of labor costs and workhours.

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

Contribution Margin Income Statement

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

Table IV-1 presents a high-level view of the contribution margin income statement, highlighting total attributable and institutional costs. From FY 2019 to FY 2020, total revenue increased 2.7 percent, total attributable cost increased 3.3 percent, and total institutional cost increased 2.2 percent.

Table IV-1
Condensed Contribution Margin Income Statement[87]

	FY 2019	FY 2020	FY 2020 over FY 2019	
			$ Change	% Change
Total Revenue	**$ 71,305**	**$ 73,224**	**$ 1,918**	**2.7%**
Total Attributable Costs	44,920	46,414	1,495	3.3%
Contribution Margin	26,386	26,809	424	1.6%
Total Institutional Costs	35,199	35,986	786	2.2%
Net Loss	**$ (8,814)**	**$ (9,176)**	**$ (363)**	**4.1%**
Total All Mail and Services Volume (in Millions)	142,570	129,184	(13,386)	(9.4%)

Source: Postal Service CRA Report, FY 2019 and FY 2020.

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

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

Contribution margin on the contribution margin income statement differs from the controllable loss on the Postal Service Form 10-K.[88] The Postal Service defines controllable loss, a non-GAAP measure, as the excess of revenue over costs for normal business operations and calculates it by adding to total net loss those costs that it determines do not arise from normal business operations and over which it has no control. These costs include amortization of unfunded retirement obligations and actuarial revaluation of and discount rate changes on workers' compensation obligations, and retirement obligations.

Contribution margin, also a non-GAAP measure, is the excess of revenue over attributable costs. Attributable costs are the "direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type[.]"[89] In Order No. 3506, the Commission revised the methodology for determining attributable cost to include inframarginal costs developed to estimate incremental costs. Previously, attributable cost only included the sum of volume-variable costs, which, in the aggregate, increase as volume increases and decrease as volume decreases, and product-specific fixed costs, which are costs caused by a specific product or class but do not vary with volume.

The Postal Service records costs, initially, as accrued costs. Accrued costs are separated into cost segments generally corresponding to major divisions in the Postal Service's chart of accounts. The use of various systems designed to break down the cost of various postal activities determines separation. Identifying cost drivers that reflect the essential activity of each cost component determines the volume variable portion of attributable costs. Most cost segments contain multiple cost components. Attributable costs are distributed to products using distribution keys that reflect the underlying cost driver.[90]

After attributable costs are determined, the residual costs classify as institutional costs. 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.

In FY 2019 and FY 2020, the Postal Service generated a positive contribution after subtracting all attributable costs from revenue. However, total institutional cost exceeded the contribution amount leading to a net loss in both years. Between FY 2019 and FY 2020, the net loss increased 4.1 percent. Total volume declined 9.4 percent during that same period. All else being constant, total attributable costs should generally track volume declines; however, changes to the mail mix and cost of inputs impact expected results.

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[88] Postal Service FY 2020 Form 10-K at 23.

[89] 39 U.S.C. § 3622(c)(2).

[90] 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.

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

To better understand the increase in institutional cost in FY 2020, the Commission analyzes individual cost segment changes. Table IV-2 presents the underlying changes in institutional cost by year, beginning in FY 2016. In the last 3 years, the largest changes have been in workers' compensation. Except for FY 2016, the combined annual changes in annuitant health benefits, amortization on unfunded retirement funds, and other operational costs are not as significant as the year-to-year changes in workers' compensation cost. In addition, in FY 2020, the impact of COVID-19 on institutional costs is seen in city carrier costs and supplies and services. City carrier street delivery cost increased overall, with costs for letter route street time decreasing and costs for Special Purpose Routes increasing.[91] This outcome is consistent with the change in volume and the product mix.

Table IV-2
Change in "Other Costs" by Segment, FY 2016–FY 2020 ($ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Annuitant Health Benefits	$ 389	$ (4,914)	$ 14	$ 9	$ 71
CSRS Supplemental Liability	0	1,550	(270)	204	225
City Carriers	261	(95)	167	157	227
Rural Carriers	141	165	187	218	179
FERS Supplemental Liability	149	669	42	102	283
Transportation	103	580	99	112	92
Supplies and Services	117	74	3	(35)	188
Clerks and Mailhandlers	100	35	54	(25)	39
Other	451	405	(435)	349	422
Subtotal	**$ 1,711**	**$ (1,531)**	**$ (140)**	**$ 1,091**	**$ 1,725**
Workers' Compensation	966	(3,420)	1,002	3,495	(657)
Total Change	**$ 2,677**	**$ (4,951)**	**$ 862**	**$ 4,585**	**$ 1,069**

Source: Postal Service CSC Report, FY 2016–FY 2020.

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

[91] *See* Library Reference USPS-FY20-32, Tab 6.0.3, December 29, 2020; Library Reference USPS-FY19-32, December 27, 2019.

“other costs”), so analysis of them provides insights into the composition and behavior of institutional costs.

Table IV-3
Contribution Margin Income Statement, FY 2019 and FY 2020 ($ in Millions)

	FY 2019	FY 2020	FY 2020 over FY 2019 $ Change	FY 2020 over FY 2019 % Change
Total Revenue	**$ 71,305**	**$ 73,224**	**$ 1,918**	**2.7%**
Volume Variable and Product Specific Costs:				
Postmasters	$ 293	$ 302	$ 9	3.1%
Supervisors and Technicians	1,910	1,954	44	2.3%
Clerks and Mailhandlers	12,350	12,520	170	1.4%
City Delivery Carriers – Office Activity	3,142	3,424	282	9.0%
City Delivery Carriers – Street Activity	4,904	4,949	45	0.9%
Vehicle Service Drivers	493	516	23	4.6%
Rural Carriers	3,055	3,176	121	4.0%
Custodial and Maintenance Services	2,348	2,165	(183)	(7.8%)
Motor Vehicle Service	657	614	(43)	(6.5%)
Miscellaneous Local Operations	287	308	21	7.4%
Purchased Transportation	6,467	7,004	537	8.3%
Building Occupancy	1,449	1,489	40	2.7%
Supplies and Services	1,462	1,524	62	4.2%
Research and Development	0	0	0	n/a
Servicewide Personnel Benefits and HQ/Area Operations	3,071	3,193	122	4.0%
General Management Systems	0	0	0	n/a
Other Accrued Expenses (Servicewide)	1,484	1,446	(38)	(2.5%)
Total Volume Variable and Product Specific Costs	**$ 43,373**	**$ 44,585**	**$ 1,212**	**2.8%**
Contribution Margin	**$ 27,933**	**$ 28,639**	**$ 706**	**2.5%**
Other Costs:				
Postmasters	$ 1,373	$ 1,418	$ 45	3.3%
Supervisors and Technicians	1,595	1,611	16	1.0%
Clerks and Mailhandlers	2,704	2,743	39	1.4%
City Delivery Carriers – Office Activity	624	497	(127)	(20.3%)
City Delivery Carriers – Street Activity	8,080	8,434	353	4.4%
Vehicle Service Drivers	323	338	15	4.6%
Rural Carriers	5,460	5,639	179	3.3%
Custodial and Maintenance Services	842	1,080	237	28.2%
Motor Vehicle Service	1,048	1,023	(25)	(2.3%)
Miscellaneous Local Operations	334	311	(23)	(6.8%)
Purchased Transportation	1,717	1,809	92	5.4%
Building Occupancy	596	613	17	2.9%
Supplies and Services	1,616	1,805	188	11.6%
Research and Development	27	18	(8)	n/a
Servicewide Personnel Benefits and HQ/Area Operations	9,750	9,829	80	0.8%
General Management Systems	18	15	(3)	n/a
Other Accrued Expenses (Servicewide)	641	633	(7)	(1.2%)
Total Other Costs	**$ 36,746**	**$ 37,815**	**$ 1,069**	**2.9%**
Total Costs	**$ 80,119**	**$ 82,400**	**$ 2,281**	**2.8%**
Net Loss	**$ (8,814)**	**$ (9,176)**	**$ (363)**	**4.1%**
Total All Mail and Services Volume (in Millions)	**142,570**	**129,184**	**(13,386)**	**(9.4%)**

Source: Postal Service CSC Report, FY 2019 and FY 2020.

As seen in Table IV-3, volume variable and product-specific costs decreased for Custodial and Maintenance Services, and other costs increased for this segment. The decrease in total volume variable and product-specific cost was primarily due to a 12.8 percent decrease from the prior year in Component 075 (Operating Equipment Maintenance). In FY 2020, Component 075 consisted of slightly less than half of total accrued costs (47 percent) for Custodial and Maintenance Services. Operating equipment maintenance costs are for personnel responsible for maintaining mail processing equipment, Point of Service, Intelligent Mail Devices (IMDs) and Mobile Delivery Devices (MDDs), and other window service and computer equipment.[92] The decrease in total volume variable and product-specific cost for this segment is because the equipment variabilities for three out of the five largest maintenance labor cost pools decreased: FSS (Component 976), DBCS (Component 978), and FSM (Component 981) decreased from the prior year.

As seen in Table IV-3, certain cost segments show large absolute increases from FY 2019 amounts. The three largest absolute increases from the prior year, which occur in the cost segments for city delivery carriers - street activity, purchased transportation, and rural carriers, are discussed below.

City Delivery Carriers – Street Activity consists of the costs of carriers delivering and collecting mail from customers. Three components comprise this cost segment: Network Travel (Component 54), Delivery Activities (Component 47), and Delivery Support (Component 280). The largest portion of the increase in FY 2020 in this cost segment occurred in total accrued cost for Delivery Activities, increasing 6.4 percent. Overtime and penalty overtime and Other Leave increased in FY 2020. The accrued cost for Sunday/Holiday Delivery, a subcomponent of Delivery Activities, increased 34.1 percent from the prior year. However, costs in this subcomponent are fully volume variable[93] and significantly lower in aggregate than Delivery Activities costs. This results in the greater percentage increase in institutional costs in this cost segment compared to attributable cost. Delivery Activities have a volume variability of 38.6 percent.[94]

Purchased Transportation consists of the costs of contracted air, trucking, rail, and water transportation. Six components comprise this cost segment: Domestic Air (Component 142), Domestic Alaska Air (Component 681), Highway (Component 143), Railroad (Component 144), Domestic Water (Component 145), and International (Component 146). The largest portion of the increase from FY 2019 occurred in Domestic Air and Highway. Total accrued costs in these components increased by 13.3 percent and 5.3 percent, much larger than the increase in FY 2019 from the prior year, 5.9 percent and 4.5 percent, respectively. The Postal Service explains that increased online shopping, restricted drivers' availability due to sickness or quarantine, and significantly fewer commercial air flights shifted volume to surface transportation. [95]

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[92] United States Postal Service, Rule 39 C.F.R. Section 3050.60(f) Report for FY 2019 (Summary Descriptions), July 1, 2020, folder "SummaryDescriptionsFY2019," file "CS11-19.docx," at 11-3 and 11-4 (Postal Service FY 2019 Summary Descriptions).

[93] *Id.* at 7-5.

[94] *Id.* at 7-2.

[95] *See* Responses of the United States Postal Service to Questions 1-21 of Commission Information Request No. 1, January 15, 2021, Question 3a (Responses to CIR No. 1).

Table IV-4 shows the percentage change from the prior-year quarter in accrued Domestic Air and Domestic Highway costs. The third and fourth quarters, which historically have been lower than the first two quarters, as shown in the percentages for FY 2019 over FY 2018, increased significantly in FY 2020 over FY 2019, resulting from the effects of the pandemic.

Table IV-4
Percent Change from Same Period Last Year (SPLY) in Purchased Transportation Accrued Cost FY 2019 and FY 2020

	FY 2019 over FY 2018 Percent Change from SPLY				FY 2020 over FY 2019 Percent Change from SPLY			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Domestic Air	12.4%	1.0%	14.0%	(2.8%)	(4.5%)	3.9%	20.3%	34.3%
Domestic Highway	10.0%	8.1%	0.0%	(0.7%)	7.3%	(1.7%)	7.3%	7.8%
Purchased Transportation Total Cost	**9.7%**	**4.0%**	**4.6%**	**(2.5%)**	**2.4%**	**0.4%**	**10.8%**	**18.9%**

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

The Postal Service states that the pandemic negatively affected its surface and air contracted transportation and highway contract route drivers "recorded hundreds of contract failures daily, with some districts experiencing failures for extended periods."[96] According to the Postal Service, the increase in transportation costs resulted from a surge in shipping and packages volumes and the need for alternative modes of transportation such as charter flights and highway contract routes when the pandemic negatively affected available commercial flights.[97] The increase in highway transportation costs was driven by an increase in the number of miles driven and a one-time accounting adjustment associated with embedded leases.[98]

Rural carriers deliver to and collect mail from non-urban zones determined through labor negotiations.[99] Three cost components comprise the rural carrier cost segment: Evaluated Routes (Component 69), Other Routes (Component 70), and Equipment Maintenance Allowance (Component 73). The largest portion of cost in this segment comprises labor costs for full-time or Evaluated Routes, which grew by 5.1 percent from FY 2019, the same rate as in the prior year. However, in a change from the pattern of the past ten years, costs for Other Routes decreased 9.5 percent from the prior year, resulting in an overall reduction in the rate of growth in costs for the cost segment rural carriers in the past two years. Other Routes are not classified as full-time and are "typically created to relieve overburdened routes or to accommodate route expansion that cannot be handled by adding segments to existing routes."[100] Compared to FY 2019, higher costs in this segment partly result from a 1.5 percent increase in headcount for full-time rural delivery carriers,

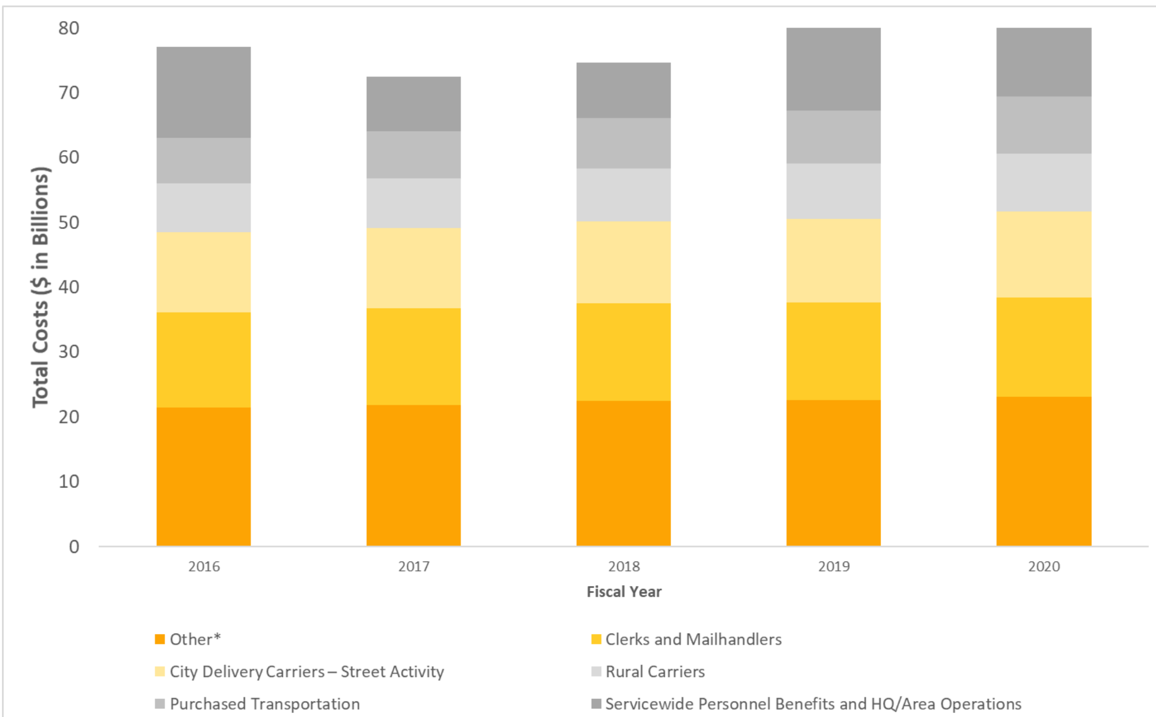
[96] Postal Service FY 2020 Form 10-K at 2.
[97] *Id.* at 11 and 12.
[98] *Id.* at 21 and 22.
[99] United States Postal Service, Rule 39 C.F.R. Section 3050.60(f) Report for FY 2019 (Summary Descriptions), July 1, 2020, folder "SummaryDescriptionsFY2019," file "CS10-19.docx," at 10-1 (Postal Service FY 2019 Summary Descriptions).
[100] Postal Service, Rule 39 C.F.R. Section 3050.60(f) Report for FY 2019 (Summary Descriptions), folder "SummaryDescriptionsFY2019," file "CS10-19.docx," at 10-3

from 73,165 to 74,255 carriers,[101] and the growth of rural routes (0.6 percent) and residential and business rural delivery points (2.0 percent).[102]

ANALYSIS OF COST SEGMENTS

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

Figure IV-1
Share of Total Costs by Major Cost Segment, FY 2016–FY 2020



* Other comprises of cost segments for Postmasters, Supervisors and Technicians, City Delivery Carriers-Office Activity, Vehicle Service Drivers, Custodial and Maintenance Services, Motor Vehicle Services, Miscellaneous Local Operations, Building Occupancy, Supplies and Services, Research and Development, General Management Services and Other Accrued Expenses (Servicewide).
Source: Postal Service CRA Report, FY 2016–FY 2020.

From FY 2016 to FY 2020, the rate of growth in total costs in these five cost segments (6.5 percent) was slightly lower than the rate of growth in the Postal Service's total costs (6.8 percent).

[101] Library Reference USPS-FY20-17, December 23, 2020, file "FY2020.Annual.Report.USPS.FY20.17.pdf," at 28 (Postal Service FY 2020 Annual Report to Congress).
[102] *Id.* at 26.

Table IV-5 shows the share of costs that are “other costs” for each cost segment. For three out of the five cost segments identified in Figure IV-1, more than 60 percent of total costs are ”other costs.”

Table IV-5
“Other Costs” Share of Total Costs, FY 2016–FY 2020

		"Other Costs" Share of Total Accrued Costs				
		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
CS1	Postmasters	82.4%	82.4%	82.4%	82.4%	82.4%
CS2	Supervisors and Technicians	45.9%	45.7%	45.9%	45.5%	45.2%
CS3	**Clerks and Mailhandlers**	**17.9%**	**18.0%**	**18.2%**	**18.0%**	**18.0%**
CS6	City Delivery Carriers – Office Activity	16.5%	16.2%	16.5%	16.6%	12.7%
CS7	**City Delivery Carriers – Street Activity**	**63.7%**	**63.1%**	**62.3%**	**62.2%**	**63.0%**
CS8	Vehicle Service Drivers	39.6%	39.6%	39.6%	39.6%	39.6%
CS10	**Rural Carriers**	**65.7%**	**65.6%**	**64.9%**	**64.1%**	**64.0%**
CS11	Custodial and Maintenance Services	28.9%	31.9%	31.9%	26.4%	33.3%
CS12	Motor Vehicle Service	62.3%	61.8%	61.0%	61.5%	62.5%
CS13	Miscellaneous Local Operations	55.5%	54.2%	59.2%	53.8%	50.3%
CS14	**Purchased Transportation**	**13.3%**	**20.8%**	**20.4%**	**21.0%**	**20.5%**
CS15	Building Occupancy	30.0%	29.3%	29.0%	29.1%	29.2%
CS16	Supplies and Services	52.1%	51.3%	50.8%	52.5%	54.2%
CS17	Research and Development	99.1%	99.9%	100.0%	100.0%	100.0%
CS18	**Servicewide Personnel Benefits and HQ/Area Operations**	**79.7%**	**63.3%**	**64.1%**	**76.0%**	**75.5%**
CS19	General Management Systems	99.9%	100.0%	99.9%	99.9%	99.5%
CS20	Other Accrued Expenses (Servicewide)	25.2%	27.9%	28.3%	30.2%	30.4%

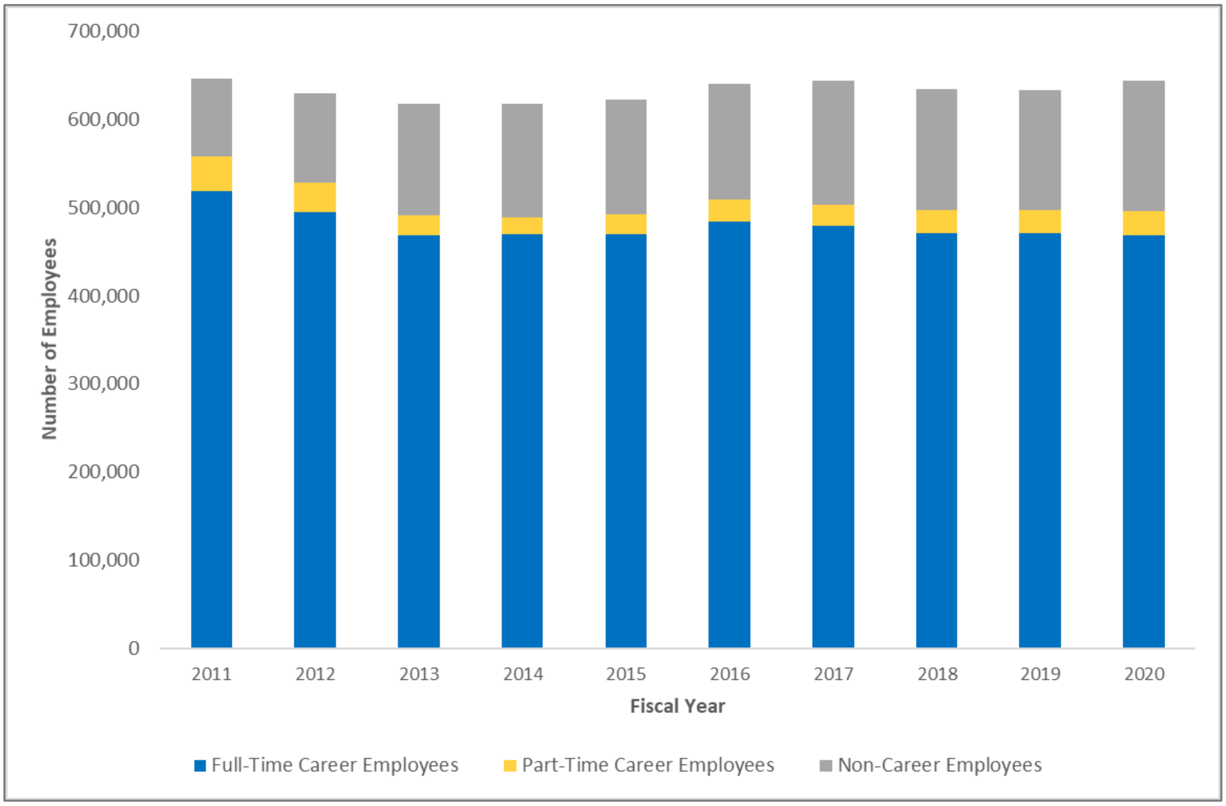
Source: Postal Service CRA Report, FY 2016–FY 2020.

Analysis of Employee Labor Cost

Employee labor costs, including compensation and benefits, are 77.0 percent of total Postal Service costs. There are three categories of Postal Service employees: full-time career employees, part-time career employees, and non-career employees. Full-time or part-time career employees typically receive full federal benefits, whereas non-career employees serve in temporary positions and do not receive full federal benefits. Over the past decade (FY 2011–FY 2020), the Postal Service has reduced its full-time and part-time workforce by approximately 61,000 employees and added approximately 59,000 non-career employees. *See* Figure IV-2.

Over the past decade (FY 2011–FY 2020), the Postal Service has reduced its full and part-time career workforce by approximately 61,000 employees and added approximately 59,000 non-career employees.

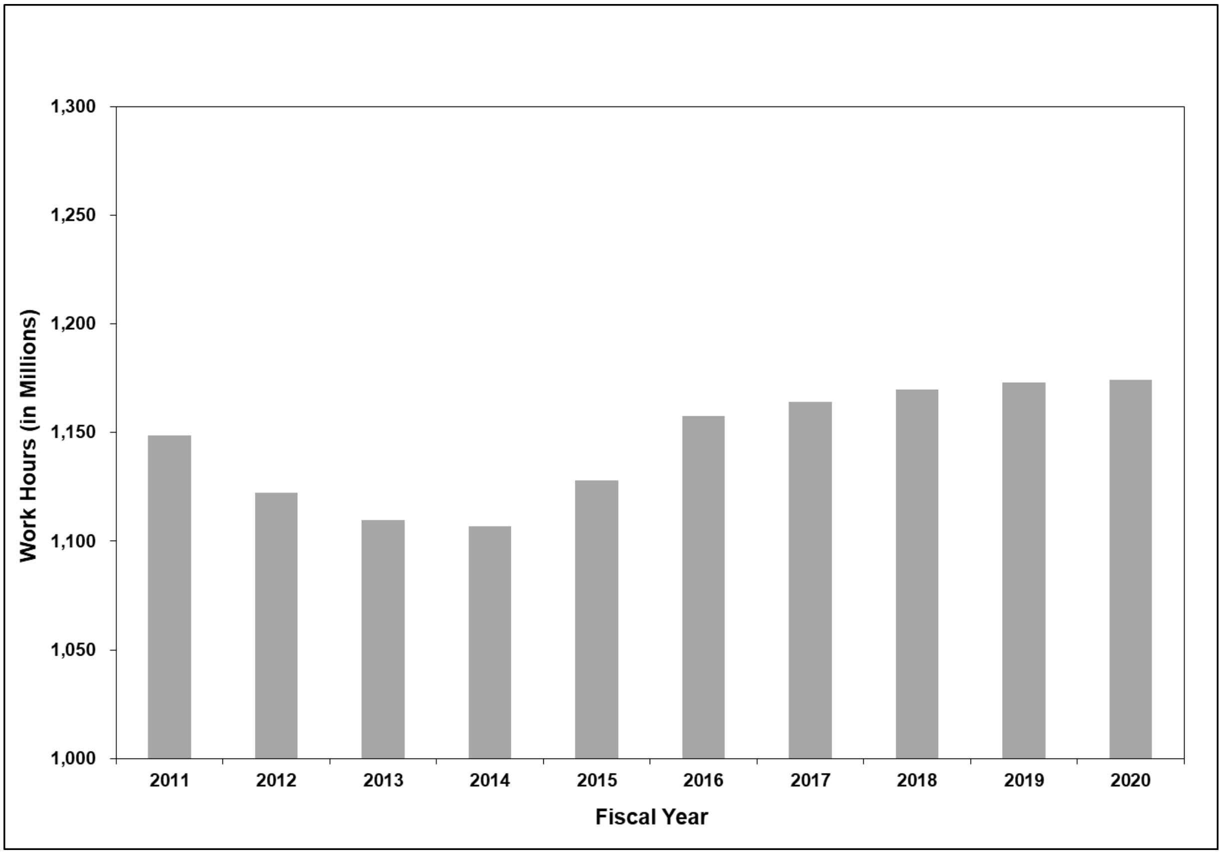
Figure IV-2
Breakdown of Workforce, FY 2011–FY 2020



Source: Postal Service September 2020 ORPES Report; Postal Service September 2019 ORPES Report; Postal Service September 2018 ORPES Report; Postal Service September 2017 ORPES Report; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2016, October 6, 2016; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2015, September 24, 2015; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2014, September 26, 2014; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2013, September 27, 2013; United States Postal Service, On-Roll and Paid Employee Statistics Report, September and October 2012, November 28, 2012; United States Postal Service, On-Roll and Paid Employee Statistics Report, July, August, and September 2011, October 27, 2011.

From FY 2011 to FY 2014, the Postal Service reduced workhours each year. That trend changed in FY 2015, and workhours have, generally, been increasing each year since then. In FY 2015 and FY 2016, workhours increased 1.9 percent and 2.6 percent, respectively. Since the peak in FY 2016, workhours have been increasing at a slower pace, at 0.5 percent or lower each year. Workhours increased 0.1 percent compared to the prior year in FY 2020, the lowest annual rate in the past five years. Figure IV-3 depicts annual workhours during the past 10 years.

Figure IV-3
Total Workhours, FY 2011–FY 2020



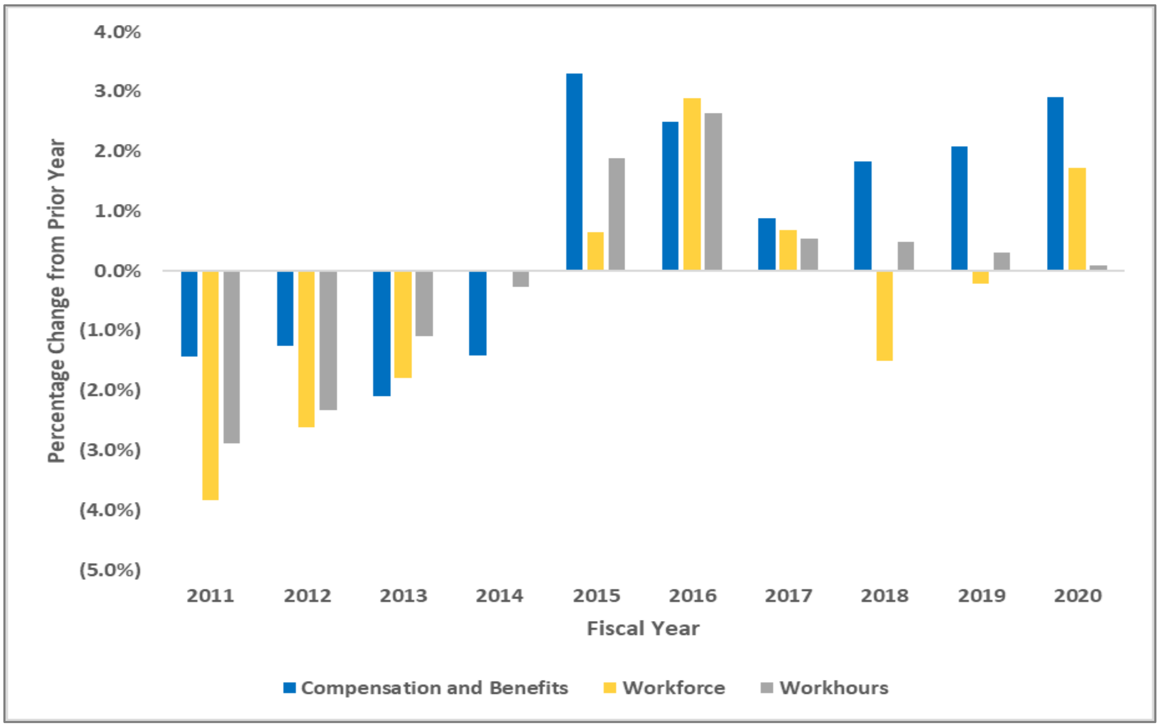
Source: Postal Service FY 2020 TFP, tab "Lab-13b."

As illustrated in Figure IV-4, the Postal Service reduced its workforce and workhours from FY 2011 to FY 2014. Decreases in workhours and workforce during this period reflect declines in mail volume, delivery optimization initiatives, streamlining area and district offices, incentives for employees to retire or resign, and the slowing growth rate of new delivery points due to lower housing starts. Savings from the reduction in career employees during FY 2011 and FY 2012 were partially offset by higher retirement costs due to increases in the FERS contribution rate from 11.2 percent in FY 2010 to 11.7 percent in FY 2011 and higher health benefit premiums. Increases in overtime hours of 8.4 percent in FY 2011 and 3.4 percent in FY 2012 also offset the savings. The number of total employees remained essentially unchanged from FY 2013 to FY 2014 with a slight decrease (0.3 percent) in workhours.

The cost of compensation and benefits spiked in FY 2015. Total workhours during FY 2015 increased by 1.9 percent, in part due to an increase in workhours for city delivery and customer service operations. The increase in workforce, a slight increase (0.6 percent) in career employees, and contractually obligated salary escalations during FY 2015 resulted in higher compensation and benefits costs. Retirement expenses during FY 2015 increased 12.5 percent, primarily due to increases in the FERS employer contribution rate from 11.9

percent to 13.2 percent. Compensation and benefits have continued to grow since FY 2017. Although there was a reduction in workforce in FY 2018 and FY 2019, workhours and compensation and benefits costs continued to increase.

Figure IV-4
Percent Change from Prior Year in Compensation and Benefits, Workforce and Workhours, FY 2011 – FY 2020



Source: Postal Service FY 2020 Form 10-K at 34 and 31; Postal Service FY 2019 Form 10-K at 25; Postal Service FY 2016 Form 10-K at 20; Postal Service FY 2013 Form 10-K at 28; Postal Service FY 2020 TFP, tab "Lab-13b;" Postal Service September 2020 ORPES Report; Postal Service September 2019 ORPES Report; Postal Service September 2018 ORPES Report; Postal Service September 2017 ORPES Report; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2016, October 6, 2016; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2015, September 24, 2015; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2014, September 26, 2014; United States Postal Service, On-Roll and Paid Employee Statistics Report, September 2013, September 27, 2013; United States Postal Service, On-Roll and Paid Employee Statistics Report, September and October 2012, November 28, 2012; United States Postal Service, On-Roll and Paid Employee Statistics Report, July, August, and September 2011, October 27, 2011.

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

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

More than a quarter of the increase in compensation was from the new category of sick leave applicable under the Families First Coronavirus Response Act (FFCRA).

In FY 2018 and FY 2019, the total number of employees decreased by 1.5 percent and 0.2 percent, respectively, reflecting normal attrition as the Postal Service aligns its workforce with declining mail volume. During the same period, total workhours increased slightly, influenced primarily by the growth in the number of delivery points and higher volume during the holiday seasons. Compensation and benefits cost increased by 1.8 percent and 2.1 percent, respectively, due to contractual wage adjustments and the increase in total workhours. In FY 2018 and FY 2019, average health benefit premiums increased by 4.0 percent and 1.2 percent, respectively.

In FY 2020, compensation and benefits cost increased 2.5 percent. Compared to the prior year, compensation increased 2.6 percent, retirement expenses increased 6.0 percent, and health benefits increased 1.3 percent. More than a quarter of the increase in compensation was from the new category of sick leave applicable under the Families First Coronavirus Response Act (FFCRA).[103] Other drivers of the compensation increase were contractual wage increases, higher overtime hours, and increased sick leave. Consistent with increases in compensation, Postal Service contributions for Social Security increased 3.7 percent, TSP increased 3.9 percent, FERS normal cost increased 8.1 percent, and the average FEHB premiums increased 4.0 percent.

In FY 2020, the postal workforce increased by 1.7 percent, reversing the trend of the prior two years. In FY 2020, total workhours slightly increased by 0.1 percent, with an increase in overtime workhours of approximately 13 million offsetting a decrease of straight time hours of approximately 12 million.

The total postal workforce increased compared to the prior two years due to conversions of non-career employees to full-time career employees and the hiring of additional casual

[103] Enacted in March 2020, the Families First Coronavirus Relief Act (FFCRA) required employers to provide 10 days of sick leave and up to 10 weeks of family leave for COVID related absences, and provided a payroll tax credit to reimburse employers.

employees to handle higher shipping volume in the second half of the year. The Memorandums of Understanding (MOUs) with the postal unions allowed the Postal Service to exceed the negotiated cap for non-career employees.[104] Despite the added workload driven by the pandemic, the pace of growth in compensation costs slowed due to a combination of the use of additional overtime workhours to offset the reduction of straight time workhours (and the associated benefits cost), the addition of non-career employees, and a net reduction in career employees.

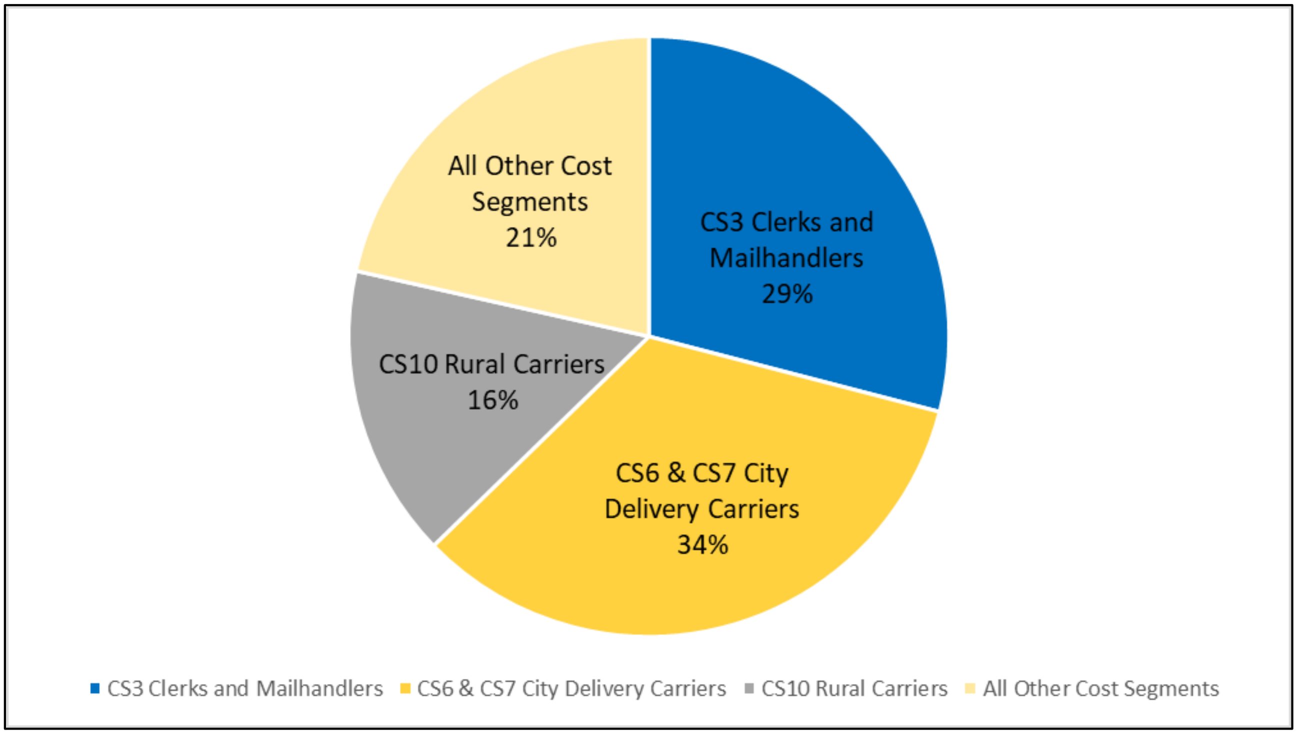
COVID-19 IMPACT ON LABOR COST

This section examines changes in compensation in FY 2020 across the three cost segments where labor costs are highest by comparing compensation costs (salary before benefits) in FY 2020 to the prior year.

Four Cost Segments account for almost 80 percent of total compensation costs: CS 6&7 City Delivery Carriers (in-office and street), CS 3 Clerks and Mailhandlers, and CS 10 Rural Carriers.

[104] Docket No. ACR2020, Commission Information Request No. 1, January 15, 2021, Responses to Question 2.a (CIR No. 1).

Figure IV-5
Cost Segment Share of Total Compensation Cost, FY 2020

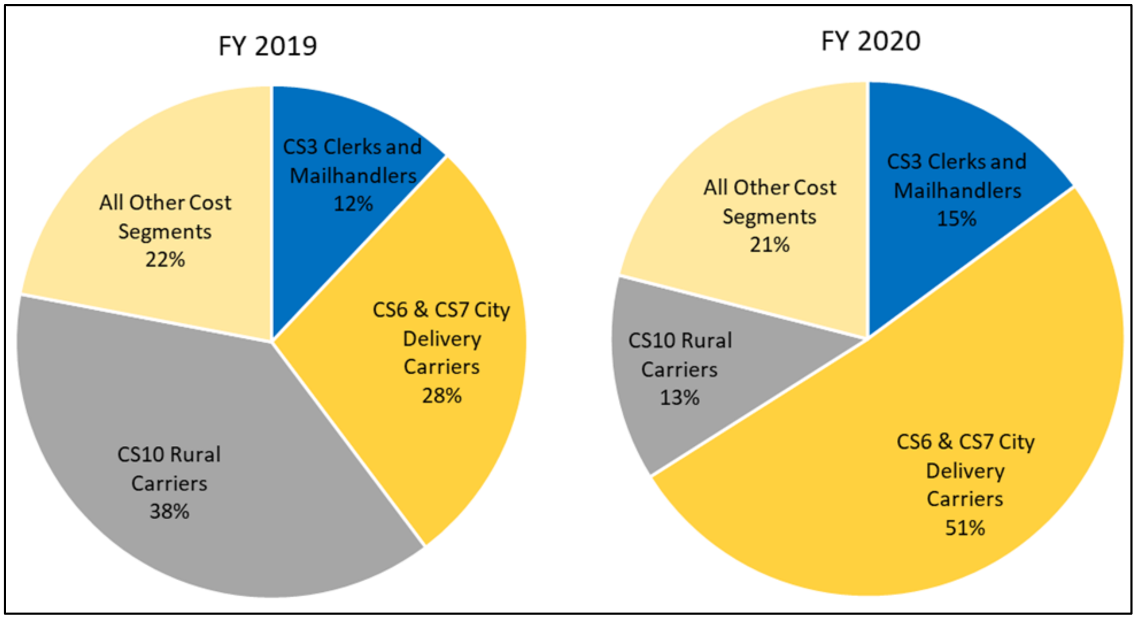


Source: PRC derived from Docket No. ACR2020, Library Reference USPS-FY20-7, Worksheet "Wkyrcalc.xls," Tab "Calculations," December 29, 2020.

Total compensation cost increased by 2.6 percent in FY 2020, a 0.1 percent increase from the previous fiscal year's cost growth rate.[105] Figure IV-6 presents the relative contribution to compensation growth for FY 2019 and FY 2020. This shows how each cost segment's share of the total growth rate changed significantly from the prior year. Notably, CS 6&7 City Delivery Carriers contributed much more to the increase in FY 2020, and CS 10 Rural Carriers' share of the total increase was much smaller.

[105] Postal Service FY 2020 Form 10-K at 31.

Figure IV-6
Cost Segment Shares of Growth Rate of Total Compensation Cost, FY 2019 and FY 2020



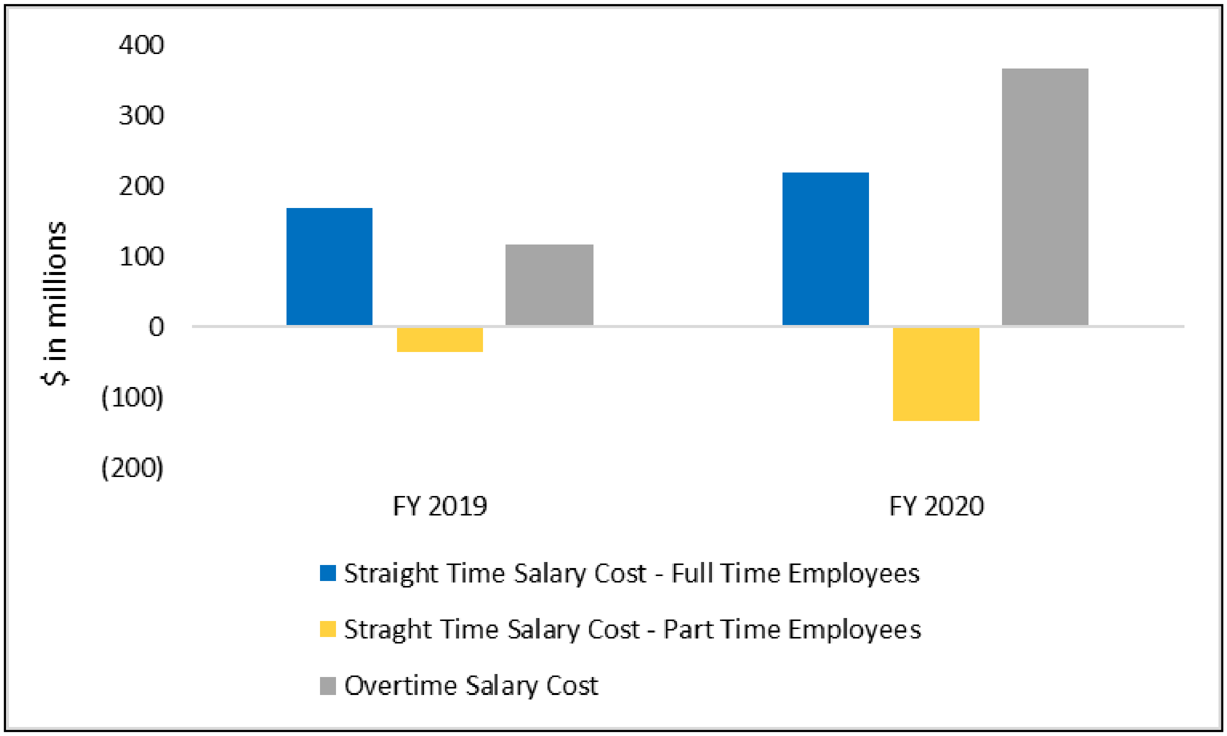
Source: PRC derived from Docket No. ACR2020, Library Reference USPS-FY20-7, Worksheet "Wkyrcalc.xls," Tab "Calculations," December 29, 2020.

These differences, driven by changes in the mix of the workforce and type of workhours, caused individual cost segment growth rates to change between FY 2019 and FY 2020. The result was a change in each segment's share of total compensation costs.

As shown in Figure IV-7, in FY 2020, total compensation cost for CS 6 & 7 City Delivery Carrier increased by 4 percent ($453 million), doubling the 2 percent ($251 million) increase in the prior year. Compensation cost for overtime increased by 15 percent ($368 million), compared to 5 percent ($117 million) in FY 2019. Straight time compensation[106] for full-time employees increased by 2 percent, consistent with the prior year. Straight time compensation for part-time employees decreased in both years, 9 percent ($134 million) in FY 2020 and 2 percent ($35 million) in FY 2019.

[106] Straight time compensation includes salary for hours of work or authorized paid leave in a service week excluding overtime, EAS additional pay, and other premium pay. See https://about.usps.com/manuals/elm/html/elmc4_014.htm.

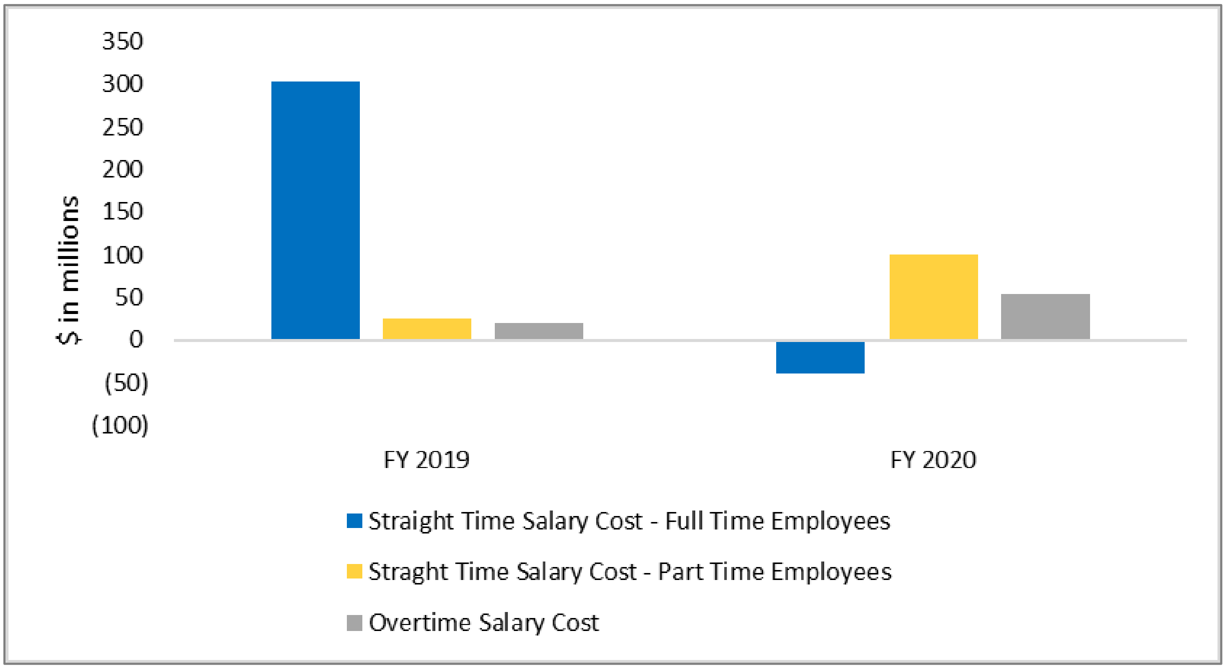
Figure IV-7
Composition of Cost Segment 6 & 7 Change from Prior Year, FY 2019 and FY 2020



Source: PRC derived from Docket No. ACR2020, Library Reference USPS-FY20-7, Worksheet "Wkyrcalc.xls," Tab "Calculations," December 29, 2020.

In FY 2020, the total compensation cost for CS 10 Rural Carriers increased by 2 percent ($115 million), a reduction from the 6 percent ($251 million) increase in the prior year. Compensation cost for overtime increased by 16 percent ($54 million) compared to a 6 percent ($20 million) increase in FY 2019. Straight time compensation for full-time employees decreased by 1 percent ($40 million) compared to an 8 percent ($302 million) increase in FY 2019. Straight time compensation for part-time employees increased in both years: 7 percent ($101 million) in FY 2020 and 2 percent ($24 million) in FY 2019.

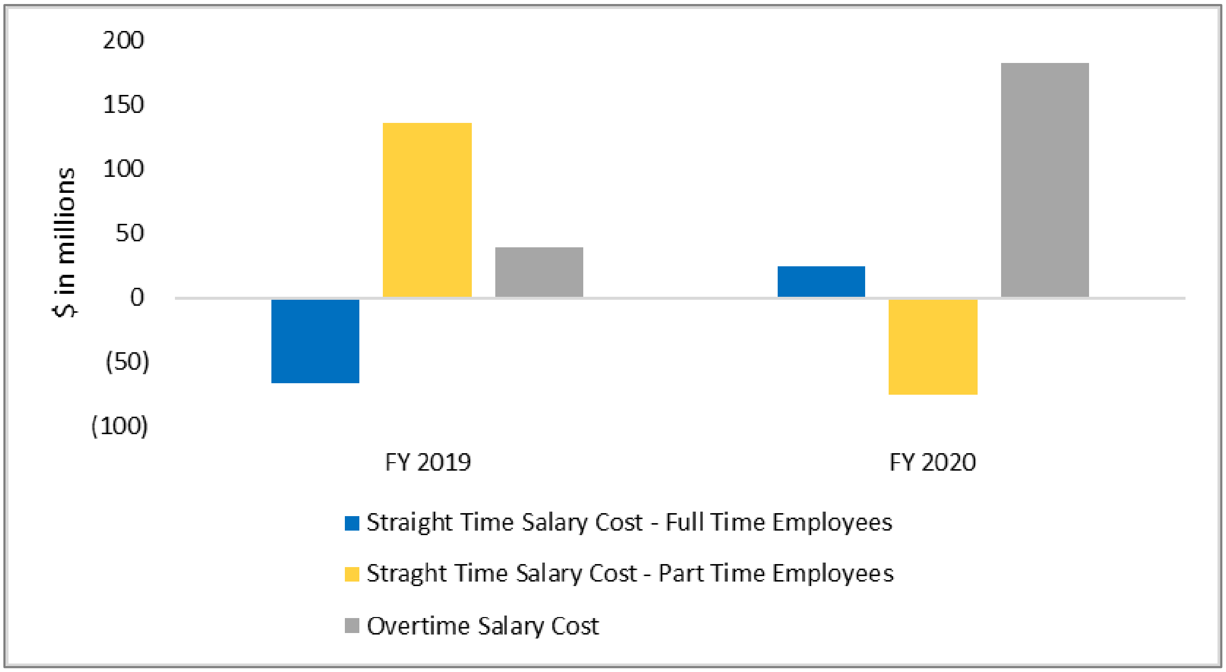
Figure IV-8
Composition of Cost Segment 10 Change from Prior Year, FY 2019 and FY 2020



Source: PRC derived from Docket No. ACR2020, Library Reference USPS-FY20-7, Worksheet "Wkyrcalc.xls," Tab "Calculations," December 29, 2020.

In FY 2020, total compensation cost for CS 3 Clerks and Mailhandlers increased by 1 percent ($132 million), consistent with the 1 percent increase in the prior year. Compensation cost for overtime increased by 10 percent ($183 million) compared to 2 percent ($40 million) in FY 2019. Straight time compensation for full-time employees increased by 0.3 percent ($25 million), lower than the 1 percent ($66 million) increase in FY 2019. Straight-time compensation for part-time employees decreased by 3 percent ($76 million) compared to the 7 percent ($135 million) increase in FY 2019.

Figure IV-9
Composition of Cost Segment 3 Change from Prior Year, FY 2019 and FY 2020



Source: PRC derived from Docket No. ACR2020, Library Reference USPS-FY20-7, Worksheet "Wkyrcalc.xls," Tab "Calculations," December 29, 2020.

As shown in Figures IV-7, IV-8, and IV-9, compensation costs for overtime[107] increased in all three cost segments. Generally, compensation cost for overtime is lower than compensation cost for straight time because benefit costs do not increase as overtime workhours increase.[108]

In addition to the increased use of overtime in FY 2020, there were notable changes to the mix of postal career and non-career employees. At the end of FY 2020, total postal employees increased by a net of 10,948 or 1.7 percent; career headcount decreased by 970 employees or 0.2 percent, and non-career headcount increased by 11,918 employees or 8.8 percent.[109] While some career categories saw modest net increases, the largest net increases occurred in the non-career category. Casual employees'[110] headcount increased by a net of 9,412 (1,109 percent), and the Mailhandler Assistants' headcount increased by a

[107] Postal overtime is compensation paid at 150 percent of the employee's basic hourly rate. Penalty overtime is compensation paid at two times the employee's basic hourly straight time rate for hours described in applicable labor agreements. Employee and Labor Relations Manual ELM 49, at 162, September 2020.
[108] Generally benefits such as retirement are based on straight time basic wage which is defined "as higher level pay but does not include Territorial Cost of Living Allowances, overtime pay, night differential, military pay, allowances, premium pay, or lump-sum terminal leave benefits." Employee and Labor Relations Manual ELM 49, at 513, September 2020.
[109] Docket No. ACR2020, Library Reference USPS-FY20-17, File "FY2020.Annual.Report.USPS.FY20.17", at 28.
[110] Casual employees are non-career employees with limited-term appointments used as a supplemental workforce to perform duties assigned to bargaining unit positions. Employee and Labor Relations Manual ELM 49, at 419, September 2020.

net 6,558 employees (103 percent). The largest net decreases occurred in the career category "Clerks," decreasing by a net of 2,402 employees (2 percent).[111]

Career employees are eligible for benefits such as retirement that increase the average cost of their labor. For example, costs of benefits for Mailhandler Assistant (MHA) and Mailhandler Casual employees average 10 percent[112] and 8 percent[113] of their average accrued salary, respectively. The cost of benefits for Mailhandler full-time employees average over 30 percent[114] of their average accrued salary.

In FY 2020, the increase in compensation and benefits was only slightly higher than the increase in the prior year despite the increased use of sick leave during the pandemic.[115] This was due to the change in the postal workforce mix, with lower career headcount and higher non-career headcount.

In FY 2020, the increase in compensation and benefits was only slightly higher than the increase in the prior year despite the increased use of sick leave during the pandemic. This was due to the change in the postal workforce mix, with lower career headcount and higher non-career headcount.

[111] Docket No. ACR2020, Library Reference USPS-FY20-17, File "FY2020.Annual.Report.USPS.FY20.17", at 28.
[112] United States Postal Service National Payroll Hours Summary Report, Pay Period 20, 2020, Excel file "NationalPayrollSummary-PP20-2020.xlsx," cell J1745 divided by cell J1734 (Postal Service National Payroll Hours Summary Report).
[113] *Id.* cell J1837 divided by cell J1826.
[114] *Id.* cell J1607 divided by cell J1596.
[115] Postal Service FY 2020 Form 10-K at 21.

Appendix A

FY 2020 Volume, Revenue, Incremental Cost, and Cost Coverage by Class, Current Classification (Products)

	Volume (000)	Revenue ($ 000)	Attributable (Incremental) Cost ($ 000)	Contribution to Institutional Cost ($ 000)	Rev./Pc. (Cents)	Cost/Pc. (Cents)	Contribution to Institutional Cost/Pc. (Cents)	Cost Coverage
COMPETITIVE MAIL								
Priority Mail Express	24,106	696,690	280,324	416,367	2,890.071	1,162.863	1,727.208	248.5%
Priority Mail	1,261,551	11,528,769	8,283,888	3,244,881	913.857	656.643	257.214	139.2%
Retail Ground	12,534	302,372	218,634	83,738	2,412.480	1,744.377	668.102	138.3%
Parcel Select and Parcel Return Service (PRS)	3,571,475	8,892,630	4,469,670	4,422,960	248.990	125.149	123.841	199.0%
Total Ground	**3,584,009**	**9,195,002**	**4,692,607**	**4,502,395**	**256.556**	**130.932**	**125.625**	**195.9%**
First-Class Package Service	1,848,140	6,227,508	3,907,274	2,320,233	336.961	211.417	125.544	159.4%
Competitive Domestic Services		1,003,933	345,046	658,888				291.0%
Competitive Domestic Group Specific & Inframarginal Cost			432,754					
Total Domestic Competitive Mail	**6,717,806**	**28,651,902**	**17,941,894**	**10,710,008**	**426.507**	**267.080**	**159.427**	**159.7%**
Competitive International Mail & Services	412,539	1,958,907	1,450,596	508,311	474.842	351.626	123.215	135.0%
Competitive International Non-Product Inframarginal Cost			326					
Total Competitive Non-Product Inframarginal Costs			33,140					
Total Competitive Mail and Services	**7,130,345**	**30,610,808**	**19,425,955**	**11,184,853**	**429.303**	**272.441**	**156.863**	**157.6%**
MARKET DOMINANT MAIL								
First-Class Mail								
Single-Piece Letters and Cards	15,182,051	8,199,076	5,022,096	3,176,980	54.005	33.079	20.926	163.3%
Presort Letters and Cards	36,246,494	14,036,776	4,996,052	9,040,725	38.726	13.784	24.942	281.0%
Flats	1,204,654	1,548,120	1,544,559	3,561	128.512	128.216	0.296	100.2%
First-Class Non-Product Inframarginal Costs			260,479					
Total Domestic First-Class Mail	**52,633,199**	**23,783,972**	**11,823,186**	**11,960,786**	**45.188**	**22.463**	**22.725**	**201.2%**
MARKETING MAIL								
High Density & Saturation Letters	6,532,835	1,103,246	584,878	518,367	16.888	8.953	7.935	188.6%
High Density & Saturation Flats & Parcels	10,426,613	1,866,636	1,436,980	429,656	17.903	13.782	4.121	129.9%
Carrier Route	5,047,509	1,340,501	1,394,131	(53,630)	26.558	27.620	(1.063)	96.2%
Letters	38,407,623	8,156,373	4,759,464	3,396,910	21.236	12.392	8.844	171.4%
Flats	3,199,130	1,343,724	2,123,754	(780,030)	42.003	66.385	(24.383)	63.3%
Parcels	36,715	49,722	65,009	(15,288)	135.427	177.066	(41.639)	76.5%
Every Door Direct Mail - Retail	529,699	98,957	38,394	60,563	18.682	7.248	11.433	257.7%
Marketing Mail Non-Product Inframarginal Costs			380,570					
Total Marketing Mail	**64,180,125**	**13,959,158**	**10,783,181**	**3,175,978**	**21.750**	**16.801**	**4.949**	**129.5%**
Periodicals								
Within County	469,363	50,951	99,764	(48,813)	10.855	21.255	(10.400)	51.1%
Outside County	3,536,716	972,886	1,698,156	(725,269)	27.508	48.015	(20.507)	57.3%
Periodicals Non-Product Inframarginal Costs			517					
Total Periodicals	**4,006,079**	**1,023,838**	**1,798,437**	**(774,599)**	**25.557**	**44.893**	**(19.336)**	**56.9%**
Package Services								
Alaska Bypass	1,264	32,200	21,811	10,389	2,546.728	1,725.044	821.684	147.6%
Bound Printed Matter Flats	211,204	161,408	128,283	33,125	76.423	60.739	15.684	125.8%
Bound Printed Matter Parcels	260,591	289,284	307,862	(18,578)	111.010	118.140	(7.129)	94.0%
Media and Library Mail	97,801	349,397	440,575	(91,178)	357.252	450.479	(93.228)	79.3%
Package Services Non-Product Inframarginal Costs			869					
Total Package Services	**570,861**	**832,289**	**899,400**	**(67,111)**	**145.795**	**157.551**	**(11.756)**	**92.5%**
U.S. Postal Service Mail	321,763							
Free Mail	25,186		34,754	(34,754)		137.988		
Total Market Dominant Mail	**121,737,213**	**39,599,257**	**25,338,956**	**14,260,301**	**32.528**	**20.814**	**11.714**	**156.3%**
Market Dominant Services								
Ancillary Services								
Certified Mail		598,064	485,172	112,892				123.3%
COD		3,462	2,974	488				116.4%
Insurance		92,743	32,207	60,536				288.0%
Registered Mail		20,584	14,482	6,103				142.1%
Stamped Envelopes		12,182	10,010	2,173				121.7%
Stamped Cards		518	175	342				295.2%
Other Ancillary Services		374,476	268,230	106,246				139.6%
Money Orders		153,274	156,947	(3,673)				97.7%
Post Office Box Service		298,145	130,450	167,696				228.6%
Caller Service		86,501	28,154	58,346				307.2%
Other Special Services		50,354	19,080	31,273				263.9%
Market Dominant Services Non-Product Inframarginal Costs			20,087					
Total Market Dominant Domestic Services		**1,690,304**	**1,167,968**	**522,336**				
Outbound Single-Piece Mail Intl	96,831	144,590	112,723	31,867				
Inbound Single-Piece Mail Intl	219,767	274,194	277,811	(3,617)				
International Services		22,438	23,669	(1,230)				
Market Dominant Intl Non-Product Inframarginal Costs			972					
Market Dominant International Mail & Services	**316,598**	**441,222**	**415,175**	**26,048**				
Other Income		732,096		732,096				
Other International Mail Attributable			66,330	(66,330)				
Total Mail and Services	**129,184,156**	**73,073,687**	**46,414,384**	**26,659,303**	**56.566**	**35.929**	**20.637**	**157.4%**
Institutional Costs			35,985,658					
Appropriations: Revenue Forgone		58,772						
Investment Income		91,359						
Total Revenues		**73,223,819**						
Total Costs			**82,400,043**					
Net Income (Loss)		**(9,176,225)**						

Source: Library Reference PRC-ACR2020-LR1

Appendix B
Total Factor Productivity

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

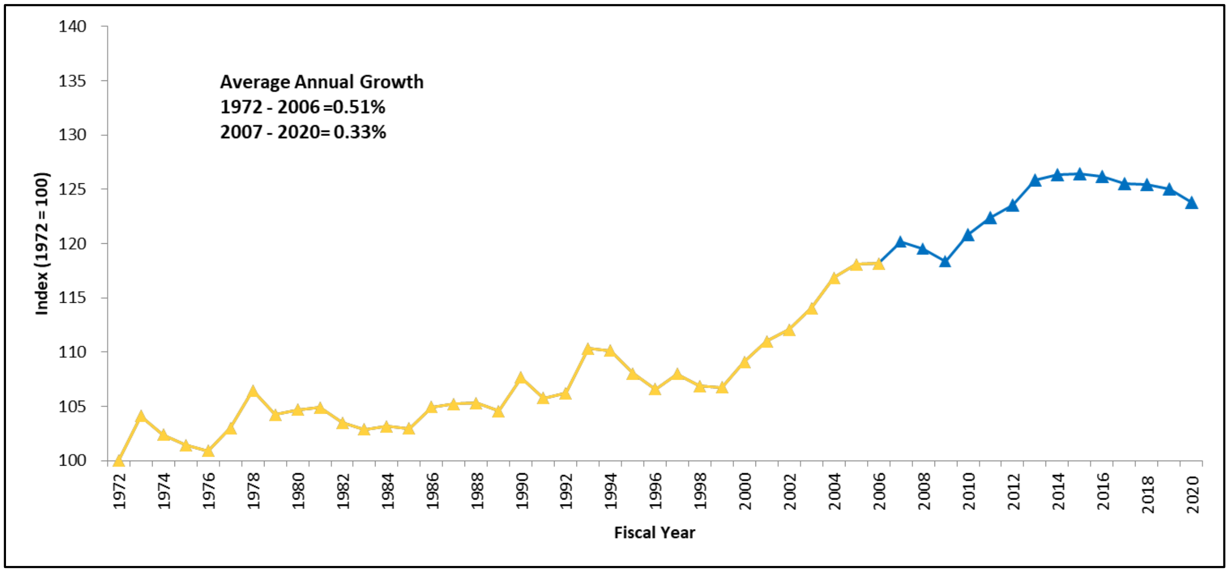
The Postal Service is a labor-intensive organization. Approximately 70 percent of its resource usage is made up of labor. Prior to FY 2000, the Postal Service's growth in workhours outpaced its workload, resulting in either reductions or small gains in TFP. From FY 2000 to FY 2007, the Postal Service reduced its labor force while its workload remained basically flat, resulting in improvements in productivity. The large drop in mail volume in FY 2008 and FY 2009 resulted in a decline in workload and a corresponding decline in productivity.

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

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

Figure IV-5 shows the trend in TFP from FY 1972 through FY 2020.

Figure B-1
Postal Service Total Factor Productivity, FY 1972–FY 2020



Source: Postal Service FY 2020 TFP, tab "Tfp-52."