Postal Regulatory Commission
Submitted 06/17/2024 02:52 PM
Filing ID: 129348
Accepted 6/17/2024

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

Fiscal Year 2023

June 17, 2024

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Chapter I. Overview

Volume Declines and Cost Increases Result in Continued Losses—Key Findings

The Postal Service's financial position worsened in FY 2023. The organization recorded a net loss from operations of $2.3 billion, compared to a net loss of $473 million in FY 2022.[1] The increase of $1.8 billion in the FY 2023 net operating loss is the result of a $2.1 billion increase in operating expenses. The increase in operating expenses occurred despite total mail volume decreasing by 8.7 percent, including a 2.0 percent decrease in the volume of Competitive products. The disconnect between workload and costs also resulted in a 4.0 percent decrease in Total Factor Productivity (TFP), the largest decrease in the measure of the Postal Service's efficiency since it was first calculated in 1965. The volume decreases kept operating revenue essentially unchanged from FY 2022 even as prices for Market Dominant products increased by more than 15 percent between the last month of FY 2022 and the end of FY 2023.

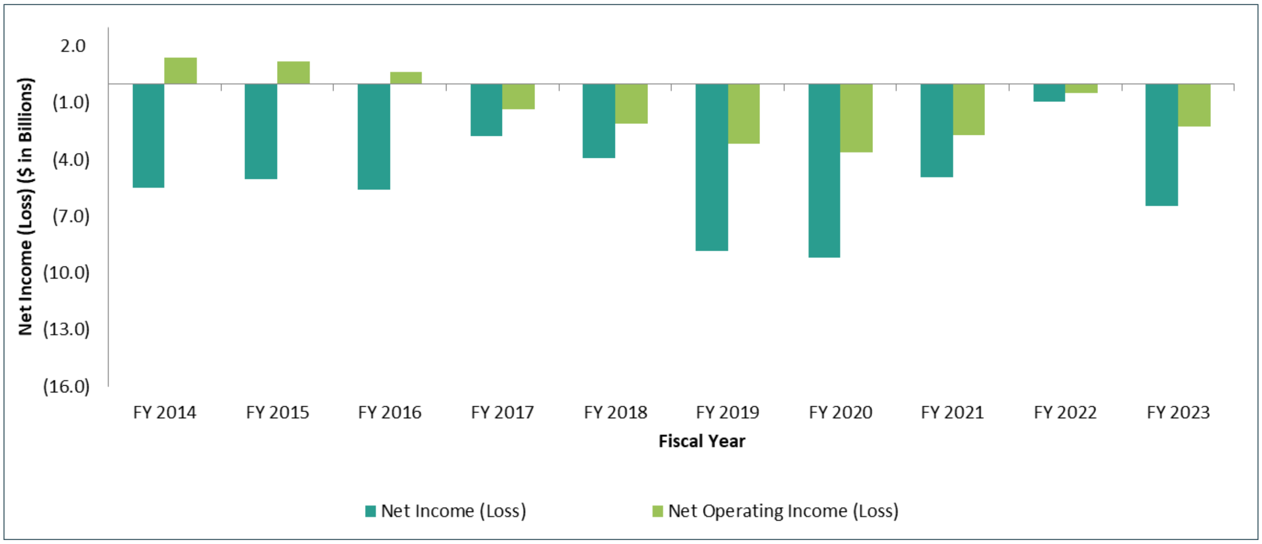
When Non-Operating Expenses (NOEs) are included,[2] the net operating loss of $2.3 billion becomes a net loss of $6.5 billion. This is a deterioration of $5.5 billion[3] compared to FY 2022. Figure I-1 shows net income (loss) and net operating income (loss) results for the period FY 2014 – FY 2023.

[1] United Stated Postal Service Form 10-K FY 2022, November 10, 2022, at 19 (Postal Service FY 2022 Form 10-K) . Net income or loss from operations is also referred to as net operating income (loss). The Commission's calculation of net operating income (loss) differs from the controllable net income (loss) reported in Postal Service Form 10-K. The Postal Service excludes the difference in the normal cost of Retiree Health Benefits from its controllable income (loss) because it is the result of actuarial changes.

[2] NOEs include all non-cash workers' compensation costs, accruals to retirement accounts, and one-time adjustments, such as the one time PSRA adjustment to RHBF unfunded liabilities and normal costs.

[3] Excluding the one-time removal of the Retiree Health Benefits (RHB) liability.

Figure I-1
Postal Service Net Income Trends



Source: Postal Service FY 2023 Form 10-K; Postal Service FY 2022 Form 10-K; United States Postal Service, Form 10-K FY 2021, November 10, 2021; United States Postal Service, Form 10-K FY 2020, November 13, 2020; United States Postal Service, Form 10-K FY 2019, November 14, 2019; United States Postal Service, Form 10-K FY 2018, November 16, 2018; United States Postal Service, Form 10-K FY 2017, November 14, 2017; United States Postal Service, Form 10-K FY 2016, November 28, 2016; United States Postal Service, Form 10-K FY 2015, November 13, 2015; United States Postal Service, Form 10-K FY 2014, December 5, 2014; (Collectively Postal Service Form 10-K, FY 2014-FY 2023)

As seen in Figure I-1, the Postal Service has not produced an operating profit in the last 7 fiscal years, and it has not had a positive net income since FY 2006. Even when excluding NOEs, the Postal Service had posted a net operating income for only three of the last 10 years, FY 2014 through FY 2016, when the exigent price increase was in effect.[4]

These continuing losses have negatively affected the Postal Service's financial position, creating a substantial gap between the Postal Service's assets and liabilities. At the end of FY 2023, the Postal Service recorded total assets of $45.3 billion and total liabilities of $68.4 billion.

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

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

At the end of FY 2023:

- The Postal Service's net loss was $6.5 billion.
    - The net deficit was $23.1 billion, consisting of an accumulated deficit of $39.2 billion offset by capital contributions of $16.1 billion.
- The highest growth in capital assets since the start of the Postal Accountability and Enhancement Act (PAEA)[5].
- The Postal Service's cash and cash equivalents total, including restricted cash and short-term investments, was $18.4 billion, a decrease of $2.2 billion compared to the previous year.
    - The remaining available borrowing authority from the PAEA-mandated debt ceiling of $15 billion was $2 billion.
    - The cash ratio was 0.50, a decrease of 0.14 compared to the prior year. The FY 2023 cash ratio was also higher than the 10-year average of 0.22.
- The Postal Service's operating revenue was $78.4 billion, which was $0.2 billion lower than the previous year.
    - In FY 2023, revenue from Competitive products increased slightly by $0.2 billion.
    - Market Dominant revenue decreased by $0.4 billion in FY 2023 despite price increases above the rate of inflation for all Market Dominant mail classes, resulting from volume decreases in USPS Marketing Mail.
- FY 2023 was the first full year under the enactment of the Postal Service Reform Act of 2022[6] (PSRA). Total operating expenses stood at $81.2 billion, which were $2.1 billion higher in FY 2023 than the prior year, and $0.8 billion more than the Integrated Financial Plan due to higher-than-expected compensation.
- Rising inflation has contributed to increases in compensation and retirement benefit expenses. Compensation and benefits were $0.9 billion higher than expected primarily from the inflationary effects on Cost of Living Adjustments (COLAs).
- Personnel-related expenses made up 69.3 percent of total expenses.
    - Total workhours and overtime hours decreased by 28 million and 27 million hours respectively.
    - Total postal employees increased by a net of approximately 4,300. Since FY 2020 the non-career workforce has declined by approximately 33,600 employees while the career workforce has increased by 29,000 employees.

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

[6] Postal Service Reform Act (PSRA), Pub. L. 117-108, 136 Stat. 1127 (2022).

Purpose of This Report

This report provides an in-depth analysis of the Postal Service's financial performance primarily using information reported in its Fiscal Year(FY) 2023 Form 10-K[7] measured against its FY 2022 and its FY 2023 *Integrated Financial Plan* (IFP).[8] Additionally, data filed with the FY 2023 *Annual Compliance Report* (ACR)[9], such as the *Cost and Revenue Analysis* report (CRA), the *Cost Segments and Components* (CSC) report, and the *Revenue, Pieces, and Weight* (RPW) report, are utilized in developing this report.

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

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

Chapter 3 describes the calculation of attributable and institutional cost and examines the overall trends for Market Dominant and Competitive products and services. It includes comparisons of volume, revenue, and cost between FY 2022 and FY 2023, 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. This year, the Commission also analyzes the effects of recent high inflation on the costs and revenue of the Postal Service and finds that although inflation has significantly increased costs, revenue generated from CPI-based rate authority has offset most of these increases over the past two years.

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[7] United Stated Postal Service, Form 10-K FY 2023, November 14, 2023 (Postal Service FY 2023 Form 10-K)

[8] The *Integrated Financial Plan* is a Postal Service report that includes the operating plan, capital investment plan, and financing plan for the fiscal year. This document is required to be filed as a periodic report pursuant to the 39 C.F.R. § 3050; United States Postal Service*, Integrated Financial Plan*, Fiscal Year 2022, November 18, 2021 (Postal Service FY 2022 IFP); United States Postal Service*, Integrated Financial Plan*, Fiscal Year 2023, November 29, 2022 (Postal Service FY 2023 IFP)

[9] Docket No. ACR2023, United States Postal Service FY 2023 *Annual Compliance Report*, December 29, 2023 (FY 2023 ACR)

Chapter II. Postal Service Financial Status

Introduction

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

The Commission's analysis, primarily based upon the Postal Service's Form 10-K financial statements, provides a basis for comparing FY 2022 and FY 2023. The Commission also incorporates select key financial data from various relevant periods to support this analysis.

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

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

This chapter is divided into the following sections:

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

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

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

Analysis of Income Statements

To facilitate a detailed financial analysis of the Postal Service's Income Statements, the Commission separately identifies elements of reported operating revenue and operating expenses. Net operating revenue includes mail and services revenue, miscellaneous item revenue, and government appropriations revenue.[10] Net operating expense is calculated as total expenses minus accruals for certain unfunded retirement liabilities and the non-cash adjustments to the workers' compensation liability.[11]

The PAEA established the Retiree Health Benefit Fund (RHBF) to fund the long-term retiree health benefits for postal employees, retirees, and their survivors. From FY 2007 through FY 2016, the PAEA required the Postal Service to make specified annual payments into the RHBF. The Postal Service defaulted on its annual payments from FY 2012 through FY 2017, leaving a $33.9 billion unfunded balance in the RHBF. In addition, the Postal Service defaulted on $18.8 billion of retiree health benefit normal cost payments from FY 2017 through FY 2021.[12] In April 2022, the PSRA cancelled the outstanding retiree health benefit liability along with the FY 2022 retiree health benefit normal costs resulting in a $57 billion adjustment.

In addition, the PSRA requires OPM to establish the Postal Service Health Benefits Program within the existing Federal Employees Health Benefits program (FEHB), under which OPM may contract with carriers to offer health benefit plans for Postal Service employees and retirees. It also requires future retirees to enroll in Medicare.[13] These changes were reflected on the FY 2022 Statement of Operations as a $57 billion non-cash adjustment to total net income and on the Balance Sheet as a reversal to current liabilities. For analysis purposes, the Commission excluded the $57 billion adjustment when appropriate in order to accurately compare with FY 2023 financial results.

FY 2023 was the first full fiscal year under the enactment of the PSRA. The Postal Service is still required to make annual amortization payments for unfunded Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS) liabilities. The PAEA

[10] In FY 2023, $77 billion (97 percent) of total Postal Service revenue came from the sale of postage and mail services. Miscellaneous revenue includes adjustments and revenue for miscellaneous items. The Postal Service also received a small governmental appropriation for providing free mail for the blind and overseas voting and a few other programs.

[11] 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 2023. The Postal Service considers these expenses non-controllable.

[12] Beginning in FY 2017, the Postal Service's share of healthcare premiums for retired employees was paid from the RHBF. The Postal Service was required to make annual contributions to the RHBF for the normal costs of retiree health benefits.

[13] Postal Service FY 2023 Form 10-K at 69.

suspended the Postal Service's contributions for CSRS until after FY 2016. Beginning in FY 2017, OPM annually revalues the CSRS liability and assesses installment payments in order to liquidate the unfunded liability by FY 2043. In FY 2023, the Postal Service did not pay its annual installment of $3 billion. Postal Service FY 2023 Form 10-K at 58. As of September 30, 2023, the Postal Service had a total of $13.8 billion in unpaid CSRS liabilities for years FY 2017 through FY 2023. *Id*. at 38.

The FERS is a fully funded defined benefit plan. Beginning in FY 2013, the Postal Service is required to make annual amortization payments as calculated by OPM. OPM calculates these payments annually to liquidate the unfunded liability over a 30-year period on a rolling basis. In FY 2023, the Postal Service paid $0.6 billion of the total $2.3 FERS obligation, leaving $1.5 billion outstanding. *Id.* At 58. Since FY 2013, the Postal Service has accumulated a total of $8.8 billion of unpaid FERS liabilities. *Id*. at 38.

Disaggregating the expenses in the Income Statement highlights the Postal Service's income with and without these statutorily required payments and the non-cash adjustments to the workers' compensation liability.[14] Table II-1 illustrates the Commission's disaggregated version of the Income Statements.

[14] For FY 2022 results, the Commission also separately states the one-time PSRA adjustment to retiree health benefits.

Table II-1
Analysis of Postal Service Income Statements, FY 2022 and FY 2023 ($ in Millions)

	FY 2022	FY 2023	$ Change	FY 2023 Plan	$ Change From Plan
Net Operating Revenue	**$ 78,620**	**$ 78,383**	**$ (237)**	**$ 80,487**	**$ (2,104)**
Operating Expense as Reported by the Postal Service	22,595	85,387	62,792	85,344	43
Less: Amortization of RHB Unfunded Liability	56,975	-	(56,975)	-	-
Amortization of CSRS Unfunded Liability	(2,284)	(3,015)	(731)	(1,900)	(1,115)
Amortization of FERS Unfunded Liability	(1,627)	(2,141)	(514)	(3,100)	959
Non-Cash Change to Workers' Compensation Liabili	3,454	937	(2,517)	0	937
Net Operating Expense	**$ 79,113**	**$ 81,168**	**$ 2,055**	**$ 80,344**	**$ 824**
Interest Income	192	941	749	663	278
Interest Expense	171	415	244	355	60
Net Income (Loss) from Operations	**$ (472)**	**$ (2,259)**	**$ (1,787)**	**$ 451**	**$ (2,710)**
Amortization of CSRS Unfunded Liability	$ 2,284	$ 3,015	$ 731	$ 1,900	$ 1,115
Amortization of FERS Unfunded Liability	1,627	2,141	514	3,100	(959)
Non-Cash Change to Workers' Compensation Liability	(3,454)	(937)	2,517	0	(937)
Net Loss (Excluding RHB Unfunded Liability)	**$ (929)**	**$ (6,478)**	**$ (5,549)**	**$ (4,549)**	**$ (1,929)**
PSRA Adj. to RHBF Unfunded Liability & Normal Costs	(56,975)	-	56,975		-
Total Net Income/(Loss)	**$ 56,046**	**$ (6,478)**	**(62,524)**	**$ (4,549)**	**(1,929)**

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. ACR2023, Library Reference USPS-FY23-5, December 29, 2023(USPS-FY23-5); Docket No. ACR2022, Library Reference USPS-FY22-5, December 29, 2022(USPS-FY22-5); United States Postal Service, USPS Preliminary Financial Information (Unaudited), September 2023, November 14, 2023, FY 2023 Plan data from file "2023.11.14 September FY2023 Monthly Financial Report to the PRC.pdf", (Postal Service September 2023 PFI).

IN FY 2023, THE POSTAL SERVICE'S LOSS INCREASED BY $1.8 BILLION COMPARED TO FY 2022, REPRESENTING A FURTHER DECREASE IN PROFITABILITY.

Net operating loss occurs when the costs of running a business are not covered by revenue. Sustained net operating losses can indicate deterioration of the business. The Postal Service's FY 2023 net operating loss is $1.8 billion more than the FY 2022 net operating loss, representing an increase in operating losses and a decrease in profitability. The primary reason for the deterioration is an increase in operating expenses of $2.1 billion in FY 2023.[15] This increase was largely caused by increases in compensation and other expenses, partially offset by the decline in purchased transportation. Contributing factors were wage increases (which include inflationary impacts on COLAs, increases in FERS and CSRS unfunded expenses, increases in vehicle maintenance service, increases in information

[15] The Commission excludes the $57 billion PSRA adjustment when comparing FY 2023 operating expenses to the prior year. When the $57 billion PSRA adjustment is included, FY 2022 operating expenses equal $79.6 billion.

technology for system upgrades, and facility rent increases. Postal Service FY 2023 Form 10-K at 23, 36.

Operating revenue decreased by approximately $0.2 billion compared to FY 2022. Competitive revenue increased by $0.2 billion to partially offset the Market Dominant revenue decline of $0.4 billion. The decrease in revenue was driven primarily by volume declines in USPS Marketing Mail.

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 2023 with FY 2022 revenue by class.

Table II-2
Revenue by Market Dominant Class,[16] FY 2022 and FY 2023 ($ in Millions)

	FY 2022	FY 2023	FY 2023 over FY 2022		FY 2021	FY 2022 over FY 2021	
			$ Change	% Change		$ Change	% Change
First-Class Mail	$ 24,260	$ 24,807	$ 547	2.3%	$23,526	$ 1,281	5.4%
USPS Marketing Mail	16,052	15,140	(912)	(5.7%)	14,645	$ 495	3.4%
Periodicals	959	923	(36)	(3.8%)	942	$ (19)	(2.1%)
Package Services	859	894	35	4.0%	835	$ 59	7.0%
Ancillary and Special Services	1,813	1,875	62	3.4%	1,686	$ 189	11.2%
Subtotal Market Dominant Mail and Services Revenue	**$ 43,943**	**$ 43,639**	**$ (304)**	**(0.7%)**	**$41,634**	**$ 2,005**	**4.8%**
Other	1,631	2,202	571	35.0%	1,102	1,100	99.8%
Total Market Dominant Mail and Services Revenue	**$ 45,574**	**$ 45,840**	**$ 266**	**0.6%**	**$42,736**	**$ 3,104**	**7.3%**

Decrease in revenue is denoted by ().
Numbers may not add across due to rounding.
Source: Docket No. ACR2023, Library Reference PRC-LR-ACR2023-1, March 28, 2024 (PRC-LR-ACR2023-1); Docket No. ACR2022, Library Reference PRC-LR-ACR2022-1, March 29, 2023 (PRC-LR-ACR2022-1); Docket No. ACR2023, Library Reference USPS-FY23-42, December 29, 2023.(USPS-FY23-42)

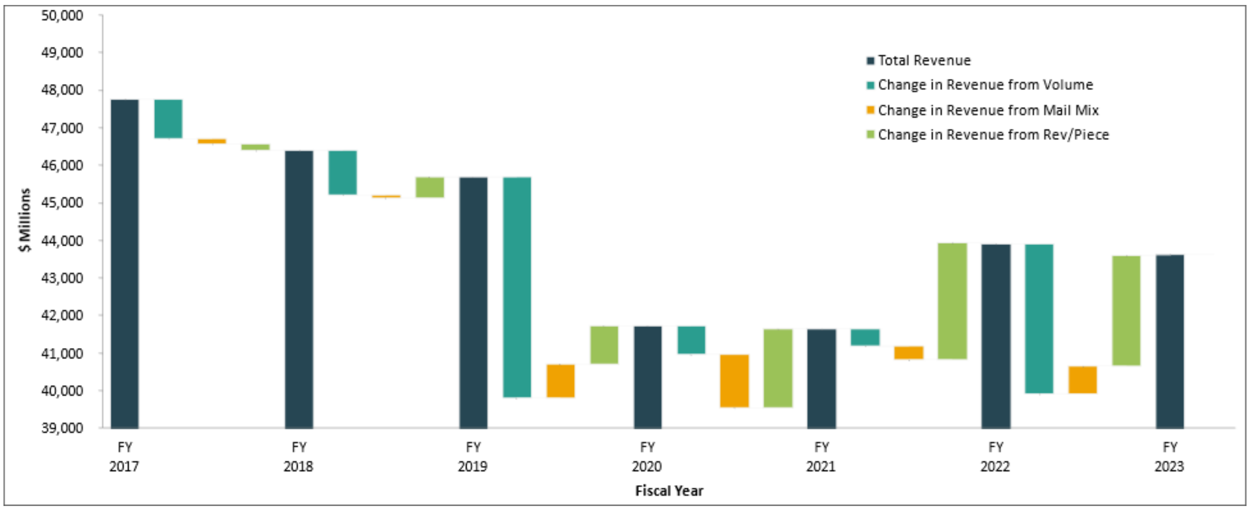
Market Dominant mail and services revenue decreased by 0.7 percent from the prior year.[17] As shown in Table II-2, USPS Marketing Mail (5.7%) and Periodicals (3.8%) declined when compared to SPLY. Partially offsetting those declines were revenue increases in First-Class Mail (2.3%) and Package Services (4%).

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

[16] Other Market Dominant revenue includes appropriations, miscellaneous item revenue, and revenue foregone.
[17] Total Market Dominant Mail includes Other Revenue which includes appropriations, mail in transit, and other miscellaneous items.

revenue. Figure II-1 isolates the change in Market Dominant revenue due to mail volume changes, mail mix, and average revenue per piece for each year since FY 2016. For overall Market Dominant products, decreases in volume partially offsets increases in revenue per piece and revenue increases from mail mix fluctuations.

Figure II-1
Change in Market Dominant Revenue Due to Changes in Mail Volume, Mail Mix, and Average Revenue per Piece, FY 2017-FY 2023 ($ in Millions)



Source: PRC derived from Docket No. ACR2017, Library Reference USPS-FY17-42, December 29, 2017; Docket No. ACR2018, Library Reference USPS-FY18-42, December 28, 2018; Docket No. ACR2019, Library Reference USPS-FY19-42, December 27, 2019; Docket No. ACR2020, Library Reference USPS-FY20-43, December 29, 2020; Library Reference USPS-FY21-43, December 29, 2021; Docket No. ACR2022, Library Reference USPS-FY22-43, December 29, 2022; Docket No. ACR2023, Library Reference USPS-FY23-43, December 29, 2023 (collectively, Postal Service RPW Report, FY 2016–FY 2022).

Competitive Product Revenue Compared to Prior Year

Total revenue from Competitive products increased by $0.2 billion or 0.7 percent compared to FY 2022 resulting from January 2023 rate increases and a time-limited price increase in effect during the first quarter (peak season) of FY 2023.[18] Table II-3 compares revenue for Competitive products between FY 2022 and FY 2023.

[18] Postal Service FY 2023 Form 10-K at 22.

Table II-3
Competitive Product Revenue, FY 2022 and FY 2023 ($ in Millions)

	FY 2022	FY 2023	$ Change FY 2023 over FY 2022	% Change FY 2023 over FY 2022
Priority Mail	$ 11,958	$ 10,807	$ (1,151)	(9.6%)
Total Ground[a]	9,867	13,322	3,455	35.0%
First-Class Package Service	7,809	5,845	(1,964)	(25.2%)
Priority Mail Express	770	714	(56)	(7.3%)
International	1,459	1,331	(127)	(8.7%)
Ancillary and Special Services	1,266	1,330	64	5.1%
Subtotal Competitive Products Mail and Services Revenue	**$ 33,129**	**$ 33,350**	**$ 220**	**0.7%**
Other Revenue	152	181	29	18.9%
Total Competitive Products Mail and Services Revenue	**$ 33,281**	**$ 33,530**	**$ 249**	**0.7%**

[a] Total Ground consists of Parcel Select, Parcel Return & USPS Ground Advantage
Decrease in revenue denoted by ().
Numbers may not add across due to rounding.
Source: PRC-LR-ACR2023-1; PRC-LR-ACR2022-1.

Expense Analysis as Compared to Prior Year

TOTAL EXPENSES INCREASED BY $5.8 BILLION (7.3%), WHILE OPERATING EXPENSES INCREASED BY APPROXIMATELY $2.1 BILLION (2.6%).

As noted earlier, for purposes of analyzing the Postal Service's financial position, the Commission differentiates between operating and total expenses. As shown in Table II-4, in FY 2023, total expenses increased by $5.8 billion (7.3 percent), while operating expenses increased by approximately $2.1 billion (2.6 percent). The increase in operating expenses was the result of increases in salaries and benefits, supplies and services, information technology, and other expenses.

Table II-4
Total Expenses, FY 2022 and FY 2023 ($ in Millions)[19]

Compensation & Benefits Expenses:	FY 2022	FY 2023	$ Change	% Change	% of Total Expenses FY 2022	% of Total Expenses FY 2023
Salaries and Benefits	$ 55,864	$ 57,604	$ 1,740	3.1%	70.2%	67.5%
Workers' Compensation - Cash Outlays	1,335	1,475	140	10.5%	1.7%	1.7%
Normal Costs of Retiree Health Benefits	0	0	0	NMF	0.0%	0.0%
Other Personnel Related	107	94	(13)	(12.1%)	0.1%	0.1%
Subtotal Personnel Expenses Excluding Systemwide Personnel Expenses	**$ 57,306**	**$ 59,173**	**$ 1,867**	**3.3%**	**72.0%**	**69.3%**
Transportation	10,281	10,111	(170)	(1.7%)	12.9%	11.8%
Other Expenses	11,526	11,884	358	3.1%	14.5%	13.9%
Total Operating Expenses	**$ 79,113**	**$ 81,168**	**$ 2,055**	**2.6%**	**99.4%**	**95.1%**
Systemwide Personnel Expenses:						
Non-Cash Change to Workers' Compensation Liability	(3,454)	(937)	2,517	NMF	(4.3%)	(1.1%)
Amortization of RHB Unfunded Liability	0	0	0	NMF	0.0%	0.0%
Amortization of FERS Unfunded Liability	1,627	2,141	514	31.6%	2.0%	2.5%
Amortization of CSRS Unfunded Liability	2,284	3,015	731	32.0%	2.9%	3.5%
Total Expenses (excluding RHB Unfunded Liability)	**$ 79,570**	**$ 85,387**	**$ 5,817**	**7.3%**	**100.0%**	**100.0%**
PSRA Adj. to RHBF Unfunded Liability & Normal Costs	(56,975)	0	56,975	**NMF**	**NMF**	**NMF**
Total Expenses	**$ 22,595**	**$ 85,387**	**$ 62,792**	**NMF**	**NMF**	**NMF**

Decrease in expenses is denoted by (). NMF denotes not meaningful.
Numbers may not add across due to rounding.
Source: September 2023 PFI, file"2023.11.14 September FY2023 Monthly Financial Report to+ the PRC.pdf"; September 2022 PFI Report (unaudited), file "2022.11.10. Sept FY2022 Monthly Fin Rep.pdf," November 11, 2022.

PERSONNEL EXPENSES

The majority of Postal Service expenses are personnel related. In FY 2023, operating personnel expenses which exclude the non-cash adjustment to workers' compensation and amortization costs of unfunded retirement liabilities, made up 69.3 percent of total expenses.[20] Including the non-cash adjustments, labor costs account for 74.2 percent of total expenses.

LABOR COSTS ACCOUNT FOR 74.2 PERCENT OF POSTAL SERVICE'S TOTAL EXPENSES.

Table II-5 shows that total personnel operating expenses for FY 2023 increased by $1.9 billion from FY 2022, resulting from increases in salaries, retirement, and employee health benefits. When systemwide personnel expenses were included, total personnel expenses increased by $5.6 billion. The net non-cash increase in the workers' compensation liability[21] and other non-operating retirement expenses all increased from FY 2022.

[19] The PSRA adjustment of RHB Unfunded Liability is excluded from the calculation of percentage of total costs.
[20] Subtotal personnel expenses ($59.2 billion) as a percentage of total operating expenses ($85.4 billion).
[21] 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 2022 and FY 2023 ($ in Millions)

	FY 2022	FY 2023	$ Change	% Change
Total Compensation	$ 42,228	$ 43,110	$ 882	2.1%
Retirement	8,209	8,861	652	7.9%
Health Benefits-Current Employees	5,203	5,362	159	3.1%
Workers' Compensation - Cash Outlays	1,335	1,475	140	10.5%
Other Compensation	332	365	33	9.9%
Total Personnel Operating Expenses	**$ 57,307**	**$ 59,173**	**$ 1,866**	**3.3%**
Non-Cash Change to Workers' Compensation Liability	(3,454)	(937)	2,517	NMF
Amortization of FERS Unfunded Liability	1,627	2,141	514	31.6%
Amortization of CSRS Unfunded Liability	2,284	3,015	731	32.0%
Total Personnel Expenses (excluding RHB Unfunded Liability)	**$ 57,765**	**$ 63,392**	**$ 5,627**	**9.7%**
Amortization of RHB Unfunded Liability	(56,975)		56,975	NMF
Total Personnel Expenses	**789**	**63,392**	**62,603**	**NMF**

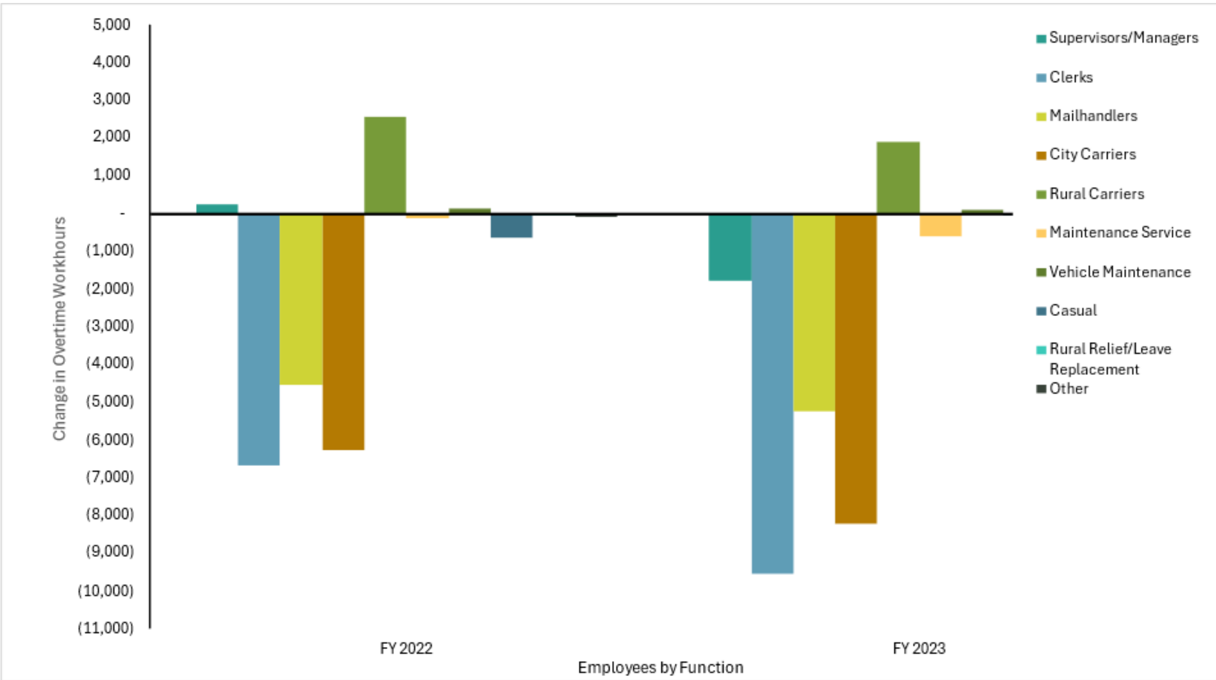
Decrease in expenses is denoted by (). NMF denotes not meaningful figures.
Numbers may not add across due to rounding.
Source: PRC derived from United States Postal Service, National Trial Balance and Statement of Revenue Expenses, September 2023, November 14, 2023 (Postal Service National Trial Balance September 2023); Postal Service National Trial Balance September 2022, November 14, 2022.

THE TOTAL COMPENSATION IN FY 2023 INCREASED BY APPROXIMATELY $0.9 BILLION COMPARED TO FY 2022 PRIMARILY DUE TO CONTRACTUAL WAGE INCREASES PARTIALLY OFFSET BY A DECLINE IN WORKHOURS.

Total compensation is comprised of salaries for employees (full-time career, part-time career, and non-career), overtime and leave pay, and performance or arbitration awards. There are several cost drivers for compensation, including contractual pay increases, inflation used to calculate semi-annual COLAs, the number of overtime workhours, and the composition of the workforce. The total compensation in FY 2023 increased by approximately $0.9 billion compared to FY 2022 primarily due to contractual wage increases partially offset by a decline in workhours. Collective bargaining agreements include provisions for mandatory COLAs linked to the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Beginning in FY 2021 COLAs increases have been larger than the historical increases over the past decade. Postal Service FY 2023 Form 10-K at 13. Overtime hours declined by approximately 27 million while straight time hours declined by 1 million. *Id.* at 24. Impacts of inflation on FY 2023 postal finances are discussed further in Chapter 4.

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

Figure II-2
Change in Overtime Workhours, FY 2022 and FY 2023[22]



Source: PRC derived from United States Postal Service, National Payroll Hours Summary Report, Pay Period 20, 2023, September 29, 2023 (2023 National Payroll Hours Summary PP20); United Stated Postal Service, National Payroll Hours Summary Report, Pay Period 20, 2022, October 4, 2022 (2022 National Payroll Hours Summary PP20). (Collectively National Payroll Hours Summary PP20 2022-2023)

The Postal Service's workforce is comprised of career (full-time and part-time) and non-career employees, including Postal Support Employees (PSE), City Carrier Assistants (CCA), Mailhandler Assistants (MHA), and Other Non-Career Employees. Table II-6 shows the number of employees by type for FY 2021-FY 2023.

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

Table II-6
Postal Service Employee Complement, FY 2021–FY 2023

	FY 2022	FY 2023	Change FY 2023 over FY 2022	FY 2021	Change FY 2022 over FY 2021
Career Employees	516,760	525,092	8,332	516,636	124
Postal Support Employees (PSE)	25,842	22,878	(2,964)	31,346	(5,504)
City Carrier Assistants (CCA)	35,035	33,371	(1,664)	37,652	(2,617)
Mailhandler Assistants (MHA)	8,555	7,237	(1,318)	11,064	(2,509)
Other Non-Career	49,177	51,137	1,960	56,469	(7,292)
Total On-Roll Employees	**635,369**	**639,715**	**4,346**	**653,167**	**(17,798)**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2023, September 29, 2023; United States Postal Service, On-Roll and Paid Employee Statistics), Pay Period 20, 2022, September 29, 2023; United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2021, September 29, 2021 (Collectively Postal Service ORPES PP 20 2021-2023)

In FY 2023, the Postal Service's total workforce increased by 4,346 employees. Increases in career employees (8,332) were partially offset by declines in non-career workforce employees (4,000).[23] Postal Service FY 2023 Form 10-K at 24.

In March 2022, the Postal Service reached an agreement with the National Rural Letter Carriers Association (NRLCA),[24] which covers a 3-year period from May 2021 to May 2024. The contract covers 132,000 rural letter carriers and includes a 1.3 percent general wage increase for November 2023 and COLAs increases for January 2023 and July 2023.[25]

In February 2022, the Postal Service reached a final agreement with the American Postal Workers Union, AFL-CIO (APWU), that expires in September 2024. The contract covers over 200,000 Postal employees and includes general wage increases for November 2022 and COLAs increases in March and September of each year. The contract will also convert PSEs to career status depending on the size of their respective post offices.[26]

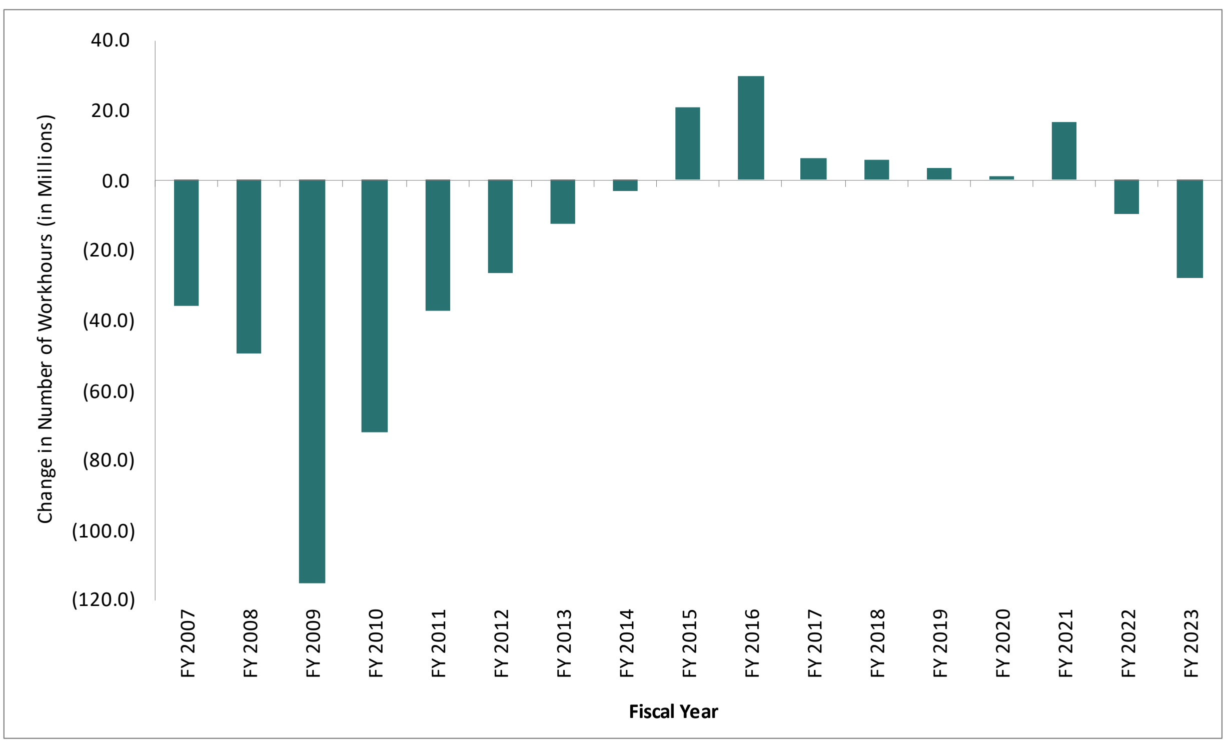
[23] Other non-career positions include casuals, non-bargaining temporary positions, rural carrier substitutes, postmaster relief and postal support employees.
[24] Postal Service FY 2022 Form 10-K at 75.
[25] National Rural Letter Carrier Association, Agreement between the United States Postal Service and the National Rural Letter Carriers' Association 2021-2024 (2022), *Handbook EL-902 - Agreement between the United States Postal Service and the National Rural Letter Carriers' Association (ncrlca.org)*
[26] American Postal Workers Union, AFL-CIO,2021-2024 Tentative Collective Bargaining Agreement, February 28, 2022, *https://apwu.org/contracts/2021-2024-apwuusps-collective-bargaining-agreement.*

In March 2023, the Postal Service finalized its negotiations with the National Postal Mail Handlers Union, AFL-CIO (NPMHU), on a new collective bargaining agreement. The new contract will expire in September 2025 and includes six COLAs payments during the term of the agreement and general wage increases of 1.3 percent.[27]

DURING FY 2023, TOTAL WORKHOURS DECREASED BY APPROXIMATELY 28 MILLION. THIS WAS THE SECOND YEAR IN A ROW THAT WORKHOURS DECREASED.

During FY 2023, total workhours decreased by approximately 28 million. This was the second year in a row that workhours decreased.[28] Figure II-3 illustrates the change in total workhours since FY 2007.

Figure II-3
Change in Total Workhours, FY 2007–FY 2023



Source: Postal Service Form 10-K, FY 2014–FY 2023; United States Postal Service, Form 10-K FY 2013, November 15, 2013; United States Postal Service, Form 10-K FY 2012, November 15, 2012; United States Postal Service, Form 10-K FY 2011, September 30, 2011; United States Postal Service, Form 10-K FY 2010, September 30, 2010; United States Postal Service, Form 10-K FY 2009, September 30, 2009; United States Postal Service, Form 10-K FY 2008, September 30, 2008; United States Postal Service, Form 10-K FY 2007, November 20, 2007 (Collectively Postal Service Form 10-K FY 2007-FY 2023)

[27] National Postal Mail Handlers Union, 2022-2025 NPMHU National Agreement, March 13, 2023, https://m.npmhu.org/media/news/body/2022-2025-NPMHU-National-Agreement-2.pdf.

[28] Postal Service FY 2023 Form 10-K at 24.

An analysis of workhours by function shows that in FY 2023, workhours decreased in Mail Processing (8.6 percent), Customer Service (3.9 percent), City Delivery (1.1 percent), and Rural Delivery (0.7 percent). Workhours increased in Plant & Equipment (1.6%), Vehicle Maintenance (2.2 percent), and Other (1.8 percent).[29]

Table II-7
Workhours by Function (Thousands of Workhours), FY 2021–FY 2023

	FY 2022	FY 2023	% Change FY 2023 over FY 2022	FY 2021	% Change FY 2022 over FY 2021
Mail Processing	214,455	196,001	(8.6%)	208,232	3.0%
Customer Service	155,901	149,879	(3.9%)	165,041	(5.5%)
Delivery Service:					
City Delivery	422,204	417,608	(1.1%)	425,962	(0.9%)
Rural Delivery	224,076	222,446	(0.7%)	223,040	0.5%
Maintenance:					
Plant & Equipment	57,760	58,677	1.6%	59,310	(2.6%)
Vehicle	31,384	32,071	2.2%	31,296	0.3%
Other	75,561	76,954	1.8%	77,889	(3.0%)
Total Workhours	**1,181,342**	**1,153,636**	**(2.3%)**	**1,190,769**	**(0.8%)**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Docket No. ACR2023, Library Reference USPS-FY23-7, December 29, 2023 (USPS-FY23-7); Docket No. ACR2022, Library Reference USPS-FY22-7, December 29, 2022 (USPS-FY22-7); Docket No. ACR2021, Library Reference USPS-FY21-7, December 29, 2021 (USPS-FY21-7).

The Postal Service defines productive hourly wage rates as the labor costs per work hour by cost segment/craft.[30] 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.[31] The productive hourly wage rate for all categories increased compared to the prior year.

[29] The "Other" category represents Operations Support, Finance, Human Resources, Administration, Training, and Rehabilitation workhours.
[30] Docket No. ACR2023, Library Reference USPS-FY23-17, December 29, 2023, PDF file "USPS-FY23-17.pdf," at 1(USPS-FY23-17).
[31] 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 2021–FY 2023

	FY 2022	FY 2023	% Change FY 2023 over FY 2022	FY 2021	% Change FY 2022 over FY 2021
Supervisors & Technicians	$ 56.45	$ 61.30	8.6%	$ 55.65	1.4%
Clerks	44.20	48.20	9.0%	43.13	2.5%
Mailhandlers	41.63	44.17	6.1%	40.84	1.9%
City Delivery Carriers	46.64	48.37	3.7%	45.22	3.1%
Vehicle Drivers	51.20	55.27	8.0%	49.08	4.3%
Rural Carriers	39.67	43.90	10.7%	39.01	1.7%
Building Services	49.67	52.21	5.1%	47.58	4.4%
Operating Equipment	61.50	65.62	6.7%	60.00	2.5%
Building Equipment	56.81	59.40	4.5%	55.07	3.2%
Motor Vehicle Service	57.30	60.75	6.0%	54.75	4.7%
Headquarters	72.77	78.93	8.5%	79.74	(8.7%)

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: USPS-FY23-7; USPS-FY22-7; USPS-FY21-7.

Workers' compensation expenses increased by $2.7 billion in FY 2023. Workers' compensation expenses consist of a cash payment and a non-cash change in long-term workers' compensation liability. The cash payment is paid to the U.S. Department of Labor for the current year's cost of medical and compensation benefits and an administrative fee.[32] The non-cash change in long-term workers' compensation expenses includes actuarial revaluations of existing cases and new cases, initial costs of new cases for the year, and any changes in the discount rate used to estimate the amount of current funds needed to settle all claims in the current year. These factors cause the non-cash portion of workers' compensation to fluctuate year to year. In FY 2023, the non-cash component of long-term workers' compensation expenses increased by $2.5 billion compared to the prior year. Table II-9 disaggregates components factoring into the workers' compensation expense for the past 2 years.

[32] The workers' compensation program is administered by the Department of Labor which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service reimburses the DOL for all workers' compensation benefits paid on behalf of its employees, plus an administrative fee. Postal Service FY 2023 Form 10-K at 33.

Table II-9
Components of Workers' Compensation Expense, FY 2022 and FY 2023 ($ in Millions)

	FY 2022	FY 2023	$ Change	% Change
Medical and Compensation Claims Payments	$ 1,245	$ 1,381	$ 136	10.9%
Administrative Fee	90	94	4	4.4%
Cash Outlays	**$ 1,335**	**$ 1,475**	**$ 140**	**10.5%**
(Decrease) Increase in Long Term Workers' Compensation Obligation	(3,454)	(937)	2,517	NMF
Workers' Compensation Expense	**$ (2,119)**	**$ 538**	**$ 2,657**	**NMF**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
NMF = Not Meaningful Figure
Source: PRC derived from Postal Service FY 2023 Form 10-K at 34, 70.

NON-PERSONNEL EXPENSES

Transportation is the largest non-personnel expense. It accounts for 11.8 percent of total expenses. Table II-10 shows transportation expenses by category.

Table II-10
Transportation Expenses by Category, FY 2022 and FY 2023 ($ in Millions)

	FY 2022	FY 2023	$ Change	% Change
Highway Transportation	$ 6,123	$ 6,555	$ 432	7.1%
Air Transportation	3,673	3,073	(600)	(16.3%)
International Transportation	437	443	6	1.4%
Other Transportation	48	40	(8)	(16.7%)
Total Transportation	**$ 10,281**	**$ 10,111**	**$ (170)**	**(1.7%)**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
Source: PRC derived from Postal Service FY 2023 Form 10-K at 34-35.

AIR TRANSPORTATION EXPENSES DECREASED BY 16.3% COMPARED TO LAST YEAR RESULTING FROM A SHIFT IN PACKAGE VOLUME FROM AIR TO HIGHWAY TRANSPORTATION AS PART OF THE DELIVERING FOR AMERICA PLAN.

Total purchased transportation expenses decreased for the first time since FY 2016, by 1.7 percent from FY 2022. Highway transportation increased by 7.1 percent compared to last year. Postal Service FY 2023 Form 10-K at 35. Air transportation expenses decreased by 16.3 percent compared to last year resulting from a shift in package volume from air to highway transportation as part of the Delivering for America plan. *Id*. at 35.

Table II-11 shows all other non-personnel-related expenses increased by $0.3 billion in FY 2023 resulting from higher vehicle maintenance for an aging vehicle fleet, increases in supplies and services, higher information technology costs associated with system upgrades, and increasing facility rents and utilities. *Id*.

Table II-11
Other Non-Personnel Expenses, FY 2022 and FY 2023 ($ in Millions)

	FY 2022	FY 2023	$ Change	% Change
Supplies and Services	$ 3,189	$ 3,365	$ 176	5.5%
Depreciation and Amortization	1,677	1,786	109	6.5%
Rent and Utilities	1,981	2,049	68	3.4%
Vehicle Maintenance Services	703	846	143	20.3%
Delivery Vehicle Fuel	795	751	(44)	(5.5%)
Information Technology and Communications	1,134	1,212	78	6.9%
Rural Carrier Equipment Maintenance	644	608	(36)	(5.6%)
Miscellaneous Other	1,403	1,267	(136)	(9.7%)
Total Other Non-Personnel Expenses	**$ 11,526**	**$ 11,884**	**$ 358**	**3.1%**

Decrease in expenses is denoted by ().
Numbers may not add across due to rounding.
Source: PRC derived from Postal Service FY 2023 Form 10-K at 35.

Comparison of Postal Service Actual Results to Operating Plan

Each year the Postal Service develops an integrated financial plan that includes forecasts of volume, revenue, and expenses for the following year. This section compares the Postal Service's forecasts with actual results. The Postal Service's FY 2023 Operating Plan, as outlined in its 2023 Integrated Financial Plan (IFP), projected a net loss of $4.5 billion in FY 2023.[33] The actual total net loss of $6.5 billion was $1.9 billion more than the Postal Service estimated. Total revenue was $1.8 billion less than planned. Total operating expenses were $0.9 billion more than planned, resulting primarily from higher than expected compensation. Table II-12 compares actual FY 2023 results with the estimated results in the Operating Plan.

[33] United States Postal Service, Revised Integrated Financial Plan, Fiscal Year 2023, December 1, 2022, at 1 (Postal Service FY 2023 IFP); USPS Preliminary Financial Information (unaudited), September 2023, November 14, 2023 (September 2023 Revised PFI). Excluding the retiree health benefit prefunding adjustment.

Table II-12
Actual and Operating Plan Income Statements, FY 2023 ($ in Billions)

	FY 2023		$ Change
	Actual	Operating Plan	
Total Revenue	$ 79.3	$ 81.2	$ (1.8)
Total Operating Expense	81.6	80.7	0.9
Net Operating Income/(Loss)	**$ (2.3)**	**$ 0.5**	**$ (2.7)**
Non-Cash Change to Workers' Compensation	(0.9)		(0.9)
FERS Unfunded Liability Amortization	2.1	1.9	0.2
CSRS Unfunded Liability Amortization	3.0	3.1	(0.1)
Total Net Loss (excluding RHB Unfunded Liability)	**$ (6.5)**	**$ (4.5)**	**$ (1.9)**

Decrease in revenue and expense is denoted by (). Increase in net loss is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service September 2023 PFI, file "2023.11.14+September+FY2023+Monthly+Financial+Report+to+the+PRC.pdf".

As seen in Table II-13, total revenue was $1.9 billion less than anticipated. First-Class Mail, USPS Marketing Mail, Periodicals and Competitive and Other Parcels[34] were less than projected while Other Mail revenues were more than projected.

Table II-13
Actual and Operating Plan Revenue by Categories Shown in IFP,[35] FY 2023 ($ in Billions)[36]

	FY 2023		$ Change
	Actual	Operating Plan	
First-Class Mail	$ 24.5	$ 24.9	$ (0.4)
Periodicals	0.9	1.0	(0.1)
Marketing Mail	15.1	16.4	(1.3)
Other	5.6	5.2	0.4
Competitive and Other Parcels	31.6	31.9	(0.3)
International	1.6	1.8	(0.2)
Total Revenue	**$ 79.3**	**$ 81.2**	**$ (1.9)**

Decrease in revenue is denoted by ().
Numbers may not add across due to rounding.
Source: United States Postal Service, *Integrated Financial Plan FY 2024*, November 11, 2023, at 2 (Postal Service FY 2024 IFP); Postal Service FY 2023 IFP at 3.

[34] Competitive and Other Parcels mail includes Competitive packages and Market Dominant Package Service mail.
[35] The Postal Service FY 2023 IFP isolates volume from International and Parcels from the other categories. *See* Postal Service FY 2022 IFP at 3.
[36] "Other" includes special services and other miscellaneous revenue including Federal Interagency Agreements, Appropriations and Investment Income. The Commission includes other miscellaneous revenue for comparison to the Postal Service's IFP report which includes all sources of revenue in its FY 2023 estimates.

Total volume was less than expected, primarily due to lower-than-expected volume in First-Class Mail and USPS Marketing Mail. Table II-14 compares volumes for FY 2023 with the volume projected in the Operating Plan.

Table II-14
Actual and Operating Plan Volume by Categories Shown in IFP,[37] FY 2023 ($ in Billions)

	FY 2023		Change
	Actual	Operating Plan	
First-Class Mail	46.0	46.4	(0.4)
Periodicals	3.0	3.2	(0.2)
Marketing Mail	59.4	63.6	(4.2)
Domestic Special Services	0.4	0.3	0.1
Competitive and Other Parcels	7.0	7.0	0.0
International	0.3	0.4	(0.1)
Total Volume	**116.1**	**120.9**	**(4.8)**

Decrease is denoted by ().
Numbers may not add due to rounding.
Source: Postal Service September 2023 PFI at 2; Postal Service FY 2023 IFP at 3.

Total operating expenses were $0.8 billion more than anticipated as a result of higher than anticipated compensation and benefits and transportation. Compensation and benefits were $0.9 billion higher resulting from inflationary effects on COLAs. Postal Service FY 2023 Form 10-K at 23. Salaries and benefits were expected to increase by $1.2 billion in FY 2023; actual salaries and benefits were $1.7 billion higher despite a decline in workhours of approximately 28 million.

The increase in salaries and benefits costs was the result of higher than expected inflation linked to CPI-W. Actual and projected COLAs increases, beginning in FY 2021, have been larger than the historical increases over the past decade. *Id.* at 13.

Excluding the non-cash workers' compensation adjustment,[38] non-operating expenses were $0.1 billion more than expected resulting from inflationary impacts on the actuarially determined liabilities and an increase in FERS normal costs due to the changing workforce composition. Postal Service FY 2023 Form 10-K at 25.

[37] The Postal Service FY 2023 IFP isolates revenue and volume from International and Parcels from the other categories. *See* Postal Service FY 2023 IFP at 3.

[38] The Postal Service excludes the non-cash adjustment to workers' compensation from plan because it is dependent on actuarial assumptions, interest rates, and other factors outside of Postal Service management's control. *See* Postal Service FY 2023 IFP at 1.

Total non-personnel expenses were $0.1 billion less than projected from the result of higher than anticipated transportation and other expenses.

Table II-15
Actual and Operating Plan Expenses, FY 2023 ($ in Billions)

	FY 2023		$ Change
	Actual	Operating Plan	
Compensation & Benefits	$ 59.2	$ 58.2	$ 1.0
Transportation	10.1	9.9	0.2
Supplies & Services	3.4	3.5	(0.1)
Depreciation and Amortiation	1.8	1.8	(0.0)
Rent/Utilities/Other	6.7	6.9	(0.2)
Total Operating Expenses	**$ 81.2**	**$ 80.3**	**$ 0.8**
Workers' Compensation Adj.	(0.9)	0.0	(0.9)
FERS Unfunded Amortization	2.1	1.9	0.2
CSRS Unfunded Amortization	3.0	3.1	(0.1)
Total Expenses	**$ 85.3**	**$ 85.3**	**$ 0.0**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service September 2023 PFI Report at 3; Postal Service FY 2023 IFP at 1.

Financial Ratio Analysis

Financial ratios assist in interpreting accounting information. The Commission calculated key financial ratios to facilitate its analysis of the Postal Service's financial performance between FY 2006 and FY 2023. 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.

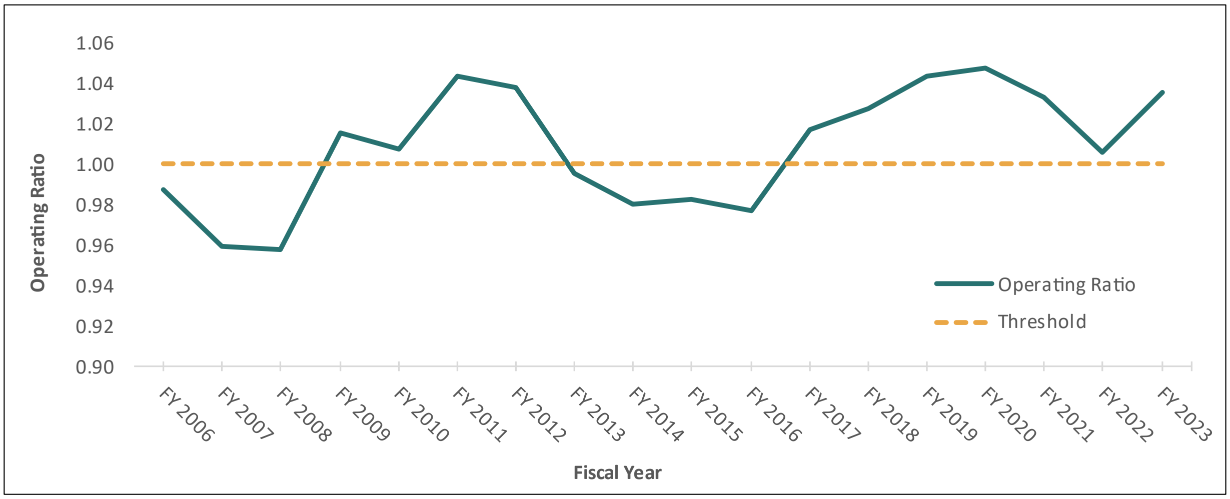
OPERATING RATIO

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.[39] In the period reflected in Figure II-4, the Postal Service had a net operating profit in FY 2006 through FY 2008 and FY 2014 through FY 2016. An operating ratio below 1 indicates an operating profit and an improvement in the Postal Service's ability to reduce its operating expenses while generating revenue. In FY 2020, operating revenue and operating expenses were the highest in more than a decade. In FY 2021 and FY 2022, the operating ratio declined as operating revenue grew at a higher rate than operating expenses. In FY 2023 the operating ratio increased to 1.04 as revenue declined and operating expenses increased. In FY 2023 operating revenue declined by 0.3 percent while operating expenses increased by 2.6 percent. Rising inflation has contributed to increases in compensation and retirement benefit expenses while also causing volatility in supplies and services, fuel and energy costs.

RISING INFLATION HAS CONTRIBUTED TO INCREASES IN COMPENSATION AND RETIREMENT BENEFIT EXPENSES, WHILE ALSO CAUSING VOLATILITY IN SUPPLIES AND SERVICES, FUEL AND ENERGY COSTS.

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

Figure II-4
Operating Ratio Trend FY 2006–FY 2023

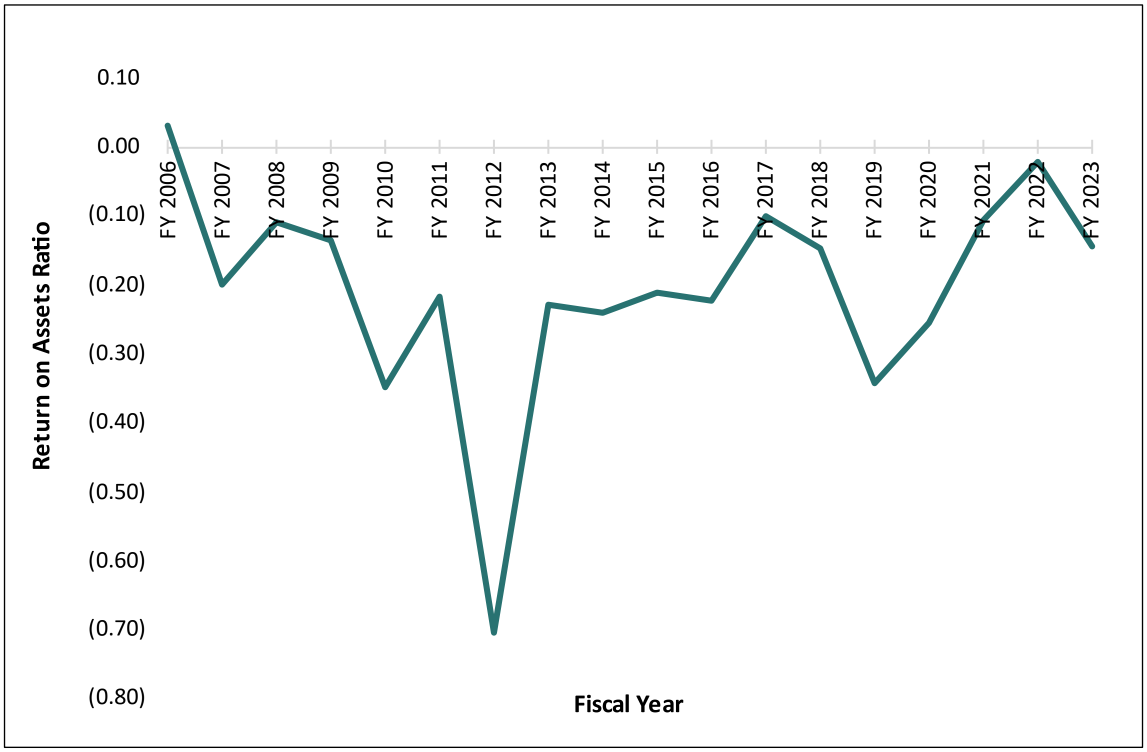


Source: PRC derived from Postal Service Form 10-K, FY 2007–FY 2023; United States Postal Service, FY 2006 *United States Postal Service Annual Report,* September 30,2006 (Postal Service FY 2006 Annual Report).

RETURN ON ASSETS

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

Figure II-5
Return on Assets Trend FY 2006–FY 2023



Source: PRC derived from Postal Service FY 2006 Annual Report; Postal Service Form 10-K, FY 2007–FY 2023.

The Postal Service's total assets are cash and cash equivalents; receivables; and property, plant, and equipment. At the end of FY 2023, the Postal Service had a negative return on assets ratio of 0.14,[40] a decline compared to the prior year's ratio of negative 0.02. Increasing capital investments in property, plant and equipment were offset by cash declines. The increase in FY 2023 total net loss was the result of declining revenue and an increase in operating expenses. The total net loss of $6.5 billion for FY 2023 was primarily the result of compensation increases including the non-cash component of workers' compensation, which increased by $2.5 billion compared to the prior year. The increase was driven by a significant increase in discount rates in FY 2023. An increase of 1 percent in interest rates can increase the workers' compensation liability by $1.2 billion. Postal Service FY 2023 Form 10-K at 43.

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

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

than the percentage change in year-to-year total assets, resulting in increasingly negative ratios. During this period, the Postal Service began using available debt to invest in capital and fund its operations. From FY 2006 through FY 2011, the Postal Service used $13 billion of its $15 billion allowable debt.[41] The sharp decline in FY 2012 was largely the result of two retiree health benefits prefunding payments totaling $11.1 billion. The improvement in FY 2014 through FY 2016 was primarily the result of revenue generated from the exigent surcharge[42] and improving cash balances resulting from defaults on annual RHB prefunding payments. The improvement in FY 2017 resulted from lower retirement-related health benefit expenses compared to the statutory prefunding of the RHB and a decrease in non-cash workers' compensation expenses from higher discount rates.

Analysis of Balance Sheets

This section analyzes the Postal Service's financial situation and use of resources based on data from Balance Sheets prepared according to GAAP. The analysis compares two points in time, September 30, 2023 (FY 2023) and September 30, 2022 (FY 2022). Table II-16 compares certain categories in the Postal Service's asset and liability structure for FY 2023 with FY 2022.

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

Table II-16
Structure of Assets and Liabilities, FY 2022 and FY 2023 ($ in Millions)

Assets	FY 2022	FY 2023	$ Change	% of Total Assets	
				FY 2022	FY 2023
Cash and Cash Equivalents (includes Restricted Cash)	$ 20,618	$ 9,599	$ (11,019)	44.7%	21.2%
Short-Term Investments	-	$ 8,790	8,790	0.0%	19.4%
Receivables	1,326	1,427	101	2.9%	3.2%
Supplies and Prepayments	252	281	29	0.5%	0.6%
Total Current Assets	22,196	20,097	(2,099)	48.1%	44.4%
Noncurrent Assets	23,919	25,192	1,273	51.9%	55.6%
Total Assets	**$ 46,115**	**$ 45,289**	**$ (826)**	**100.0%**	**100.0%**

Liabilities	FY 2022	FY 2023	$ Change	% of Total Liabilities	
				FY 2022	FY 2023
Short-Term Debt	-	1,000	1,000	0.0%	1.5%
Deferred Revenue-Prepaid Postage	2,519	2,367	(152)	4.0%	3.5%
Other Current Liabilities	29,628	33,179	3,551	47.2%	48.5%
Total Current Liabilities	32,147	36,546	4,399	51.2%	53.4%
Workers' Compensation Costs, Noncurrent	13,418	12,538	(880)	21.4%	18.3%
Long-Term Debt	10,000	12,000	2,000	15.9%	17.5%
Other Noncurrent Liabilities	7,184	7,317	133	11.4%	10.7%
Total Noncurrent Liabilities	30,602	31,855	1,253	48.8%	46.6%
Total Liabilities	**$ 62,749**	**$ 68,401**	**$ 5,652**	**100.0%**	**100.0%**

Decrease in amounts is denoted by ().
Numbers may not add across due to rounding.
Source: Postal Service FY 2023 Form 10-K at 47.

At the end of FY 2023, total assets decreased by $0.9 billion compared to the prior period, driven by declines in available cash partially offset by an increase in short-term investments.[43] 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.

Liabilities at the end of FY 2023 totaled $68.4 billion, 53.4 percent of which were current liabilities. Current liabilities are obligations that will come due within 1 year, while noncurrent liabilities are long-term financial obligations. The Postal Service is required to make payments for amortization of unfunded CSRS and FERS liabilities. The Postal Service continued to accrue these unpaid retirement expenses, which totaled approximately $22.7 billion at the end of FY 2023. This obligation is 62.2 percent of current liabilities. Additionally, at the end of FY 2023, the Postal Service had $1 billion more in short-term

[43] The Postal Service invested excess cash not immediately necessary for operations in the amount of $8.8 billion and restricted cash in the amount of $3.2 billion in Treasury bills of various maturities ranging between six months to one year. Postal Service FY 2023 Form 10-K at 62.

debt compared to FY 2022. Long-term liabilities consist mainly of workers' compensation liability ($12.5 billion) and the total debt owed to the Federal Financing Bank ($12 billion).

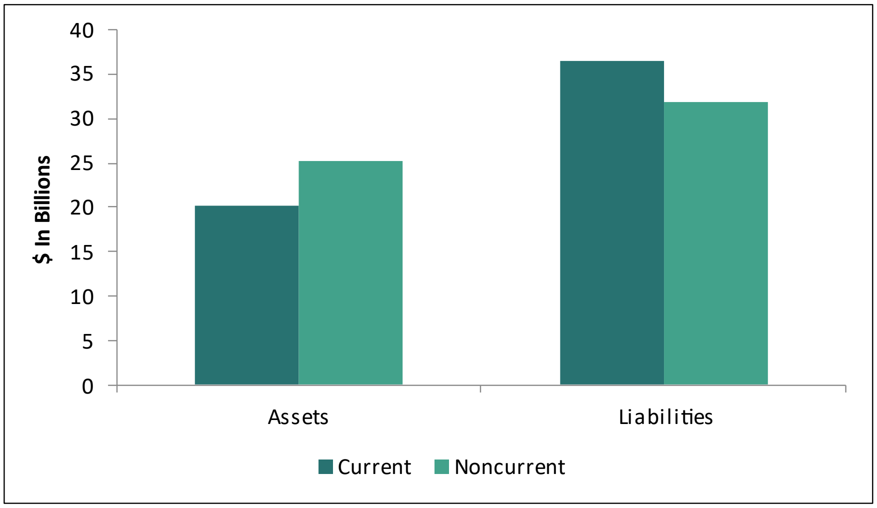
On the Balance Sheets, net deficiency represents the difference between total assets and total liabilities. This indicates whether assets were financed by borrowing (liability) or by capital contributions and accumulated earnings from prior years. Net deficiency occurs when liabilities are greater than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

At the end of FY 2023, the Postal Service recorded a $23.1 billion net deficit consisting of an accumulated deficit of $39.2 billion offset by capital contributions of $16.1 billion. The accumulated deficit is the result of multiple years of net losses, beginning in FY 2007, offset by FY 2022 net income of $56 billion driven by PSRA adjustments. The $16.1 billion in capital contributions consists of a beginning balance of $13.1 billion[44] and the $3.0 billion in funds the Postal Service received in FY 2022 as part of the Inflation Reduction Act of 2022.

Figure II-6 shows the mix of the Postal Service's asset and liability structure as of September 30, 2023. The shortage of current assets (44.4 percent of total assets) to cover current liabilities (53.4 percent of total liabilities) adversely affects the Postal Service's financial condition. In FY 2023, the Postal Service did not have a sufficient amount of current assets to pay for current liabilities. Non-current assets comprise 55.6 percent of total assets, while non-current liabilities only comprise 46.6 percent of total liabilities.

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

Figure II-6
Comparison of Postal Service's FY 2023 Current and Noncurrent Assets and Liabilities



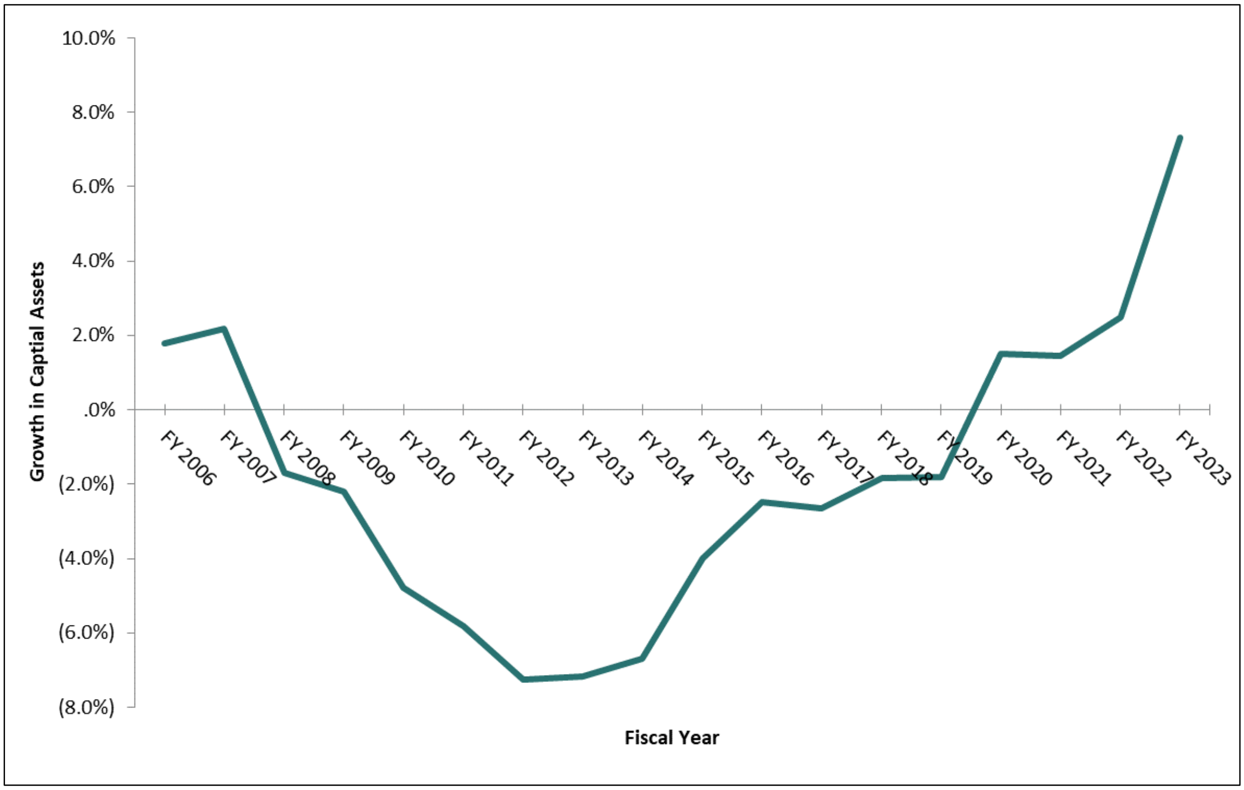
Source: PRC derived from Postal Service FY 2023 Form 10-K at 46.

Working capital is the difference between current assets and current liabilities. Negative working capital indicates an excess of current liabilities over current assets. In FY 2023, the Postal Service's working capital was negative $16.4 billion.

Assets

Since 2008, Postal Service capital investments have not kept pace with depreciation and amortization. Aging capital assets and the continued restrictions on capital investment resulted in a depreciation expense in excess of investments from FY 2008 to FY 2019; fixed assets declined by $9.2 billion over that period. The Postal Service reduced its capital expenditures from an annual average of approximately $1.5 billion in FY 2009 through FY 2011 to an annual average of approximately $850 million in FY 2012 through FY 2015, a reduction of approximately 43 percent. From FY 2015 through FY 2019, capital expenditures to upgrade facilities, equipment, and the vehicle fleet increased to an annual average of approximately $1.4 billion. In FY 2020 and FY 2021 capital assets grew at an average rate of 1.4 percent.

Figure II-7
Percent Change in Capital Assets, FY 2006 - FY 2023



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2023.

FY 2023 RECORDED ITS HIGHEST POSITIVE GROWTH IN CAPITAL ASSETS. THE POSTAL SERVICE RECORDED A 7.3% GROWTH IN CAPITAL, COMPARED TO THE 2.5% IN FY 2022.

FY 2023 recorded its highest positive growth in capital assets. The Postal Service recorded a 7.3 percent growth in capital, compared to the 2.5 percent in FY 2022. The Postal Service purchased $3 billion in property and equipment, offset by the total property, plant, and equipment depreciation of $1.8 billion.

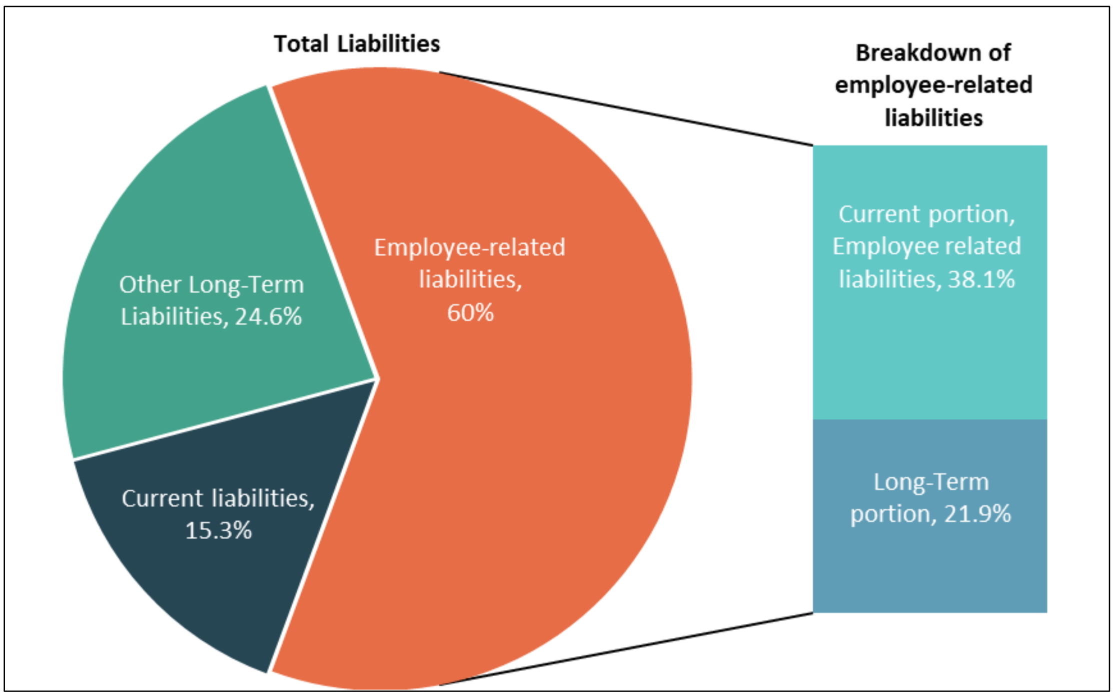
In September 2022, the Postal Service received $3.0 billion under the Inflation Reduction Act of which $1.3 billion is available for the purchase of zero-emission vehicles with the additional $1.7 billion available for the purchase and installation of infrastructure to support those vehicles. *Id*. at 56.

LIABILITIES

In FY 2023, total liabilities increased by $5.7 billion, resulting from increases in retirement benefit liabilities and short-term debt.

The long-term portion of workers' compensation decreased by $0.9 billion in FY 2023. This actuarial adjustment is highly sensitive to discount and inflation rates and to new and existing claims. Figure II-8 shows the current breakdown of the Postal Service's liabilities as of September 30, 2023.

Figure II-8
Postal Service Liabilities Structure, September 30, 2023



Source: PRC derived from Postal Service FY 2023 Form 10-K at 47.

In addition to the liabilities recorded on the Postal Service's Balance Sheets, there are other liabilities not recognized in the Postal Service's financial statements. These liabilities are controlled and administered by OPM and relate to the assets and liabilities attributed to the Civil Service Retirement and Disability Fund (CSRDF). *See* 5 U.S.C. § 8909a. The CSRDF provides pension benefits to retired and disabled Federal employees, including Postal Service employees covered by CSRS and FERS. *Id.* § 8348.

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

Balance Sheet Trend Analysis

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

Table II-17
Postal Service Balance Sheet Ratios FY 2022 and FY 2023

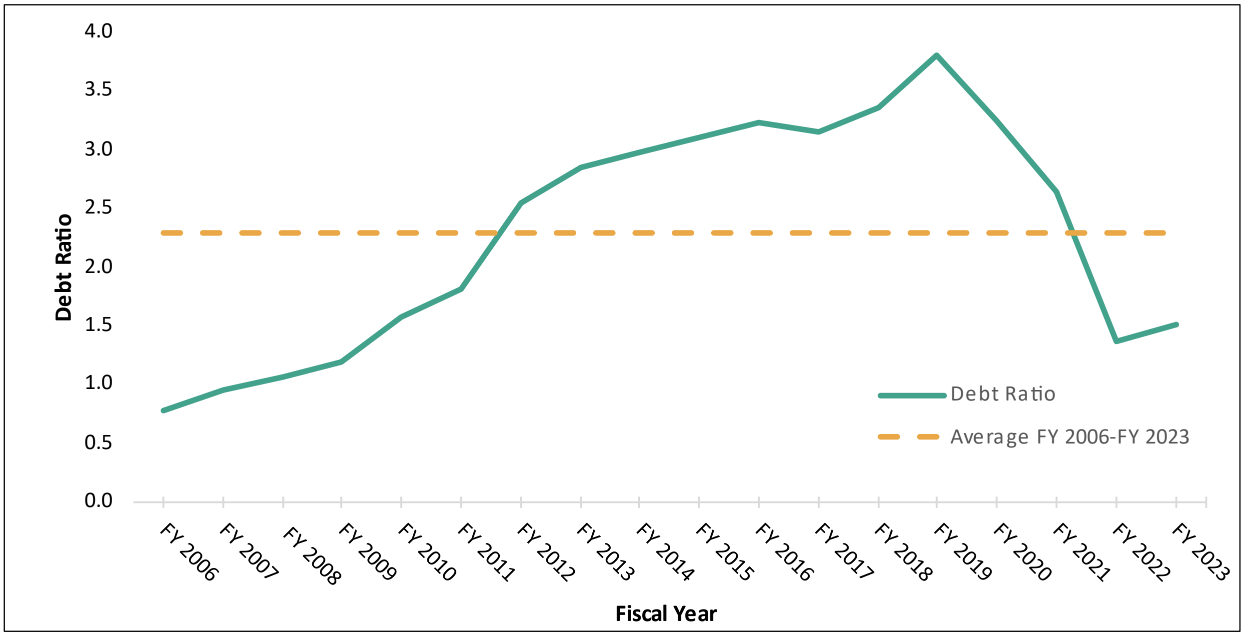
	FY 2022	FY 2023	Change
Debt Ratio	1.36	1.51	0.15
Current Ratio	0.69	0.55	(0.14)
Cash Ratio	0.64	0.50	(0.14)

Source: PRC derived from Postal Service FY 2023 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.

Figure II-9
Debt Ratio, FY 2006–FY 2023



Source: PRC derived from Postal Service FY 2006 Annual Report; Postal Service Form 10-K, FY 2007–FY 2023.

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.

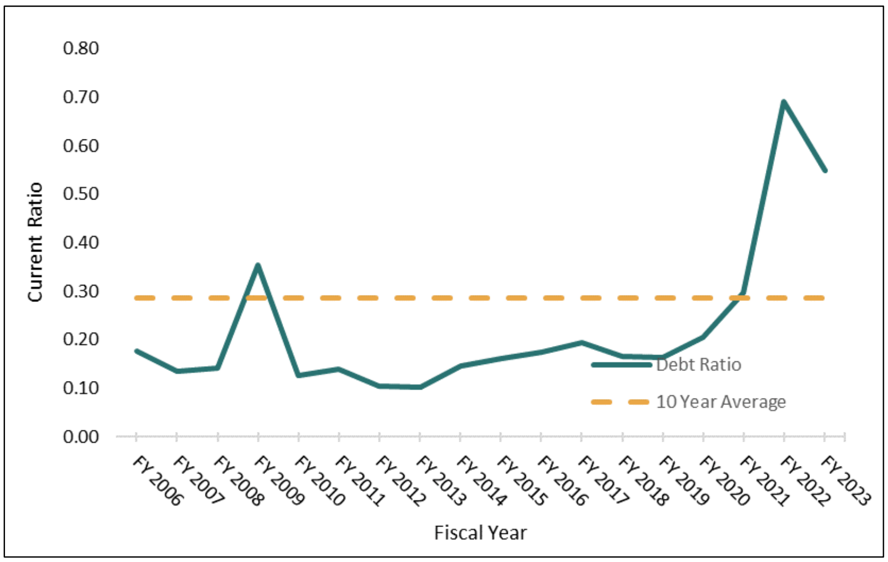
AT THE END OF FY 2023, THE DEBT RATIO INCREASED TO 1.51 FROM THE 1.36 DEBT RATIO FOR FY 2022, THE LOWEST THE RATIO HAS BEEN SINCE FY 2008.

At the end of FY 2023, the debt ratio increased to 1.51 from the 1.36 debt ratio for FY 2022, the lowest the ratio has been since FY 2008. The increase is primarily the result of a larger increase in total liabilities than total assets. Retirement benefits and total debt owed to the Federal Financing Bank are the primary drivers in increasing liabilities. While investments in property, plant, and equipment were offset by declines in cash. The Postal Service's FY 2023 debt ratio was lower than the average 10-year debt ratio of 2.28. This ratio is indicative of the Postal Service's insufficient resources to 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 2023



Source: PRC derived from Postal Service Form 10-K, FY 2006–FY 2023.

At the end of FY 2023, the Postal Service had a current ratio of 0.55, a decrease of 0.14 from the end of FY 2022. This is higher than the Postal Service's 10-year average of 0.29.

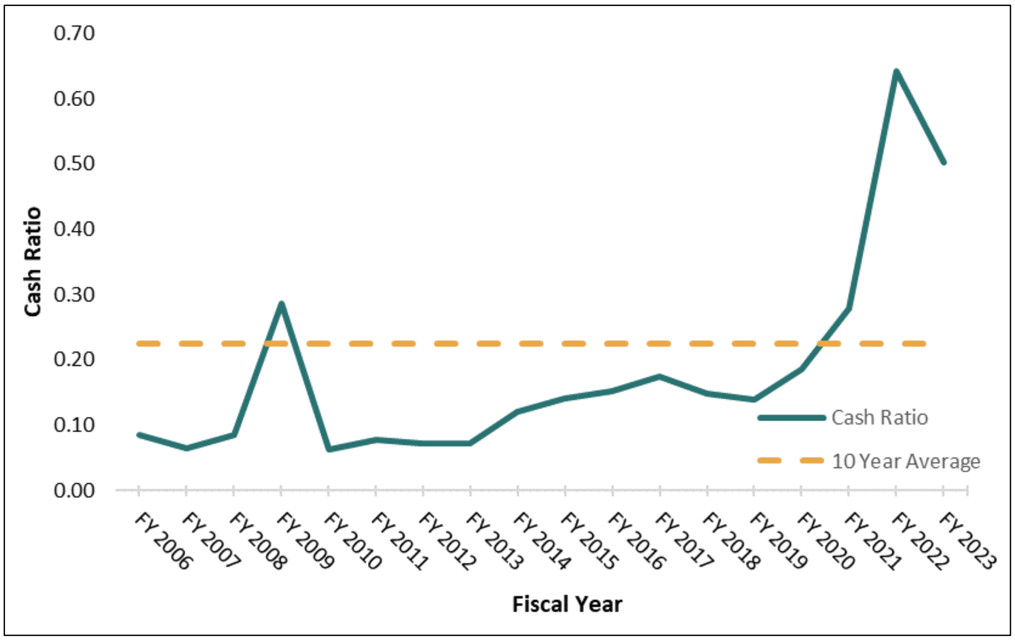
The decrease in the ratio resulted from an increase in current liabilities compared to a decline in current assets. Current liabilities increased by $4.4 billion (13.7 percent) due to increases in CSRS and FERS unfunded liabilities. Retiree benefits are significantly impacted by wage inflation, health benefit premium increases, retirement and workers' compensation programs. Postal Service FY 2023 Form 10-K at 15.

The reduction of statutory prefunding payments in FY 2009 resulted in a higher current ratio. A combination of increasing current liabilities and increasing cash has helped keep the current ratio relatively flat. It has increased in the last 3 years resulting from increases in cash in years FY 2020 and FY 2021 and the reduction in current liabilities in FY 2022.[45]

CASH RATIO

The cash ratio compares total liquid assets to its current liabilities. The ratio measures an entity's ability to pay current liabilities with available cash or cash equivalents. Figure II-11 illustrates the cash ratio from FY 2006 through FY 2022.

Figure II-11
Cash Ratio, FY 2006–FY 2023



Source: PRC derived from Postal Service FY 2006 Annual Report; Postal Service Form 10-K, FY 2007–FY 2023.

The Postal Service had a cash ratio of 0.50 at the end of FY 2023. This is a decrease compared to the prior year's cash ratio of 0.64. The FY 2023 cash ratio is also higher than the 10-year average of 0.22. This is the result of a decrease in cash and cash equivalents including short-term investments.[46] In FY 2008 and FY 2009, the Postal Service's cash balances increased by $533 million and $2.7 billion, respectively, which increased the cash ratio. During FY 2011 through FY 2019, the Postal Service's cash balance gradually increased along with its current liabilities. During the years FY 2020 and FY 2021, gradual cash increases helped improve the cash ratio.

[45] The reduction in FY 2022 current liabilities was the result of PSRA adjustments to remove the accumulated retiree health benefit liability.
[46] The Postal Service invested excess cash in the amount of $8.8 billion in highly liquid short-term investments issued by the U.S. Treasury. Postal Service FY 2023 Form 10-K at 56.

Analysis of Statements of Cash Flows

At the end of FY 2023, the Postal Service's total cash and cash equivalents, excluding $1 billion in restricted cash, were $8.1 billion. Cash and cash equivalents excluding restricted cash and short term investments were $11.6 billion lower than at the end of FY 2022. At the end of FY 2023, the Postal Service had $2 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 2014 to FY 2023.

Table II-18
Postal Service Statements of Cash Flows, FY 2014–FY 2023 ($ in Millions) [47]

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Net Income/(Loss)	$ (5,508)	$ (5,060)	$ (5,591)	$ (2,742)	$ (3,913)	$ (8,813)	$ (9,176)	$ (4,930)	$ 56,046	$ (6,478)
Non-Cash Items and Other Cash Flows	8,822	7,939	8,327	6,565	6,680	11,278	13,545	9,414	(57,020)	4,016
Cash Flows From Investing Activities:										
Decrease (Increase) in Restricted Cash	66	13	(20)	(38)	16	(91)	12	(95)	(3,562)	2,432
Purchase of Property and Equipment	(781)	(1,222)	(1,428)	(1,344)	(1,409)	(1,419)	(1,810)	(1,872)	(1,796)	(3,000)
Proceeds From Sale of Property and Equipment	129	120	206	58	32	27	32	14	111	287
Purchases of Investments										(13,637)
Purchases of restricted investments										(3,145)
Redemption of investments										5,000
Net Cash Used in Investing Activities	**(586)**	**(1,089)**	**(1,242)**	**(1,324)**	**(1,361)**	**(1,483)**	**(1,766)**	**(1,953)**	**(5,247)**	**(12,063)**
Cash Flows From Financing Activities:										
Increase (Decrease) in Debt	0	0	0	0	(1,800)	1,800	3,000	(3,000)	(1,000)	3,000
Payments for Capital Leases	(58)	(62)	(51)	(63)	(58)	(48)	(40)	(31)	(30)	(27)
Net Change in Revolving Credit Line	0	0	0	0	0	(4,000)	0	0	0	0
U.S. Government Appropriations - Expensed	(90)	0	0	0	0	0	0	0	0	0
Contributions of the U.S. Government	-	0	0	0	0	0	0	10,000	3,000	-
Net Cash (Used) Provided by Financing Activities	**(148)**	**(62)**	**(51)**	**(63)**	**(1,858)**	**(2,248)**	**2,960**	**6,969**	**1,970**	**2,973**
Net Increase/(Decrease) in Cash	2,580	1,728	1,443	2,436	(452)	(1,266)	5,563	9,500	(4,251)	(11,552)
Cash Balance Beginning of Year	2,326	4,906	6,634	8,077	10,513	10,061	8,795	14,358	23,858	19,607
Cash Balance End of Year	**$ 4,906**	**$ 6,634**	**$ 8,077**	**$ 10,513**	**$ 10,061**	**$ 8,795**	**$ 14,358**	**$ 23,858**	**$ 19,607**	**$ 8,055**
Debt Outstanding	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 13,200	$ 11,000	$ 14,000	$ 11,000	$ 10,000	$ 13,000

Numbers may not add across due to rounding.
Source: PRC derived from Postal Service Form 10-K FY 2014–FY 2023.

Table II-19 illustrates the current liquidity position of the Postal Service. The Postal Service's liquidity is limited to cash and cash equivalents (excluding restricted cash) and available borrowing authority. As of September 30, 2023, the Postal Service had $2 billion in remaining borrowing capacity but is limited to a $3 billion annual borrowing cap. Postal Service FY 2023 Form 10-K at 64.

[47] The purchases and redemptions of investments and restricted investments in FY 2023 are investments of excess cash not immediately necessary for operations in Treasury bills of various short-term maturities. Postal Service FY 2023 Form 10-K at 62.

Table II-19
Total Postal Service Liquidity (in $ Millions) End of FY 2022 Compared to FY 2023

	FY 2022	FY 2023
Cash and Cash Equivalents	$ 19,607	$ 8,055
Current Portion of Debt	-	1,000
Long-Term Debt	10,000	12,000
Total Debt	**$ 10,000**	**$ 13,000**
Statutory Debt Limit	15,000	15,000
Available Debt	5,000	2,000
Total Liquidity (Cash + Available Debt)	**$ 24,607**	**$ 10,055**

Source: Postal Service FY 2023 Form 10-K at 47.

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.

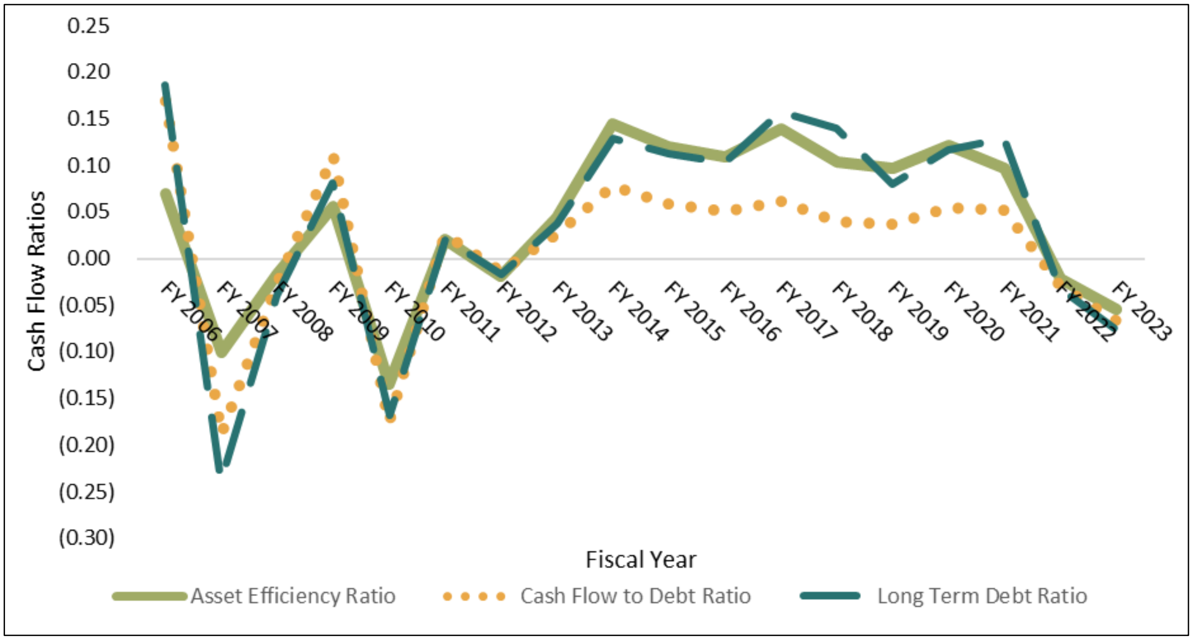
Table II-20
Cash Flow Ratios, FY 2022 and FY 2023

	FY 2022	FY 2023	Change
Asset Efficiency Ratio	(0.02)	(0.05)	(0.03)
Cash Flow to Debt Ratio	(0.03)	(0.07)	(0.04)
Long Term Debt Ratio	(0.03)	(0.08)	(0.05)

Source: PRC derived from Postal Service FY 2023 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 2023



Source: PRC derived from Postal Service FY 2006 Annual Report; Postal Service Form 10-K FY 2007–FY 2023.

AT THE END OF FY 2023, THE POSTAL SERVICE HAD A NEGATIVE ASSET EFFICIENCY RATIO OF 0.05, WHICH IS 0.03 LOWER THAN THE PRIOR YEAR

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 2023, the Postal Service had a negative asset efficiency ratio of 0.05, which is 0.03 lower than the prior year. The FY 2023 asset efficiency ratio is lower compared to the historical 10-year average of 0.09; cash flow from operations decreased significantly while total assets declined slightly. From FY 2006 to FY 2011, the ratio was quite volatile. The ratio gradually ticked up from FY 2012 through FY 2014 as a result of the Postal Service defaulting on RHB liabilities and increases in revenue from the exigent surcharge. From FY 2017 through FY 2019, both cash from operations and total assets declined slightly, resulting in a relatively flat trend. This ratio illustrates the Postal Service's inability to generate sufficient operating cash using its total assets.

The Postal Service had an operating cash flow ratio of negative 0.07 at the end of FY 2023, which is a decrease of 0.04 from the prior year and lower 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 2023, cash flow from operations decreased while current liabilities increased compared to FY 2022. In FY 2007 and FY 2008, the ratio was below zero resulting from negative operating cash flows caused by payments to the RHBF. FY 2012 was the first year the Postal Service defaulted on its RHB payment, which increased cash from operations and increased current liabilities. Since FY 2012, the Postal Service has been unable to pay down its unfunded retirement liabilities, and the cumulative missed payments increase the current liability on the balance sheet. The increase in operating cash from these defaulted payments was not enough to offset revenue loss from declining volume, resulting in a relatively flat increase in operating cash and gradually increasing current liabilities.

The long-term debt ratio compares the Postal Service’s cash from operations to its long-term debt. It illustrates the Postal Service’s ability to pay down long-term debt using cash it generates from operations. Long-term debt includes non-current workers’ compensation expenses and non-current portions of debt owed to the Federal Financing Bank. At the end of FY 2023, the Postal Service had a long-term debt ratio of negative 0.08, a decrease of 0.05 from the end of FY 2022.

Chapter III. Volume, Revenue, and Cost Trends

Overview

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

The first section describes the calculation of attributable cost and institutional cost. It also examines the overall trends for Market Dominant and Competitive products and services.

The second and third sections analyze the Market Dominant (organized by class) and Competitive products, respectively. These sections compare volume, revenue, and cost between FY 2022 and FY 2023;[48] 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

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,[49] which in the aggregate increase as volume increases and decrease as volume decreases; product-specific costs, which are costs caused by a specific product but do not vary with volume; and inframarginal costs developed as part of the estimation of each product's incremental costs.[50] Attributable costs for classes and Competitive products collectively also include group-specific costs, which are costs caused by a group of products in combination rather than by an individual product, and inframarginal costs developed as part of the estimation of incremental costs for classes and Competitive products collectively. Attributable costs are equal to incremental costs, which

[48] FY 2022 volume, revenue, and cost data that are not depicted in tables in this section can be found in the corresponding section of the PRC FY 2022 Financial Report.

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

[50] 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).

reflect the total marginal costs of the volume in a class, a product, or Competitive products collectively.[51]

Attributable cost is distributed to products using distribution keys that reflect the underlying cost driver.[52] These costs are piggybacked to include the indirect costs of each activity.

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

Market Dominant Products

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 2022 and FY 2023.

Table III-1
Market Dominant Volume, Revenue, and Cost, FY 2022 and FY 2023

	FY 2022	FY 2023	% Change
Volume (Millions)	120,372	109,450	(9.1%)
Revenue ($ Millions)	43,943	43,639	(0.7%)
Attributable Cost ($ Millions)	26,304	26,442	0.5%
Contribution to Institutional Cost ($ Millions)	17,638	17,197	(2.5%)

Negative values are denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1.

[51] 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.

[52] 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.

MARKET DOMINANT VOLUME DECREASED BY 9.1% IN FY 2023, RESULTING IN A 0.7% DECREASE IN MARKET DOMINANT REVENUE.

Over the years, there has been a steady decline in Market Dominant volume and revenue due to the shifting preferences of customers towards alternative products and digital communication channels, a trend that has been accelerated by the far-reaching impacts of the Covid-19 pandemic. Postal Service FY 2023 Form 10-K at 10. Market Dominant volume decreased by 9.1 percent in FY 2023, and Market Dominant revenue decreased by 0.7 percent despite the implementation of three price increases on certain Market-Dominant products and services on July 10, 2022, January 22, 2023, and July 9, 2023, increasing prices by an average of 6.5 percent, 4.2 percent, and 5.4 percent, respectively. On a unit basis, revenue increased by 9.2 percent from FY 2022, to $0.40 per piece.

Despite the decrease in volume, the attributable cost for Market Dominant products increased by 0.5 percent from FY 2022. On a unit basis, attributable costs increased from $0.22 per piece to $0.24 per piece.

Total Market Dominant contribution to institutional cost decreased by $441.5 million, or 2.5 percent, in FY 2023, due to the combination of higher attributable cost and lower revenue in FY 2023 than in FY 2022.

SAME AS IN FY 2022, IN FY 2023, THE POSTAL SERVICE LOST $1.3 BILLION FROM PRODUCTS THAT DO NOT COVER THEIR ATTRIBUTABLE COSTS.

Market Dominant products accounted for 94.2 percent of total mail volume, a decrease of 0.4 percentage points from FY 2022. Revenue from these products as a percentage of total revenue from mail and services decreased from 55.9 percent to 55.7 percent. Market Dominant attributable cost as a percentage of total attributable cost decreased from 55.9 percent in FY 2022 to 55.2 percent in FY 2023.

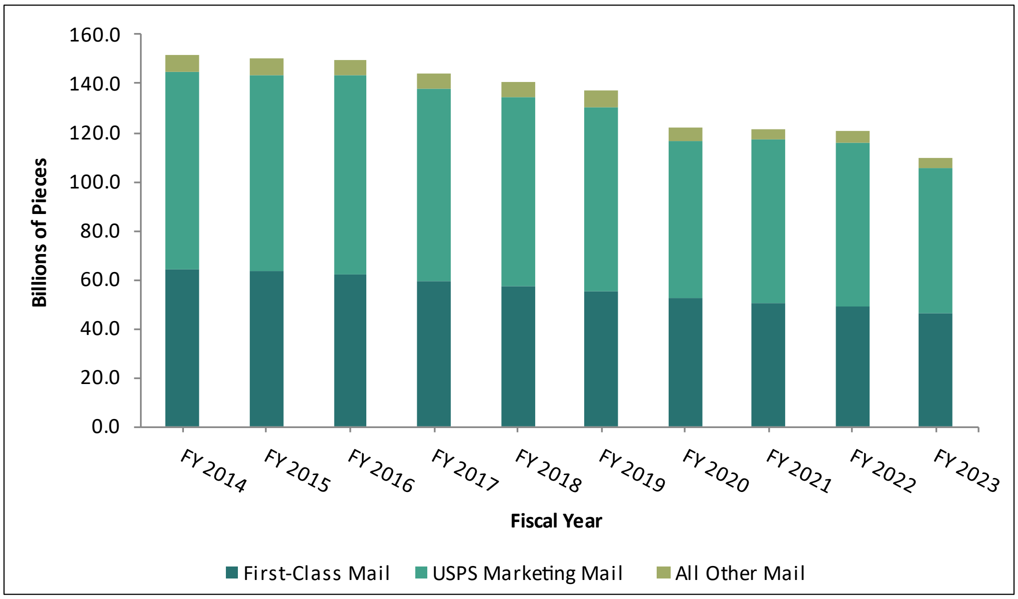
Several Market Dominant products failed to generate sufficient revenue to cover attributable costs, resulting in negative contributions for these products. The total negative contribution to institutional costs from these products amounted to $1.3 billion in FY 2023; unchanged from FY 2022. Seven domestic mail products and services failed to cover their attributable cost: USPS Marketing Mail Flats ($662.5 million), USPS Marketing Carrier

Route ($17.6 million), Periodicals Outside County ($568.4 million), Periodicals In-County ($44.9 million), and Package Services Media Mail/Library Mail ($49.1 million).

Market Dominant Volume

Figure III-1 shows the total volume of Market Dominant products over the last 10 years. Over the last decade, volume for Market Dominant products declined by 45.7 billion pieces.

Figure III-1
Market Dominant Volume, FY 2014–FY 2023



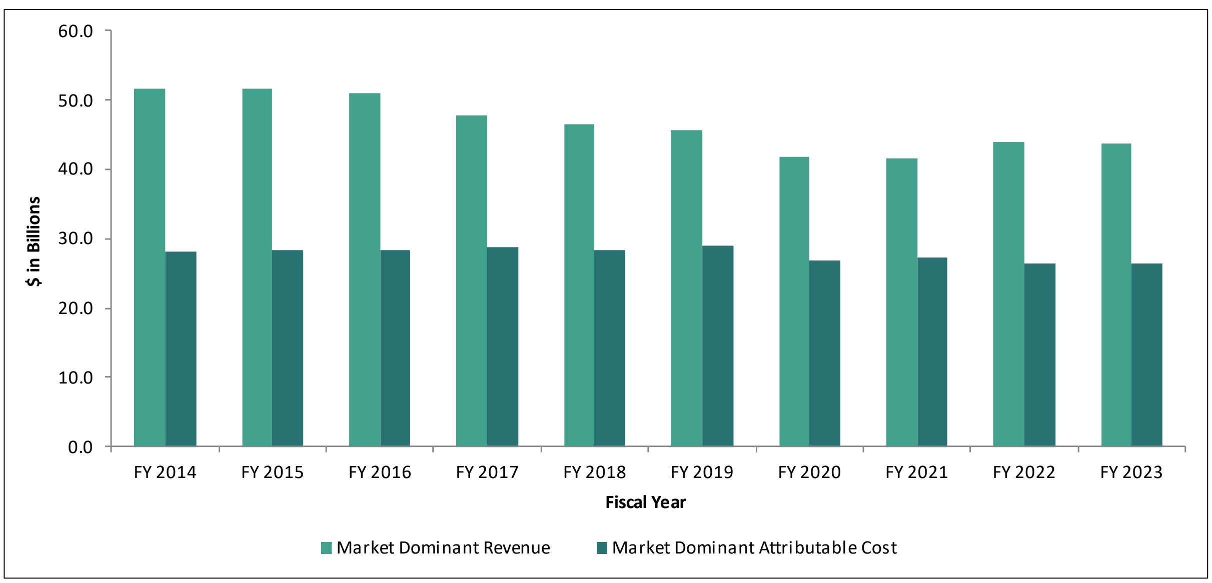
Source: Source: Docket No. ACR2014, Library Reference PRC-LR-ACR2014/1, March 27, 2015; Docket No. ACR2015, Library Reference PRC-LR-ACR2015/1, March 28,2016; Docket No. ACR2016, Library Reference PRC-LR-ACR2016/1, March 28, 2017; Docket No. ACR2017, Library Reference PRC-LR-ACR2017-1, March 29, 2018; Docket No. ACR2018, Library Reference PRC-LR-ACR2018-1, April 12, 2019; Docket No. ACR2019, Library Reference PRC-LR-ACR2019-1, March 25, 2020; Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1, March 29, 2021; Docket No. ACR2021, Library Reference PRC-LR-ACR2021-1, March 29, 2022; PRC-LR-ACR2022-1 PRC-LR-ACR2023-1 (collectively, PRC-LR-1, FY 2014-FY 2023).

In FY 2023, First-Class Mail and USPS Marketing Mail accounted for 96.4 percent of the total Market Dominant volume. First-Class Mail volume, which continues to experience "migration from mail to electronic communication and transaction alternatives" has declined every year over the last decade, resulting in a loss of 20.6 billion pieces. Postal Service FY 2023 Form 10-K at 20. This represents a 30.9 percent decrease in volume over that period. USPS Marketing Mail volume has also declined considerably over the last decade as it has been "challenged by commercial mailers' increasing use of digital and mobile advertising, which was accelerated by the pandemic, an overall decline in advertising spending due to economic pressures, and a higher inflationary environment affecting print media production costs." *Id.* at 21. After recovering some volume lost during the height of the pandemic, USPS Marketing Mail volume decreased in FY 2023, falling 4.7 billion pieces below the volume in FY 2020, before the COVID-19 pandemic. Moreover, USPS Marketing Mail accounts for 46.8 percent of the 45.7 billion pieces of Market Dominant volume lost over the last 10 years.

Market Dominant Revenue

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 2014 to FY 2023. Over the last 10 years, total revenue declined by 14.9 percent, while total attributable cost declined by 9.7 percent. Nonetheless, First-Class Mail and USPS Marketing Mail continue to generate the majority of the Postal Service's revenue, even as the demand for First-Class Mail and USPS Marketing Mail continues to decline. *Id.*

Figure III-2
Market Dominant Revenue and Attributable Cost, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Competitive Products and Services

The COVID-19 pandemic caused a surge in e-commerce and a substantial increase in Competitive product volume. Over the last two years, Competitive product volume decreased, but is still higher than pre-pandemic levels. Competitive product volume decreased 2.0 percent compared to FY 2022, but still represents a higher share of total volume than before the COVID-19 pandemic. Revenue for Competitive products increased in FY 2023. Table III-2 compares the total volume, revenue, and cost of these products and services between FY 2022 and FY 2023.

COMPETITIVE PRODUCT VOLUME DECREASED 2.0% COMPARED TO FY 2022, BUT STILL REPRESENTS A HIGHER SHARE OF TOTAL VOLUME THAN BEFORE THE COVID-19 PANDEMIC.

Table III-2
Competitive Volume, Revenue, and Cost, FY 2022 and FY 2023

	FY 2022	FY 2023	% Change
Volume (Millions)	6,891	6,751	(2.0%)
Revenue ($ Millions)	33,129	33,350	0.7%
Attributable Cost ($ Millions)	20,667	21,183	2.5%
Contribution to Institutional Cost ($ Millions)	12,462	12,167	(2.4%)

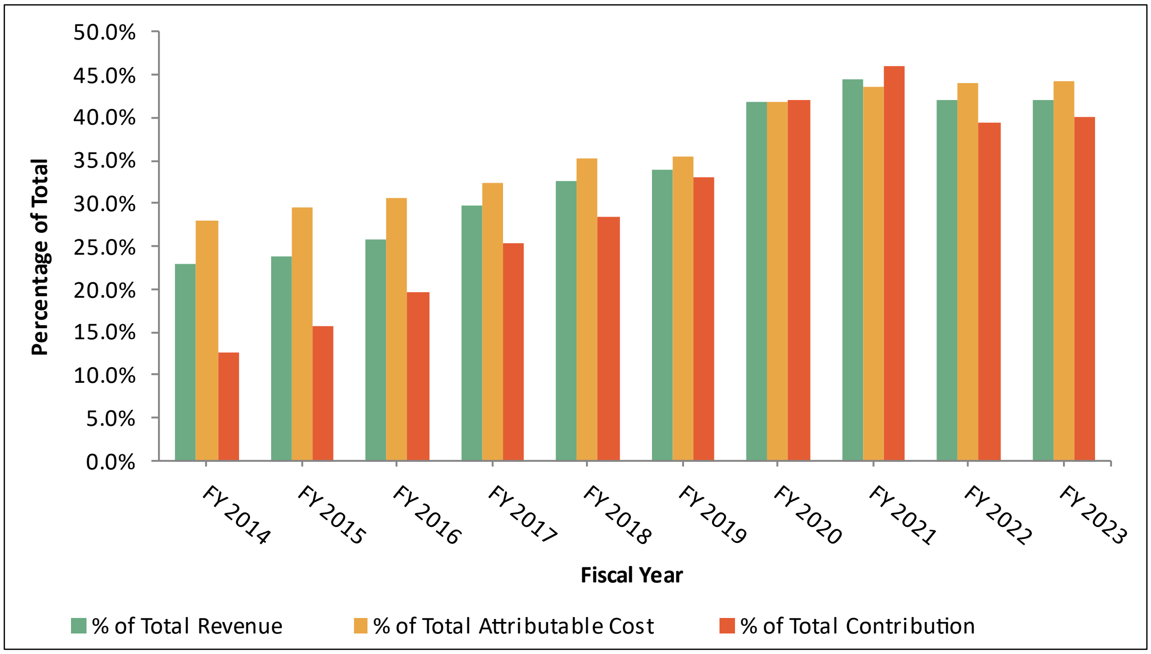
Source: PRC-LR-1, FY 2022-FY 2023

Despite the loss in volume, revenue increased by 0.7 percent in FY 2023, as unit revenue increased by 2.8 percent compared with FY 2022. Attributable cost followed a similar pattern to revenue; increased by 2.5 percent in the aggregate and increased by 4.6 percent on a unit basis. Contribution to institutional cost decreased both on the aggregate and on a unit basis. In FY 2023, contribution to institutional cost decreased by $295.3 million, or 2.4 percent in the aggregate, and decreased 0.3 percent on a unit basis.

Over the past decade Competitive products' share of total Postal Service revenue and attributable cost has grown significantly. As shown in Figure III-3, the share of total Postal Service revenue and attributable cost generated by Competitive products was much greater in FY 2023 than it was in FY 2014. With the exception of FY 2022, Competitive products' share of contribution to institutional cost increased every year, especially during the height of the COVID-19 pandemic. In FY 2023, Competitive products' share of contribution to institutional cost was 40.0 percent, 0.7 percentage points more than in FY

2022, but 7.0 percentage points more than in FY 2019, before the COVID-19 pandemic began.

Figure III-3
Competitive Products' Percent Share of Total Postal Service Revenue, Cost, and Contribution to Institutional Cost, FY 2014–FY 2023

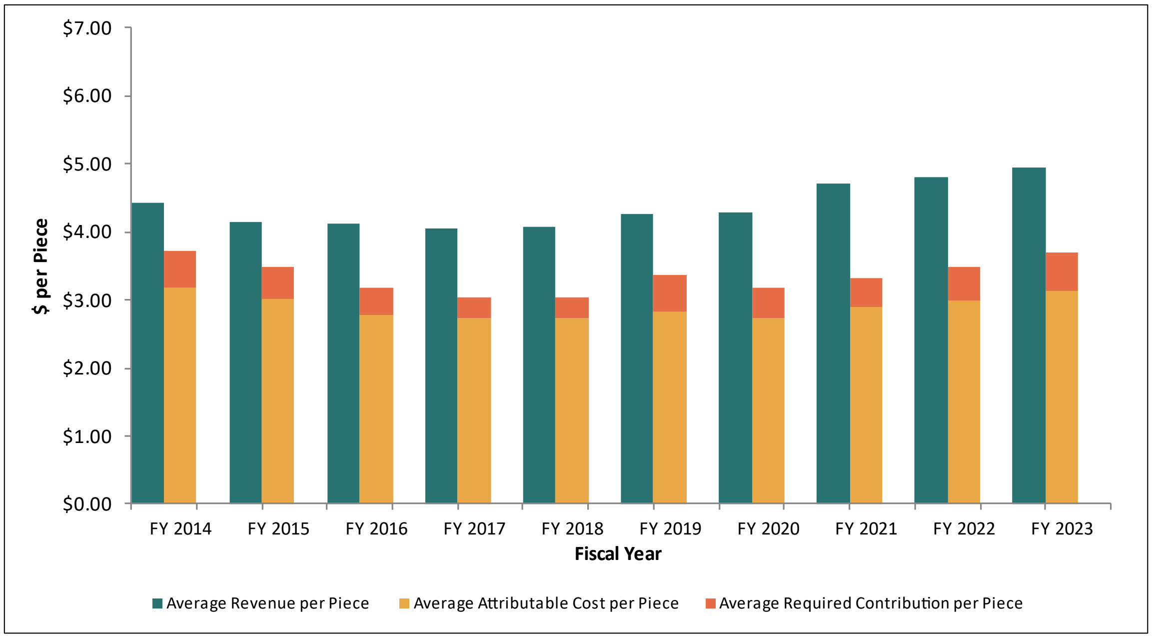


Source: PRC-LR-1, FY 2014-FY 2023.

Figure III-4 illustrates the changes in average unit revenue and cost from FY 2014 to FY 2023. Competitive products are required to collectively cover their required contribution to institutional costs.[53] Figure III-4 shows the minimum required contribution as an average cents per piece. Every year, the average unit revenue for Competitive products and services exceeded the combined average unit attributable cost and required contribution per piece.

[53] *See* Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2019 (Order No. 4963). On April 14, 2020, the United States Court of Appeals for the District of Columbia remanded Order No. 4963 to the Commission for further explanation. *United Parcel Serv. v. Postal Regulatory Comm'n*, No. 19-1026 (D.C. Cir. Apr. 14, 2020). Order No. 4963 prescribed the formula for determining the appropriate share. The Commission issued Order No. 6399 with respect to this issue, which left the formula prescribed in Order No. 4963 in place. *See* Docket Nos. RM2017-1 and RM2022-2, Order Finalizing Rule Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 9, 2023 (Order No. 6399).

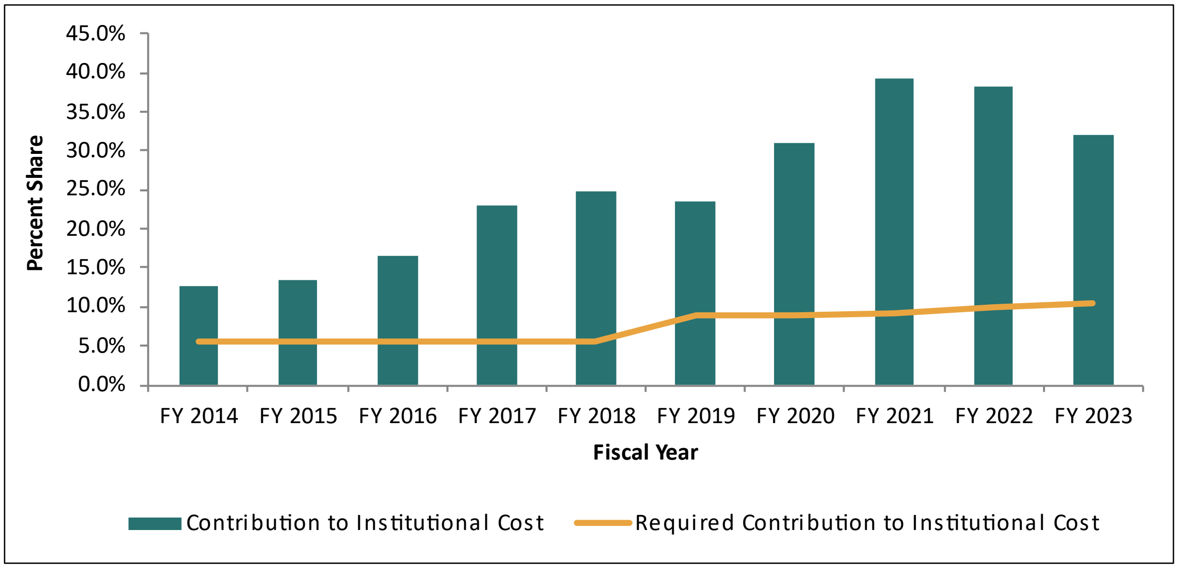
Figure III-4
Competitive Average Unit Revenue and Cost, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

In FY 2023, just as in previous years, total contribution to institutional cost from Competitive products exceeded the required contribution to institutional cost. As shown in Figure III-5, in general, the contribution from Competitive products increased in recent years. The increases in FY 2020 and FY 2021 were particularly large due to the pandemic-related surge in package volume. Before that, large increases in the share of institutional cost contributed by Competitive products resulted primarily from Market Dominant products transferred to the Competitive product list.

Figure III-5
Competitive Contribution to Institutional Cost, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Market Dominant Volume, Revenue, and Cost Trends by Class

First-Class Mail

There are five products assigned to First-Class Mail: Single-Piece Letters/Postcards; Presorted Letters/Postcards; Flats; Outbound Single-Piece First-Class Mail International; and Inbound Letter Post. For comparison purposes in this report, the products are grouped into letters, flats, and "all other."[54]

FIRST-CLASS MAIL LETTERS COMPARED WITH FY 2022

Table III-3 summarizes the FY 2023 change in total volume and revenue for First-Class Mail letters. In FY 2023, First-Class Mail letters volume declined by 5.3 percent, showing only a marginal improvement from FY 2022, during which volume declined by 5.5 percent. Remarkably, these reductions exceeded those observed at the peak of the COVID-19

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

IN FY 2023, FIRST-CLASS MAIL LETTERS VOLUME DECLINED BY MORE THAN AT THE PEAK OF THE COVID-19 PANDEMIC.

pandemic, with declines of 4.2 percent in FY 2021 and 4.5 percent in FY 2020. The rate of decline for single-piece letters was 8.0 percent in FY 2023, in contrast to less than 6 percent in the years preceding the pandemic. Additionally, Presorted letters volume decreased by 4.2 percent in FY 2023, compared to a 3.5 percent decline in FY 2022.

Total revenue for First-Class Mail letters increased by 2.5 percent in FY 2023 due to the price increases that went into effect in January 2022, January 2023, and July 2023.[55] Unit revenue increased from 48 cents per piece in FY 2022 to 52 cents in FY 2023. The sharp decline in single-piece letters volume resulted in a 0.5 percent decrease in total revenue for single-piece letters. In contrast, revenue for presorted letters increased by 4.1 percent.

Table III-3
First-Class Mail Letters Volume and Revenue, FY 2022 and FY 2023

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2022	FY 2023			FY 2022	FY 2023		
Single-Piece	12,406	11,415	(990)	(8.0%)	7,199	7,159	(40)	(0.5%)
Presorted	32,170	30,811	(1,359)	(4.2%)	14,154	14,736	582	4.1%
Total Letters	**44,576**	**42,227**	**(2,349)**	**(5.3%)**	**21,353**	**21,895**	**542**	**2.5%**

Negative values denoted by ().
Source: PRC-LR-1 FY 2022-FY 2023

Table III-4 summarizes the FY 2023 change in total attributable cost for First-Class Mail letters. In FY 2023, the total attributable cost for First-Class Mail letters saw a notable increase of $231 million. Despite an increase of 5.7 percent on a unit basis, the attributable cost of single-piece letters decreased by 2.7 percent. Presorted letters also experienced an increase in unit attributable cost (12.5 percent) in FY 2023. However, unlike the attributable cost of single-piece letters, the attributable cost of presorted letters increased in FY 2023, by 1.8 cents per piece or 7.7 percent.

[55] Docket No. R2022-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, May 27, 2022 (Order No. 6188); Docket No. R2023-1, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, November 28, 2022 (Order No. 6341); Docket No. R2023-2, Order on Price Adjustments for First-Class Mail, USPS Marketing Mail, Periodicals, Package Services, and Special Services Products and Related Mail Classification Changes, May 31, 2023 (Order No. 6526)

Table III-4
First-Class Mail Letters Attributable Cost and Average Unit Attributable Cost, FY 2022 and FY 2023

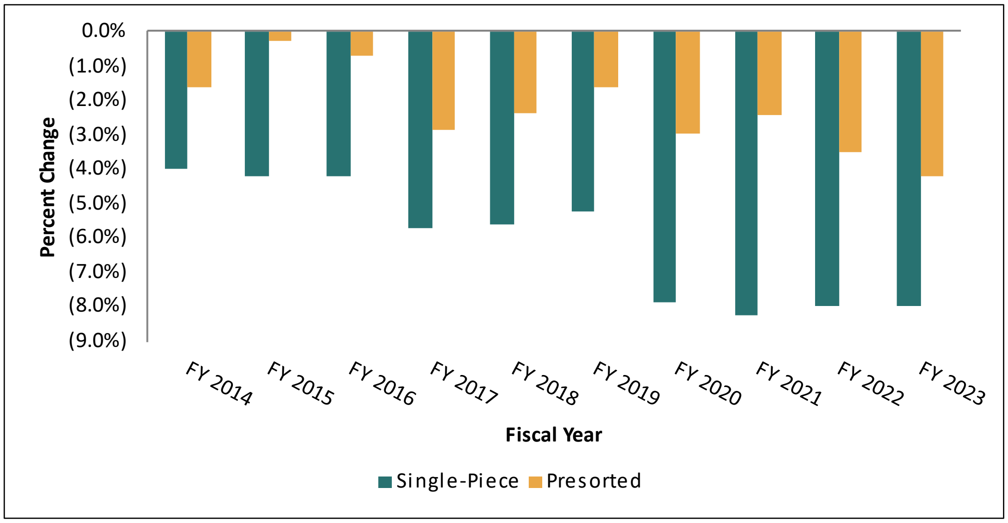
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2022	FY 2023			FY 2022	FY 2023		
Single-Piece	4,614	4,489	(125)	(2.7%)	37.2	39.3	2.1	5.7%
Presorted	4,607	4,962	355	7.7%	14.3	16.1	1.8	12.5%
Total Letters	**9,221**	**9,452**	**231**	**2.5%**	**20.7**	**22.4**	**1.7**	**8.2%**

Source: PRC-LR-1 FY 2022-FY 2023

TRENDS IN FIRST-CLASS MAIL LETTERS

First-Class Mail volume continues to remain below pre-pandemic levels. The primary driver behind this ongoing decline in First-Class Mail volume is the widespread shift from traditional mail to electronic communication and alternative transaction methods. As depicted in Figure III-6, the rate of decline in volume for First-Class Mail letters is evident. Over the past four years, Single-piece letter volume has steadily declined by approximately 8 percent annually, contrasting with a less than 6 percent decrease per year from FY 2014 to FY 2019. Additionally, the volume of First-Class Mail presorted letters has consistently declined over the last decade, with FY 2023 experiencing the steepest decline in over a decade at 4.2 percent, surpassing even the peak decline observed during the COVID-19 pandemic.

Figure III-6
Percent Change in Volume for First-Class Mail Letters, FY 2014–FY 2023

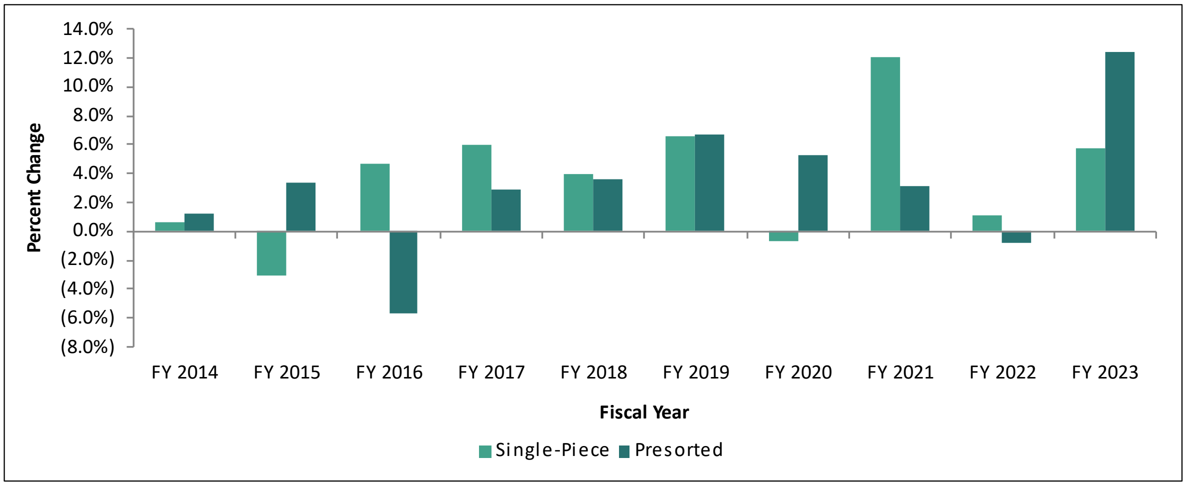


Source: Library Reference PRC-LR-1, FY 2014-FY 2023.

Figure III-7 illustrates the fluctuation in the average unit attributable cost for First-Class Mail letters. The average unit attributable cost of First-Class Mail single-piece letters increased slightly in FY 2023, following another minor increase in FY 2022, which was preceded by a significant increase in FY 2021. Over the last decade, apart from FY 2020 when a methodological change reduced the amount of city carrier costs allocated to letter-shaped mail, and FY 2015 when inflation remained historically low, the unit attributable cost of First-Class Mail single-piece letters has increased each year.

Over the last 10 years, the average unit attributable cost for First-Class Mail presorted letters decreased only twice first in FY 2016, and more recently in FY 2022 when the PSRA legislation canceled the Postal Service's unpaid PSRHBF obligations. Even so, the 12.5 percent increase in unit attributable cost in FY 2023 was the largest since FY 2014. The next largest increase over that period was 6.7 percent in FY 2019.

Figure III-7
First-Class Mail Letters Percent Change in Average Unit Attributable Cost,
FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Table III-5 highlights the changes in major cost segments[56] for First-Class Mail single-piece letters and First-Class Mail presorted letters for FY 2022 and FY 2023. The unit costs presented include all indirect costs piggybacked on the direct cost.[57]

The shift in costs from air to highway transportation can be attributed to the Postal Service shifting volume from air to highway transportation and extending the days to delivery service standards for First-Class Mail .[58]

In FY 2023, both city carrier and rural carrier unit costs increased substantially for both First-Class Mail single-piece letters and presorted letters. Specifically, city carrier unit costs increased by 15.4 percent for single-piece letters and by 17.5 percent for presorted letters compared to FY 2022, while rural carrier unit costs rose by 15.8 percent for single-piece letters and by 16.2 percent for presorted letters over the same period. In FY 2023, unit costs for both mail processing and window service increased compared to FY 2022, rising by 1.0 percent for single-piece letters and 17.1 percent for presorted letters in mail

[56] The term "major cost segment" refers to key postal operations like mail processing. Costs linked to this are compiled from relevant segments and components detailed in the Cost Segments and Components Report.

[57] In addition to the direct costs, there are other "indirect" costs associated with the direct cost component or cost segment. Some examples of these indirect costs are Cost Segment 3 Administrative Clerks, Cost Segment 12 Vehicle Service Costs, Cost Segment 15 Rents and Fuel and Utilities, and Cost Segment 18 Service-wide Labor Costs (such as, workers' compensation, etc.). These "indirect" costs are referred to as "piggybacked" costs. The unit cost by cost segment presented in this report are "piggybacked" volume variable and product specific costs, unless stated otherwise.

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

processing, and by 8.7 percent for single-piece letters and 12.5 percent for presorted letters in window service.

Table III-5
First-Class Mail Single-Piece and Presorted Letters Average Unit Cost by Segment, FY 2022 and FY 2023

	Unit costs					
	Single-Piece			Presorted		
	(Cents per Piece)		% Change	(Cents per Piece)		% Change
	FY 2022	FY 2023		FY 2022	FY 2023	
Mail Processing	19.02	19.21	1.00%	6.07	7.11	17.1%
City Carrier	8.74	10.09	15.40%	4.4	5.16	17.5%
Window Service	2.14	2.32	8.70%	0.08	0.1	12.5%
Rural Carriers	1.58	1.83	15.80%	1.12	1.3	16.2%
Transportation	3.21	3.19	(0.6%)	1.99	1.7	14.5%

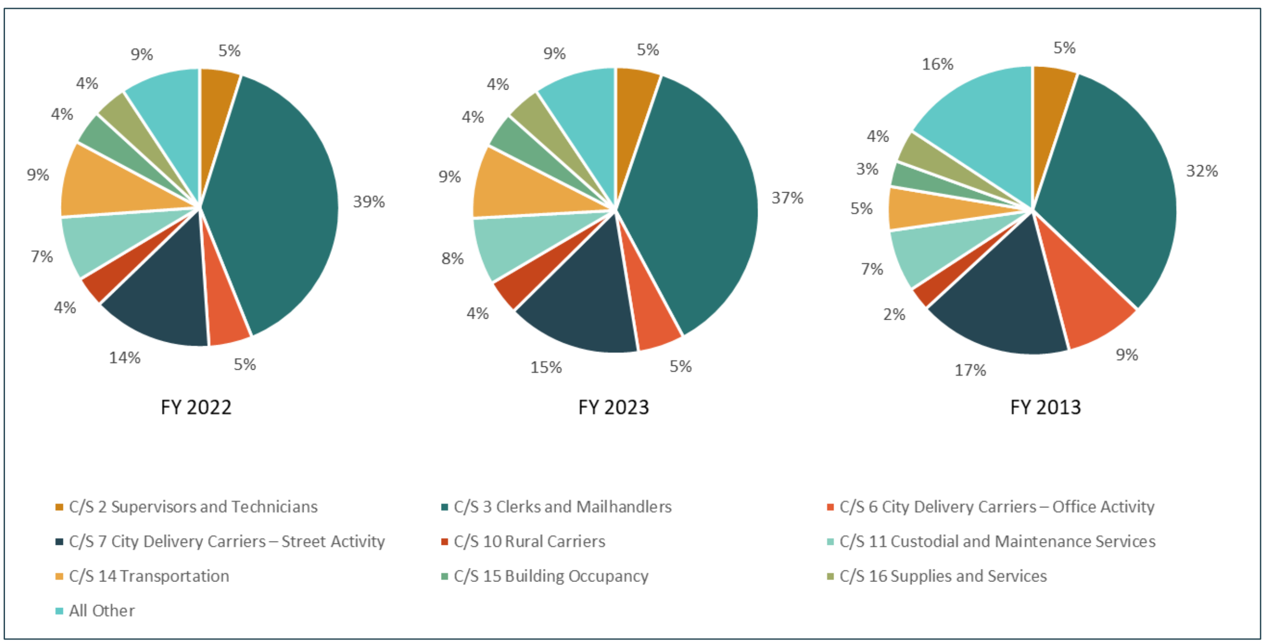
Source: Docket No. ACR2023, Library Reference USPS-FY23-24, December 29, 2023; Docket No. ACR2022, Library Reference USPS-FY22-24, December 29, 2022(Collectively Postal Service Piggybacked Costs, FY 2022- FY 2023); Docket No. ACR2023, Library Reference USPS-FY23-2, December 29, 2023; Docket No. ACR2022, Library Reference USPSFY22-2, December 29, 2022 (Collectively CSC Reports, FY 2022-FY 2023).

Purchased transportation costs decreased in FY 2023, with unit transportation costs decreasing by 0.6 percent for single-piece letters and 14.5 percent for presorted letters. According to the Postal Service, these decreases were primarily driven by changes implemented as part of the DFA Plan, that aim to shift away from air transportation in favor of less expensive and more reliable surface transportation, and to reduce trips and improve utilization. The Commission finds that for single-piece letters, there was a significant shift in the distribution of costs across various transportation modes between FY 2022 and FY 2023 consistent with this explanation. Specifically, highway transportation costs represent a larger share of domestic transportation costs, accounting for 90 percent of domestic transportation costs in FY 2023, a substantial increase from FY 2022, when highway transportation costs represented 82 percent of domestic transportation costs. Conversely, for single-piece letters, domestic air transportation represents a smaller share of domestic transportation cost in FY 2023 than in FY 2022, 8 percent compared with 17 percent and similarly for presorted letters 24 percent (down from 48 percent) compared to FY 2022.

The difference in unit costs between single-piece letters and presorted letters remained nearly static compared to FY 2022, increasing by less than a penny overall. The gap in mail processing unit costs between single-piece letters and presorted letters decreased by one cent, while the difference in city carrier unit costs between single-piece letters and presorted letters increased by one cent. For the other cost segments depicted, the change was less than one cent.

Figure III-8 displays three pie charts illustrating the composition of attributable costs by cost segment for First-Class Mail single-piece letters across three fiscal years: FY 2023, FY 2022, and FY 2013. The largest share of costs is Cost segment 3, "Clerks and Mailhandlers," and covers salaries, benefits, and related expenses for clerks and mail handlers primarily involved in mail processing activities. The proportion of costs represented by Clerks and Mailhandlers decreased from 39 percent in FY 2022 to 37 percent in FY 2023, although it still exceeds the share from a decade ago, which was 32 percent. Conversely, Cost segment 7, "City Delivery Carriers – Street Activity," represents a larger portion of costs for First-Class Mail single-piece letters in FY 2023 compared to FY 2022 (15 percent versus 14 percent), but a smaller share than in FY 2013 (17 percent).

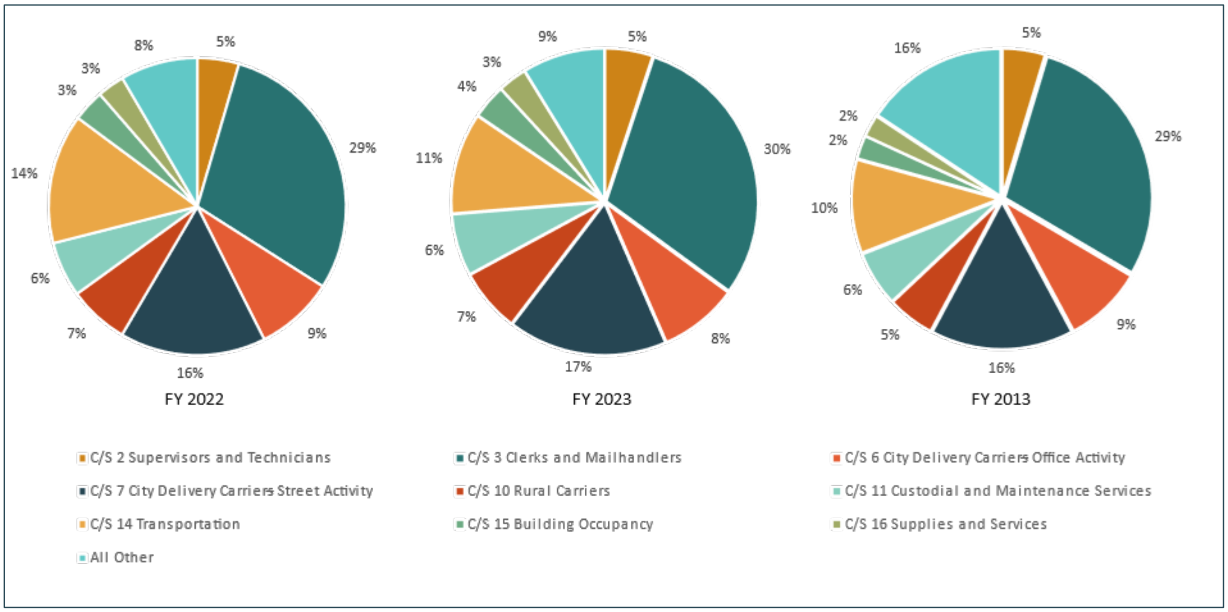
Figure III-8
Composition of First-Class Mail Single-Piece Letters Attributable Cost, FY 2023, FY 2022, and FY 2013



Note: The cost-shares presented in the figure are based on costs that are not "piggybacked."
Source: CSC Reports, FY 2022-FY 2023; Docket No. ACR2013, Library Reference USPS-FY13-2, December 27, 2013 (USPS-FY13-2).

Figure III-9 presents a similar set of pie charts illustrating the composition of First-Class Mail presorted letters attributable costs. In FY 2023, the share of costs represented by transportation (Cost Segment 14) decreased from 14 percent in FY 2022 to 11 percent, but still represents a slightly higher share than in FY 2013 (10 percent). The share of costs represented by Clerks and Mailhandlers, as well as City Delivery Carriers–Street Activity, each increased by one percentage point compared to both FY 2022 and FY 2013.

Figure III-9
Composition of First-Class Mail Presorted Letters Attributable Costs, FY 2023, FY 2022, and FY 2013



Note: The cost-shares presented in the figure are based on costs that are not "piggybacked."
Source: CSC Reports, FY 2022-FY 2023; USPS-FY13-2.

FIRST-CLASS MAIL FLATS COMPARED WITH FY 2022

Table III-6 shows the total volume and revenue for First-Class Mail Flats. The volume of First-Class Mail single-piece flats experienced a decline of 7.9 percent in FY 2023, showing improvement from the steeper 11.1 percent decline in FY 2022. Conversely, the volume of First-Class Mail presorted flats saw a significant decrease in FY 2023 compared to its single-piece counterpart, plummeting by 13.8 percent. This decline starkly contrasts with the modest 3.0 percent decrease in FY 2022 for presorted flats.

Despite the volume decreases, total revenue for First-Class Mail Flats increased by 3.1 percent in FY 2023, with revenue increases for both single-piece flats and presorted flats. Additionally, revenue on a unit basis reveals a significant increase for both First-Class Mail single-piece flats (10.3 percent) and First-Class Mail presorted flats (22.5 percent). These results reflect the implementation of higher prices in FY 2023 compared to FY 2022.

Table III-6
First-Class Mail Flats Volume and Revenue, FY 2022 and FY 2023

	Mail Volume (Millions)				Mail Revenue ($ in Millions)			
	FY 2022	FY 2023	Increase or Decrease	% Change	FY 2022	FY 2023	Increase or Decrease	% Change
Single-Piece	551	508	(43)	(7.9%)	988	1,004	16	1.6%
Presorted	540	466	(75)	(13.8%)	603	636	33	5.5%
Total Flats	**1,091**	**973**	**(118)**	**(10.8%)**	**1,591**	**1,640**	**50**	**3.1%**

Negative values denoted by ().
Numbers may not add due to rounding.
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1.

Table III-7 summarizes the FY 2023 change in attributable cost. Attributable costs for First-Class Mail Flats decreased 2.5 percent from FY 2022 for the Single-Piece category and increased by 1.1 percent for the presorted category. However, on a unit basis, attributable costs increased for both categories. In FY 2023, the unit attributable cost for First-Class Mail Flats increased 10.8 percent, single-piece flats increased 5.8 percent, and presorted flats increased 17.3 percent.

Table III-7
First-Class Mail Flats Attributable Cost and Average Unit Attributable Cost, FY 2022 and FY 2023

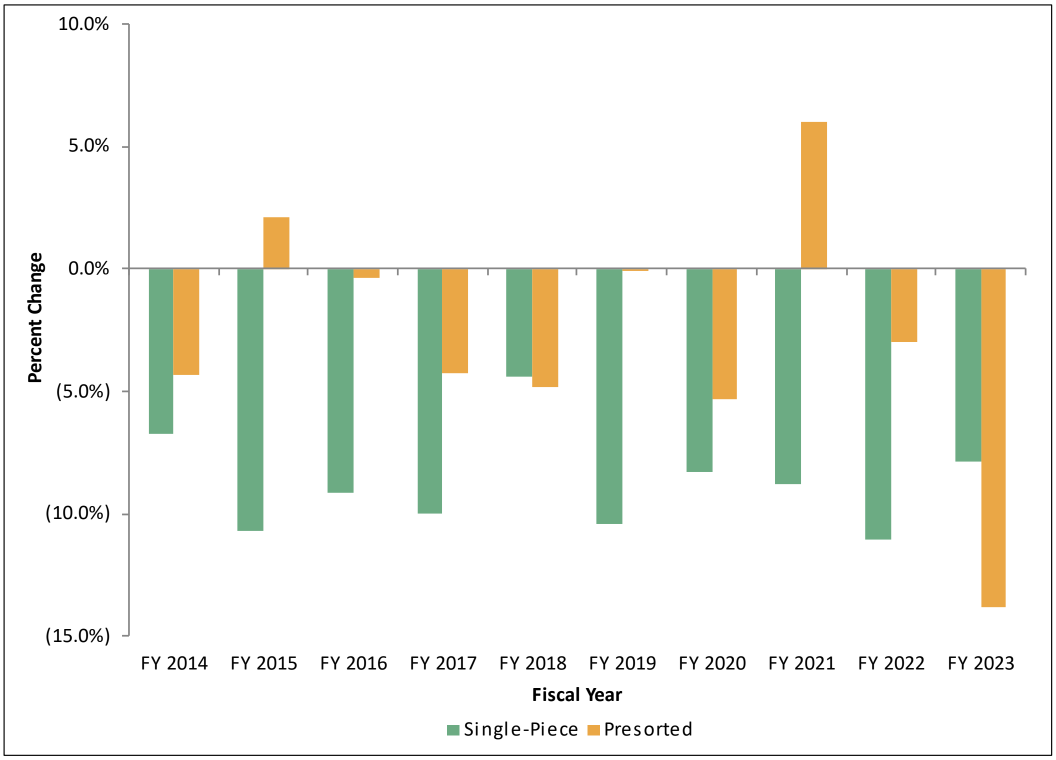
	Attributable Cost ($ in Millions)				Unit Attributable Cost (Cents per Piece)			
	FY 2022	FY 2023	Increase or Decrease	% Change	FY 2022	FY 2023	Increase or Decrease	% Change
Single-Piece	922	899	(23)	(2.5%)	167.4	177.1	9.8	5.8%
Presorted	538	543	6	1.1%	99.5	116.7	17.2	17.3%
Total Flats	**1,462**	**1,445**	**(17)**	**(1.2%)**	**134.0**	**148.5**	**14.5**	**10.8%**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1.

TRENDS IN FIRST-CLASS MAIL FLATS

The volume of First-Class Mail Flats has persistently declined over recent years, as illustrated in Figure III-10, which compares the percent change in volume from FY 2014 to FY 2023. Over the past decade, First-Class Mail Flats volume declined significantly, with almost half of its volume eroded. Notably, the volume of single-piece flats continued its downward trajectory in FY 2023. While both presorted flats and single-piece flats experienced volume declines over the decade, the volume loss has been especially severe in single-piece flats. Throughout this period, the volume of single-piece flats exhibited consistent annual decreases ranging from 4.4 percent to 11.1 percent, for a total decrease of 60.0 percent over the last 10 years. In comparison, presorted flats experienced a volume decrease of 25.6 percent during the same period. As depicted in Figure III-10, volume declined for First-Class Mail presorted flats in eight of the last 10 years, with the largest decrease recorded in FY 2023.

Figure III-10
Percent Change in First-Class Mail Flats Volume, FY 2014–FY 2023

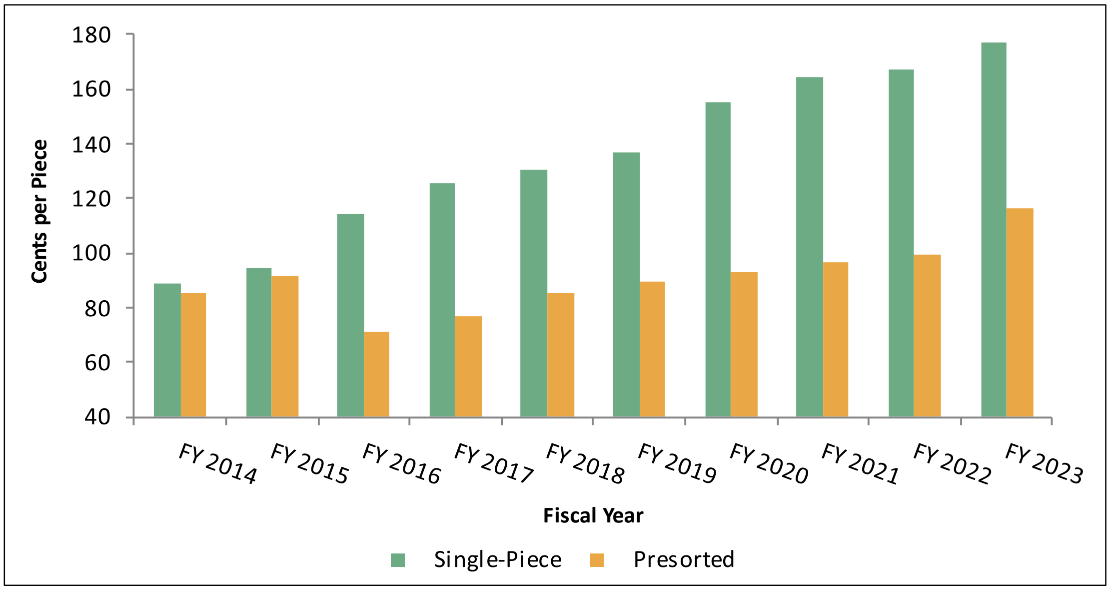


Source: PRC-LR-1, FY 2014-FY 2023.

Figure III-11 compares the average unit attributable cost for First-Class Mail single-piece and presorted flats since FY 2014. The average unit attributable cost for First-Class Mail single-piece flats and presorted flats has steadily increased since FY 2016.[59] Over the last decade, the average unit attributable cost for First-Class Mail single-piece flats has increased more rapidly than for First-Class Mail presorted flats, 88.6 percent, and 47.9 percent, respectively.

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

Figure III-11
First-Class Mail Flats Average Unit Attributable Cost, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Table III-8 compares the average unit cost by cost segment for First-Class Mail Flats in FY 2022 and FY 2023. Except for window service cost, unit costs increased in all the cost segments depicted. Carrier costs increased the most significantly, with unit city carrier cost increasing by 17.3 percent and unit rural carrier cost increasing by 12.8 percent in FY 2023. Mail processing unit cost increased by 9.1 percent in FY 2023. Lastly, transportation cost also increased, despite a shift away from air transportation to highway transportation. Highway transportation cost was 79 percent of domestic transportation cost for First-Class Mail Flats in FY 2023 compared with 65 percent of domestic transportation cost in FY 2022.

Table III-8
First-Class Mail Flats Average Unit Attributable Cost by Segment, FY 2022 and FY 2023

	Unit Cost		
	Cents Per Piece		% Change
	FY 2022	FY 2023	
Mail Processing	73.84	80.59	9.1%
City Carrier	22.61	26.52	17.3%
Window Service	3.24	2.95	(9.2%)
Rural Carriers	5.36	6.05	12.8%
Transportation	24.3	26.07	7.3%

Negative values denoted by ().
Source: Postal Service Piggybacked Costs, FY 2022-FY 2023; CSC Reports, FY 2022-FY 2023.

OTHER FIRST-CLASS MAIL COMPARED WITH FY 2022

Table III-9 shows the volume and revenue for "all other" First-Class Mail. The volumes of Cards, Outbound Single-Piece First-Class Mail International, and Inbound Letter Post all decreased in FY 2023. Revenue also decreased for all three categories compared with FY 2022.

Table III-9
All Other First-Class Mail Volume and Revenue, FY 2022 and FY 2023

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2022	FY 2023			FY 2022	FY 2023		
Total Cards	3,234	2,807	(427)	(13.2%)	1,071	1,040	(31)	(2.9%)
Outbound Single-Piece First-Class Mail International	111	99	(12)	(10.8%)	187	179	(8)	(4.2%)
Inbound Letter Post	78	72	(6)	(8.2%)	58	52	(6)	(10.0%)
Total Other First-Class Mail	**3,423**	**2,978**	**(445)**	**(13.0%)**	**1,316**	**1,272**	**(45)**	**(3.4%)**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1.

Table III-10 presents the changes in total attributable cost and average unit attributable cost for "all other" First-Class Mail between FY 2022 and FY 2023. In FY 2023, both aggregate and unit attributable costs decreased for Inbound Letter Post. For Outbound Single-Piece First-Class Mail International, and for cards, attributable cost decreased in the aggregate, but increased on a unit basis.

Table III-10
Other First-Class Mail Attributable Cost and Average Unit Attributable Cost, FY 2022 and FY 2023

	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2022	FY 2023			FY 2022	FY 2023		
Total Cards	429	420	(8)	(2.0%)	13.3	15.0	1.7	13.0%
Outbound Single-Piece First-Class Mail International	109	105	(4)	(3.6%)	98.3	106.2	7.9	8.1%
Inbound Letter Post	45	41	(5)	(10.7%)	58.1	56.5	(1.6)	(2.7%)
Total Other First-Class Mail	**583**	**566**	**(17)**	**(2.9%)**	**17.0**	**19.0**	**2.0**	**11.6%**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1.

USPS Marketing Mail

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

USPS MARKETING MAIL LETTERS COMPARED WITH FY 2022

Table III-11 summarizes the FY 2023 change in volume and revenue of letter-shaped USPS Marketing Mail. USPS Marketing Mail Letters volume decreased by 14.0 percent in FY 2023 but remains below pre-pandemic levels. In comparison, High Density and Saturation Letters volume decreased less severely, by 7.3 percent in FY 2023. Revenue decreased in total for all letter-shaped USPS Marketing Mail in FY 2023. Despite the substantial price increases in FY 2023, the relatively large decrease in volume for USPS Marketing Mail Letters resulted in significantly lower revenue in FY 2023 than in FY 2022. High Density and Saturation Letters revenue increased by 1.0 percent, reflecting both a lower volume and higher prices than in FY 2022.

DESPITE THE SUBSTANTIAL PRICE INCREASES IN FY 2023, THE DECREASE IN VOLUME FOR USPS MARKETING MAIL LETTERS RESULTED IN SIGNIFICANTLY LOWER REVENUE IN FY 2023 THAN IN FY 2022.

Table III-11
USPS Marketing Mail Letters Volume and Revenue, FY 2022 and FY 2023

	Mail Volume (Millions)				Mail Revenue ($ in Millions)			
	FY 2022	FY 2023	Increase or Decrease	% Change	FY 2022	FY 2023	Increase or Decrease	% Change
Letters	43,682	37,583	(6,099)	(14.0%)	10,243	9,509	(734)	(7.2%)
High Density and Saturation Letters	6,045	5,602	(443)	(7.3%)	1,132	1,143	11	1.0%
Total Letters	**49,727**	**43,185**	**(6,542)**	**(13.2%)**	**11,375**	**10,652**	**(723)**	**(6.4%)**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1.

Table III-12 summarizes the FY 2023 change in attributable cost for USPS Marketing Mail letters. Overall, attributable cost decreased minimally for USPS Marketing Mail letters in FY 2023 by 0.5 percent. On a unit basis, attributable cost for both Letters, and High Density and Saturation Letters increased by 14.6 percent and 17.2 percent, respectively. Because High Density and Saturation Letters is a relatively low-volume product compared with USPS Marketing Mail Letters, the average unit decrease (14.6 percent) for letter-shaped USPS Marketing Mail is closer to the increase in the unit attributable cost of USPS Marketing Mail Letters.

Table III-12
USPS Marketing Mail Letters Attributable Cost and Average Unit Attributable Cost, FY 2022 and FY 2023

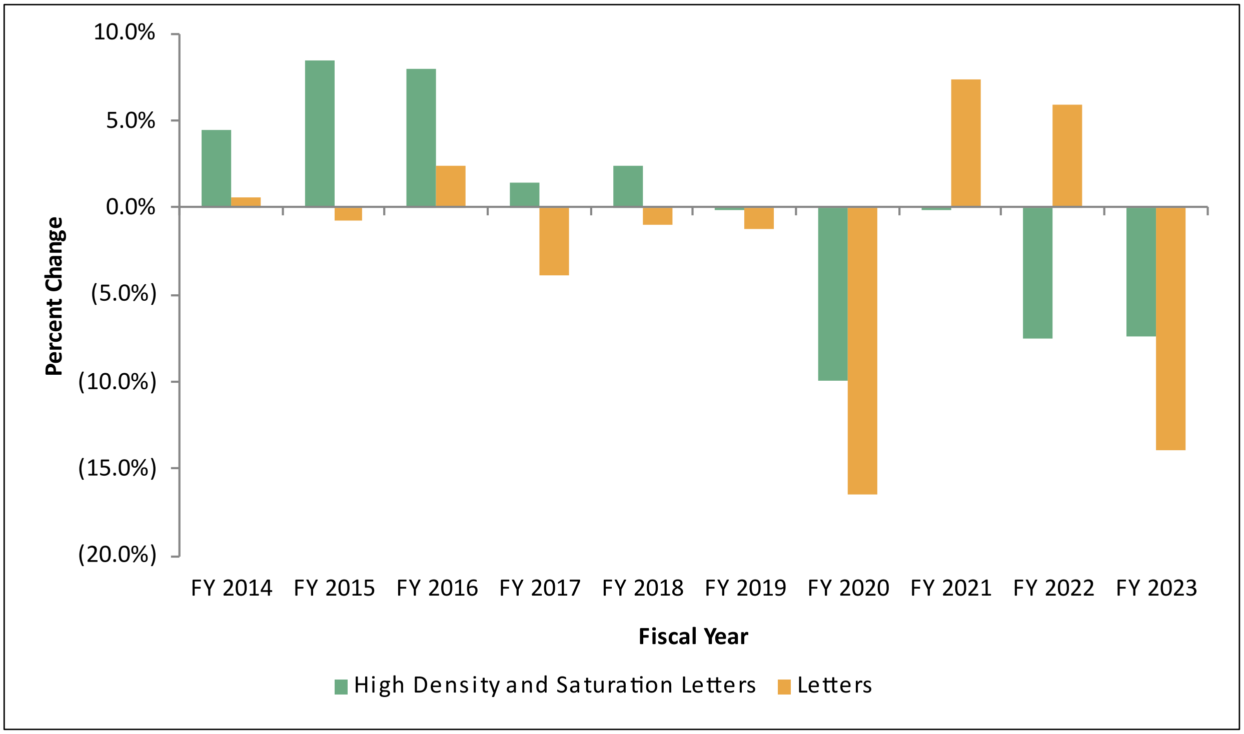
	Attributable Cost ($ in Millions)				Unit Attributable Cost (Cents per Piece)			
	FY 2022	FY 2023	Increase or Decrease	% Change	FY 2022	FY 2023	Increase or Decrease	% Change
Letters	5,356	5,281	(76)	(1.4%)	12.3	14.1	1.8	14.6%
High Density and Saturation Letters	569	618	49	8.6%	9.4	11.0	1.6	17.2%
Total Letters	**5,926**	**5,899**	**(27)**	**(0.5%)**	**11.9**	**13.7**	**1.7**	**14.6%**

Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1

TRENDS IN USPS MARKETING MAIL LETTERS

As shown in Figure III-12, after several years of moderate volume changes, the COVID-19 pandemic precipitated comparatively large swings in volume from FY 2020 to FY 2023 for USPS Marketing Mail Letters. High Density and Saturation Letters volume has also contracted during that time, with particularly large decreases in FY 2020, FY 2022, and FY 2023. Over the last decade, USPS Marketing Mail Letters lost 2.4 percent of its volume and High Density and Saturation Letters lost 1.9 percent of its volume.

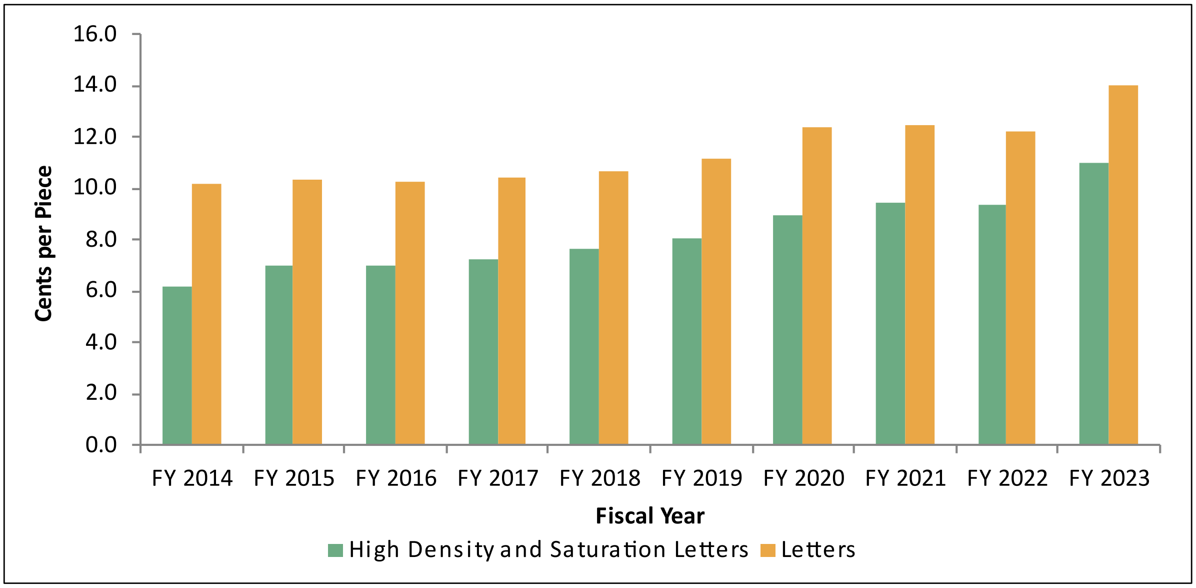
Figure III-12
Percent Change in USPS Marketing Mail Letters Volume, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Figure III-13 shows the average unit attributable cost for USPS Marketing Mail letters since FY 2014. 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 increased in four of the last 5 years, while the average unit cost of High Density and Saturation Letters increased in every year from FY 2014 to FY 2023 except FY 2022. In FY 2023, the average unit attributable cost for each product was substantially higher than in FY 2022, and they remain well above pre-pandemic levels.

Figure III-13
USPS Marketing Mail Letters Average Unit Attributable Cost, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Table III-13 compares unit cost between FY 2022 and FY 2023 by cost segment. With a few exceptions, unit costs increased substantially in all cost segments shown. Both rural carrier and city carrier unit costs increased for letter-shaped USPS Marketing Mail letter. However, High Density and Saturation Letters experienced a more pronounced increase in rural carrier costs (22.3 percent) compared to city carrier costs (15.5 percent), while USPS Marketing Mail Letters experienced a higher increase in city carrier costs (19.8 percent) compared to rural carrier costs (17.9 percent). Additionally, there was an increase in unit mail processing costs, with a 12.8 percent increase for High Density and Saturation Letters, and a 10.2 percent increase for USPS Marketing Mail Letters.

Table III-13
USPS Marketing Mail Letters Unit Cost by Cost Segment, FY 2022 and FY 2023

	Unit Cost					
	High Density and Saturation Letters			Letters		
	(Cents Per Piece)		% Change	(Cents Per Piece)		% Change
	FY 2022	FY 2023		FY 2022	FY 2023	
Mail Processing	2.21	2.5	12.8%	4.98	5.49	10.2%
City Carrier	5.26	6.08	15.5%	4.51	5.41	19.8%
Window Service	0.06	0.06	(0.9%)	0.19	0.23	19.4%
Rural Carriers	1.85	2.26	22.3%	1.26	1.48	17.9%
Transportation	0.24	0.31	26.2%	0.66	0.64	(3.0%)

Source: Postal Service Piggybacked Costs, FY 2022-FY 2023; CSC Reports, FY 2022-FY 2023.

USPS MARKETING MAIL FLATS COMPARED WITH FY 2022

Table III-14 summarizes the FY 2023 changes in volume and revenue for flat-shaped USPS Marketing Mail.[60] Volume for flat-shaped USPS Marketing Mail decreased by well over a billion pieces in FY 2023. In fact, except for EDDM-R, volume for flat-shaped USPS Marketing Mail categories decreased in FY 2023, with decreases ranging from 5.9 percent to 17.3 percent. High Density and Saturation Flats/Parcels volume decreased by more than 500 million pieces in FY 2023, representing a 5.9 percent decrease in volume compared with FY 2022. Similarly, Carrier Route volume decreased by nearly 700 million pieces, or 14.7 percent and volume for USPS Marketing Mail Flats decreased by nearly 500 million pieces or 17.3 percent. In contrast to other categories, EDDM-R demonstrated a noteworthy increase in volume, rising by 8.5 percent in FY 2023.

VOLUME FOR FLAT-SHAPED USPS MARKETING MAIL DECREASED BY WELL OVER A BILLION PIECES IN FY 2023.

With the decrease in volume, the revenue for flat-shaped USPS Marketing Mail also declined compared to FY 2022. Two USPS Marketing Mail products are primarily responsible for the sharp decrease in revenue in FY 2023, Flats and Carrier Route, each with an approximately 7.0 percent decrease in revenue. High Density and Saturation Flats/Parcels revenue remained nearly unchanged in FY 2023. EDDM-R revenue increased by approximately $4 million in FY 2023.

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

Table III-14
USPS Marketing Mail Flat Volume and Revenue, FY 2022 and FY 2023

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2022	FY 2023			FY 2022	FY 2023		
High Density and Saturation Flats/Parcels	9,441	8,887	(553)	(5.9%)	1,791	1,782	(9)	(0.5%)
Carrier Route	4,718	4,025	(693)	(14.7%)	1,435	1,336	(99)	(6.9%)
Flats	2,694	2,228	(466)	(17.3%)	1,297	1,205	(92)	(7.1%)
Every Door Direct Mail – Retail	512	556	43	8.5%	102	106	4	4.1%
Total	**17,364**	**15,695**	**(1,669)**	**(9.6%)**	**4,625**	**4,429**	**(195)**	**(4.2%)**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1

Table III-15 summarizes the FY 2023 change in attributable cost for USPS Marketing Mail flats. Total attributable cost for flat-shaped USPS Marketing Mail decreased 1.2 percent in FY 2023 due to the loss of flat-shaped USPS Marketing Mail volume. On a unit basis, attributable cost increased considerably for all flat-shaped USPS Marketing Mail products in FY 2023.

Table III-15
USPS Marketing Mail Flats Attributable Cost and Average Unit Attributable Cost, FY 2022 and FY 2023

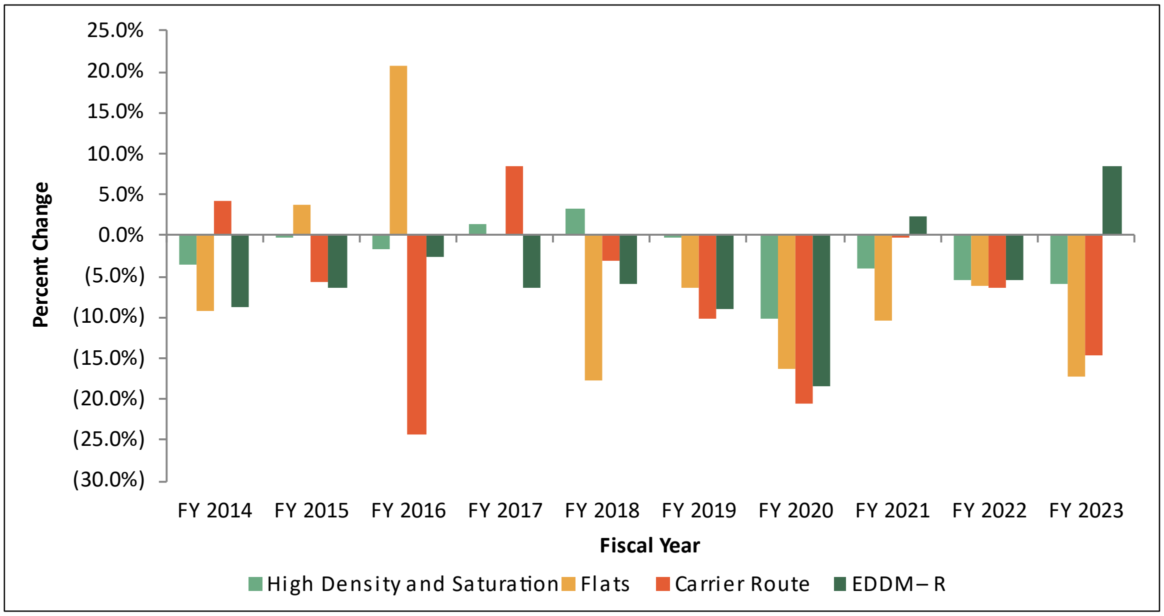
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2022	FY 2023			FY 2022	FY 2023		
High Density and Saturation Flats/Parcels	1,352	1,452	100	7.4%	14.3	16.3	2.0	14.1%
Carrier Route	1,443	1,354	(90)	(6.2%)	30.6	33.6	3.0	9.9%
Flats	1,946	1,868	(78)	(4.0%)	72.2	83.8	11.6	16.0%
Every Door Direct Mail – Retail	39	49	11	28.0%	7.5	8.9	1.4	18.0%
Total	**4,780**	**4,723**	**(57)**	**(1.2%)**	**27.5**	**30.1**	**2.6**	**9.3%**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1

TRENDS IN USPS MARKETING MAIL FLATS

Flat-shaped USPS Marketing Mail has experienced a significant decline, losing more than a third of its volume over the past decade. As shown in Figure III-14, there have been even more pronounced changes in volume in recent years. Specifically, over the last 5 years, High Density and Saturation Flats/Parcels, USPS Marketing Mail Flats, and Carrier Route have undergone consistent annual declines. Additionally, the volume for each product decreased in eight out of the last 10 years. Notably, since its inception as a permanent product, EDDM-R volume has only increased in FY 2023 and FY 2021.

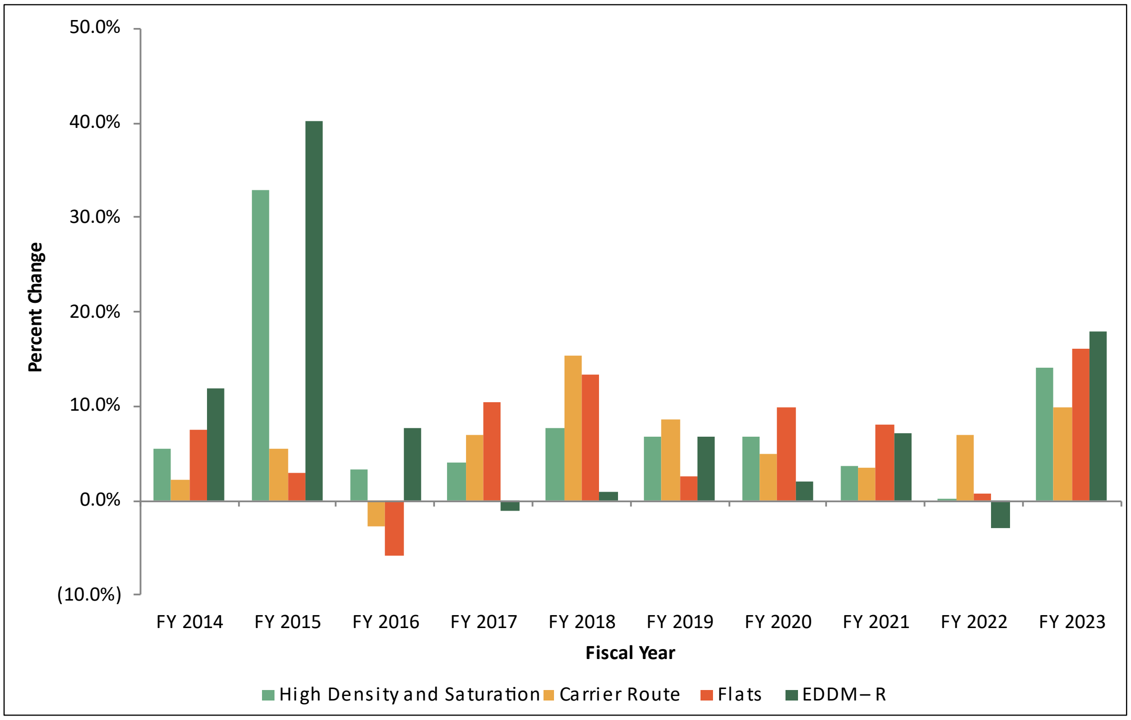
Figure III-14
USPS Marketing Mail Flats Percent Change in Volume, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

The average unit attributable cost of each flat-shaped USPS Marketing Mail product has increased significantly over the last decade. Figure III-15 illustrates the annual changes in average unit attributable cost. Throughout this period, there has been a consistent upward trajectory in the average unit attributable cost for all flat-shaped USPS Marketing Mail products, with increases observed nearly every year. However, the cost increases in FY 2023 significantly surpass other increases over the past five years. In FY 2023, relatively high inflation led to higher compensation and retirement benefit expenses and caused volatility in fuel costs and associated with transportation expenses. FY 2023 Postal Service Form 10-K at 16.

Figure III-15
USPS Marketing Mail Flats Percent Change in Average Unit Attributable Cost, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Table III-16 compares the change in the average unit cost between FY 2022 and FY 2023 by cost segment. Rural carrier unit costs, City Carrier unit costs, and transportation unit costs increased for all USPS Marketing Mail flats products. Except for USPS Marketing Mail Flats, unit mail processing cost decreased from FY 2022 for flat-shaped USPS Marketing Mail. The largest decrease was for EDDM-R; however, EDDM-R is a low volume category, and consequently susceptible to larger fluctuations in unit cost.

Table III-16
Change in USPS Marketing Mail Flats Average Unit Cost by Cost Segment, FY 2022 and FY 2023

	High Density and Saturation	Carrier Route	Flats	EDDM-R
Mail Processing	(Cents per Piece)			
FY 2022	1.45	9.09	40.04	0.27
FY 2023	1.45	8.43	45.39	0.19
% Change	**(0.4%)**	**(7.2%)**	**13.4%**	**(28.3%)**
City Carrier	(Cents per Piece)			
FY 2022	6.61	13.37	17.47	6.15
FY 2023	7.67	15.24	20.58	7.36
% Change	**16.0%**	**14.0%**	**17.8%**	**19.7%**
Rural Carrier	(Cents per Piece)			
FY 2022	5.27	5.91	5.72	0.77
FY 2023	6.04	7.32	7.41	0.89
% Change	**14.6%**	**24.0%**	**29.6%**	**15.3%**
Transportation	(Cents per Piece)			
FY 2022	0.29	1.43	6.93	0.03
FY 2023	0.40	1.69	8.03	0.03
% Change	**35.1%**	**18.6%**	**15.8%**	**13.8%**

Source: Postal Service Piggybacked Costs, FY 2022-FY 2023 and CSC Reports, FY 2022-FY 2023.

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 2022

IN FY 2023, THE VOLUME OF PERIODICALS DECLINED BY 407 MILLION PIECES, OR 12.0%.

Table III-17 summarizes the FY 2023 changes in volume and revenue for Periodicals. In FY 2023, the volume of Periodicals declined by 407 million pieces, or 12.0 percent, with most of the decrease occurring in Outside County publications. In FY 2023, Outside County volume decreased 14.3 percent. Total revenue for Periodicals decreased by $36 million, or 3.8 percent in FY 2023. On a unit basis, revenue increased by 10.9 percent for Outside County Periodicals and by 13.1 percent for In-County Periodicals.

Table III-17
Periodicals Volume and Revenue, FY 2022 and FY 2023

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2022	FY 2023			FY 2022	FY 2023		
In-County	435	452	17	3.9%	51	60	9	17.5%
Outside County	2,966	2,541	(425)	(14.3%)	908	862	(45)	(5.0%)
Total	**3,400**	**2,993**	**(407)**	**(12.0%)**	**959**	**923**	**(36)**	**(3.8%)**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1

Table III-18 compares total attributable cost and average unit attributable cost for Periodicals for FY 2022 and FY 2023. The total attributable cost of Periodicals decreased by $34 million, or 2.2 percent. The decrease in attributable cost is due primarily to the loss of Periodicals volume, as only the unit attributable cost of In-County Periodicals, a relatively small category, decreased in FY 2023.

Table III-18
Periodicals Attributable Cost and Average Unit Attributable Cost, FY 2022 and FY 2023

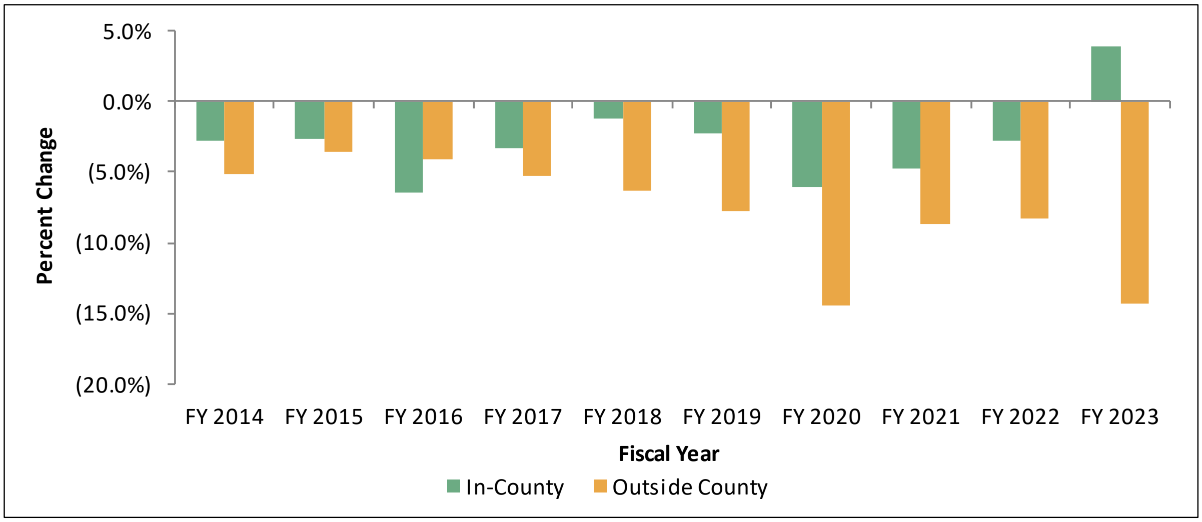
	Attributable Cost				Unit Attributable Cost			
	($ in Millions)		Increase or Decrease	% Change	(Cents per Piece)		Increase or Decrease	% Change
	FY 2022	FY 2023			FY 2022	FY 2023		
In-County	105	105	1	0.6%	24.1	23.3	(0.8)	(3.2%)
Outside County	1,466	1,431	(35)	(2.4%)	49.4	56.3	6.9	13.9%
Total	**1,571**	**1,536**	**(34)**	**(2.2%)**	**46.2**	**51.3**	**5.1**	**11.1%**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1

TRENDS IN PERIODICALS

As shown in Figure III-16, the volume of Outside County Periodicals has experienced a consistent decline over the past decade, while In-County Periodicals saw growth in FY 2023 following a decline in the preceding nine years. Despite the volume uptick in FY 2023, In-County Periodicals lost over a quarter of its volume in the past decade. For Outside County Periodicals, the volume losses intensified in recent years, with a cumulative decrease of 1.3 billion pieces from 2014 to 2018 compared to a larger volume loss of 1.9 billion pieces from FY 2019 to FY 2023. This decline in Periodicals volume can be largely attributed to the availability of electronic alternatives. Postal Service FY 2023 Form 10-K at 10.

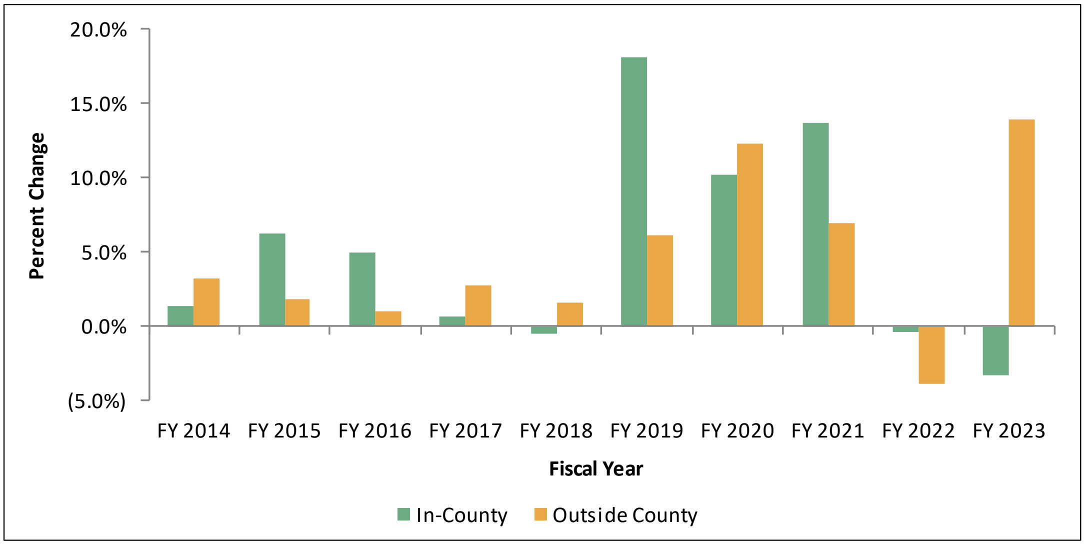
Figure III-16
Periodicals Percent Change in Volume, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Figure III-17 illustrates the percentage change in the average unit attributable cost for In-County and Outside County Periodicals. Over the ten-year period depicted, the average unit attributable cost increased for both products, with the rate of increase more than doubling in the latter half compared to the first half. Notably, in FY 2023, Outside County Periodicals experienced the most significant increase over the entire ten-year period shown. Conversely, the average unit attributable cost for In-County Periodicals decreased in both FY 2022 and FY 2023.

Figure III-17
Periodicals Percent Change in Average Unit Attributable Cost, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Table III-19 presents unit costs by cost segment for Outside County Periodicals for FY 2022 and FY 2023. As shown in Table III-19, unit cost increased for all cost segments depicted to varying degrees. The Postal Service attributes the increase in operating expenses during FY 2023 to the impact of rising inflation, particularly evident in higher compensation and retirement benefit expenses. Postal Service FY 2023 Form 10-K at 16. Carrier costs experienced the most substantial increase, with unit city carrier costs increasing by 16.2 percent and rural carrier costs increasing by 21.6 percent from FY 2022 levels. Mail processing unit cost increased by 12.6 percent in FY 2023, after a near equivalent decrease from FY 2021 to FY 2022. Unit transportation costs increased the least of the cost segments depicted for Outside County Periodicals, by 5.3 percent in FY 2023.

Table III-19
Outside County Periodicals Average Unit Cost by Segment, FY 2022 and FY 2023

	Unit Cost (Cents per Piece)		% Change
	FY 2022	FY 2023	
Mail Processing	20.76	23.38	12.6%
City Carrier	13.94	16.21	16.2%
Rural Carriers	6.53	7.94	21.6%
Transportation	6.69	7.04	5.3%

Source: Postal Service Piggybacked Costs, FY 2022-FY 2023; CSC Reports, FY 2022-FY 2023.

Package Services

OVERALL, PACKAGE SERVICES VOLUME FELL 8.5% IN FY 2023, WITH ALL PRODUCTS EXPERIENCING VOLUME DECREASES.

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-20 summarizes the FY 2023 changes in volume and revenue for Package Services. Overall, Package Services volume decreased 8.5 percent in FY 2023, with all products experiencing volume decreases. However, BPM Flats had the most sizable decrease compared to FY 2022, 16.6 percent compared to less than seven percent for the other Package Services products.

Except for BPM Flats, Package Services products had higher revenue in FY 2023 than in FY 2022, resulting in higher revenue for the Package Services class overall. On a unit basis, revenue increased substantially for all Package Services products in FY 2023.

Table III-20
Package Services Volume and Revenue, FY 2022 and FY 2023

	Mail Volume				Mail Revenue			
	(Millions)		Increase or Decrease	% Change	($ in Millions)		Increase or Decrease	% Change
	FY 2022	FY 2023			FY 2022	FY 2023		
Alaska Bypass	1	1	(0)	(6.5%)	39	39	1	1.4%
Bound Printed Matter Flats	138	115	(23)	(16.6%)	120	108	(11)	(9.5%)
Bound Printed Matter Parcels	241	226	(15)	(6.1%)	298	317	19	6.3%
Media Mail/Library Mail	95	92	(3)	(2.9%)	403	429	27	6.6%
Total	**475**	**435**	**(40)**	**(8.5%)**	**859**	**894**	**35**	**4.0%**

Negative values denoted by ().
Source: Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1

As shown in Table III-21, attributable cost increased in the aggregate for the Package Services class compared with FY 2022, even with a decrease in the attributable costs of BPM Flats and BPM Parcels. Attributable cost for Alaska Bypass Service, which consists entirely of Cost Segment 14 transportation costs, increased 14.8 percent in the aggregate, and the attributable cost of Media Mail/Library Mail increased 8.5 percent. The unit cost for all Package Services products increased in FY 2023.

Table III-21
Package Services Attributable Cost and Average Unit Attributable Cost, FY 2022 and FY 2023

	Attributable Cost ($ in Millions) FY 2022	Attributable Cost ($ in Millions) FY 2023	Increase or Decrease	% Change	Unit Attributable Cost (Cents per Piece) FY 2022	Unit Attributable Cost (Cents per Piece) FY 2023	Increase or Decrease	% Change
Alaska Bypass	28	33	4	14.8%	2,115	2,598	482.6	22.8%
Bound Printed Matter Flats	96	95	(1)	(1.0%)	70	83	13.0	18.7%
Bound Printed Matter Parcels	275	267	(8)	(2.8%)	114	118	4.0	3.5%
Media/Library Mail	441	478	37	8.5%	464	518	54.1	11.7%
Total	**840**	**873**	**33**	**3.9%**	**177**	**201**	**24.0**	**13.6%**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1

Table III-22 shows the FY 2023 percent change in unit cost for selected cost segments. As shown in Table III-22, costs increased across all products for four cost segments: mail processing, rural carriers, vehicle service drivers, and transportation.

For BPM Flats, window service was the only segment for which unit cost decreased compared with FY 2022. For the largest cost segments of mail processing and city carriers, BPM Flats experienced an increase in unit cost, of 23.0 percent and 5.8 percent, respectively.

For BPM Parcels, unit attributable costs increased in almost all cost segments. One exception was city carriers, which experienced a 6.1 percent decrease in FY 2023. Transportation costs showed the most sizable change, a 41.4 percent increase in unit cost compared to FY 2022, with a notable increase in domestic air as a share of transportation cost for BPM Parcels.

Lastly, Media Mail/Library Mail had two cost segments that experienced a decrease in unit cost, city carriers by 5.3 percent and window service by 4.1 percent. Mail processing unit cost increased by 5.8 percent compared with FY 2022, after a decrease of the same magnitude from FY 2021 to FY 2022.Vehicle service driver unit cost increased by 55.2 percent, which is similar to the increase for BPM Flats.

Table III-22
Package Services Unit Cost by Segment, FY 2022 and FY 2023

	Unit Cost								
	BPM Flats			BPM Parcels			Media/Library Mail		
	(Cents Per Piece)		% Change	(Cents Per Piece)		% Change	(Cents Per Piece)		% Change
	FY 2022	FY 2023		FY 2022	FY 2023		FY 2022	FY 2023	
Mail Processing	33.51	41.22	23.0%	42.69	43.72	2.4%	204.98	216.81	5.8%
City Carrier	20.84	22.04	5.8%	38.57	36.22	(6.1%)	43.5	41.21	(5.3%)
Window Service	0.27	0.09	(67.4%)	0.66	0.67	1.9%	20.35	19.52	(4.1%)
Rural Carriers	5.81	6.55	12.7%	18.43	19.37	5.1%	17.35	19.63	13.1%
Transportation	7.07	9.47	33.9%	9.78	13.83	41.4%	153.16	187.22	22.2%
Vehicle Service Driver	1.60	2.51	56.6%	1.43	1.78	24.3%	15.87	24.63	55.2%

Source: Postal Service Piggybacked Costs, FY 2022-FY 2023; CSC Reports, FY 2022-FY 2023.

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,[61] 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-23, total revenue for Special Services increased by $63 million in FY 2023, though revenue for some products decreased, and the revenue for Stamped Envelopes & Cards was underreported in FY 2022, likely by approximately $5 million.[62]

[61] 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.

[62] In January 2024, the Postal Service identified a reporting error in the RPW Report (inadvertent exclusion of revenue from retail transactions) impacting the revenue figures for Stamped Envelopes and Stamped Cards. The Postal Service rectified the FY 2023 revenue for Stamped Envelopes and Stamped Cards, resulting in an approximate $5 million increase in revenue. However, the Postal Service did not implement a similar correction for FY 2022. The Postal Service acknowledges that the apparent revenue increase from FY 2022 likely stems from the underreporting of Stamped Envelopes revenue in FY 2022. *See* Notice of the United States Postal Service of Revisions to Certain Pages of the FY 2023 Annual Compliance Report -- Errata, February 22, 2024 (Report Errata); Notice of the United States Postal Service of Revisions to Multiple Annual Compliance Report Folders -- Errata, February 22, 2024, and Responses of the United States Postal Service to Questions 1-4 of Chairman’s Information Request No. 15, February 22, 2024, question 1.

Table III-23
Market Dominant Ancillary Services and Special Services Revenue, FY 2022 and FY 2023

	Revenue ($ in Millions) FY 2022	Revenue ($ in Millions) FY 2023	Increase or Decrease	% Change
Certified Mail	653	652	(0)	(0.1%)
COD	4	4	(0)	(1.8%)
Insurance	88	69	(19)	(21.4%)
Registered Mail	23	23	-	0.0%
Stamped Envelopes & Cards	7	12	5	75.8%
Other Ancillary Services	396	393	(2)	(0.6%)
Money Orders	172	220	48	28.0%
Post Office Box	311	322	11	3.4%
Other Services	159	181	22	13.7%
Total Services	**1,813**	**1,875**	**63**	**3.5%**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1

Table III-24 shows that attributable cost for Special Services decreased by $16 million in FY 2023. Several services contributed to that decrease including Certified Mail, Money Orders and Other Services. Among those services that experienced higher attributable cost in FY 2023 than in FY 2022, Stamped Envelopes and Cards had the highest increase, an increase of 17.7 percent.

Table III-24
Market Dominant Ancillary Services and Special Services Attributable Cost, FY 2022 and FY 2023

	Attributable Cost ($ in Millions) FY 2022	Attributable Cost ($ in Millions) FY 2023	Increase or Decrease	% Change
Certified Mail	479	455	(24)	(5.0%)
COD	3	3	0	0.0%
Insurance	23	25	1	5.8%
Registered Mail	16	17	0	2.9%
Stamped Envelopes & Cards	7	8	1	17.7%
Other Ancillary Services	268	277	9	3.3%
Money Orders	174	166	(8)	(4.6%)
Post Office Box	131	139	7	5.7%
Other Services	43	40	(3)	(6.6%)
Total Services	**1,166**	**1,150**	**(16)**	**(1.4%)**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1

Competitive Volume, Revenue, and Cost by Product

Competitive products consist of both domestic and international products. Domestic Competitive products include Priority Mail Express; Priority Mail; Parcel Select; Parcel Return Service; USPS Ground Advantage; Address Enhancement Services; Greeting Cards, Gift Cards, and Stationery; Competitive Ancillary Services; Premium Forwarding Service; Post Office Box Service; and Shipping and Mailing Supplies. There was also a total of 167 Domestic Competitive NSA products in effect during FY 2023. 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 2023, there were also 77 International Outbound NSAs and 13 International Inbound NSAs.

COMPETITIVE PRODUCT VOLUME DECREASED BY 2.0% IN FY 2023.

The products are grouped into several broad categories to facilitate comparisons. Table III-25 summarizes the FY 2023 changes in volume and revenue for Competitive products and services. According to the Postal Service, the overall volume for Competitive products declined in FY 2023 due to a combination of reduced COVID-19 test distribution shipments and heightened market competition. Postal Service FY 2023 Form 10-K at 22. Overall, Competitive product volume decreased by 2.0 percent in FY 2023. Every category except for ground parcels experienced a volume decline. Ground parcel volume increased by 4.3 percent due to the addition of USPS Ground Advantage to the category in July. Conversely, First-Class Package Service was discontinued in July and as a result the FY 2023 volume reflects only a partial year. International volume experienced a 9.2 percent decrease in FY 2023, despite improvements in COVID-19 pandemic-related disruptions and other global economic factors. Both Priority Mail and Priority Mail Express experienced a double-digit percentage decrease in volume in FY 2023.

Total Competitive product revenue increased by 0.7 percent, or $220 million, in FY 2023. On a unit basis, for domestic Competitive products overall, revenue increased by approximately 3.0 percent. International revenue decreased by 8.7 percent in the aggregate in FY 2023, even as unit revenue increased by 0.5 percent due to the January 9, 2022 price increase and the time-limited price increase on certain categories from October 2, 2022 through January 22, 2023.

Table III-25
Competitive Products Volume and Revenue, FY 2022 and FY 2023

	Mail Volume (Millions)				Mail Revenue ($ in Millions)			
	FY 2022	FY 2023	Increase or Decrease	% Change	FY 2022	FY 2023	Increase or Decrease	% Change
Priority Mail Express	27	24	(3)	(11.9%)	770	714	(56)	(7.3%)
First-Class Package Service	1,960	1,363	(597)	(30.5%)	7,809	5,845	(1,964)	(25.2%)
Priority Mail	1,184	1,058	(126)	(10.7%)	11,958	10,807	(1,151)	(9.6%)
Ground Parcels	3,553	3,707	154	4.3%	9,867	11,010	1,143	11.6%
International	166	150	(15)	(9.2%)	1,459	1,331	(127)	(8.7%)
Domestic Services					1,266	1,330	64	5.1%
Total Competitive	**6,891**	**6,751**	**(140)**	**(2.0%)**	**33,129**	**33,350**	**220**	**0.7%**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1

Table III-26 summarizes the FY 2023 changes in attributable cost. Total attributable cost for Competitive products increased by 2.5 percent, or approximately $516 million, in FY 2023. Additionally, attributable costs increased on a unit basis for all categories.

Table III-26
Competitive Products Attributable Cost and Average Unit Attributable Cost, FY 2022 and FY 2023

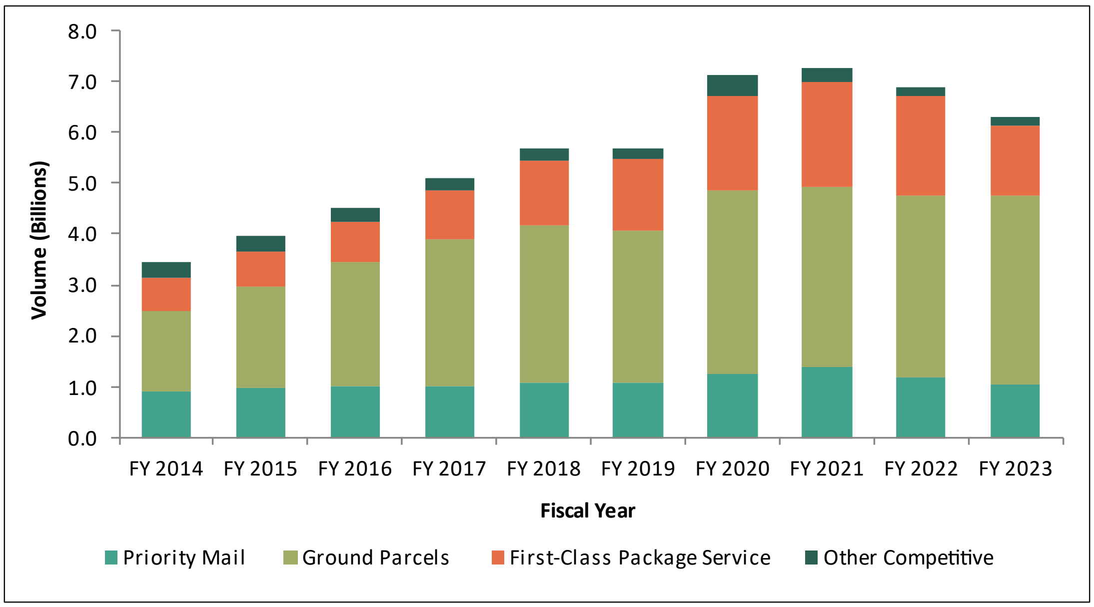
	Attributable Cost ($ in Millions)				Unit Attributable Cost (Cents per Piece)			
	FY 2022	FY 2023	Increase or Decrease	% Change	FY 2022	FY 2023	Increase or Decrease	% Change
Priority Mail Express	304	311	8	2.5%	1,113	1,296	183	16.4%
First-Class Package Service	4,625	3,541	(1,085)	(23.4%)	236	260	24	10.1%
Priority Mail	8,742	8,125	(617)	(7.1%)	738	768	30	4.0%
Ground Parcels	5,024	7,143	2,119	42.2%	141	193	51	36.3%
International	1,079	1,120	41	3.8%	651	744	93	14.3%
Domestic Services	343	370	27	8.0%				
Total Competitive	**20,667**	**21,183**	**516**	**2.5%**	**300**	**314**	**14**	**4.6%**

Negative values denoted by ().
Source: PRC-LR-ACR2022-1; PRC-LR-ACR2023-1.

Trends in Competitive Products

As Figure III-18 shows, after many years of significant increases Competitive product volume contracted in FY 2022 and FY 2023. Competitive volume peaked during the COVID-19 pandemic, exceeding 7 billion pieces in FY 2020 and FY 2021.

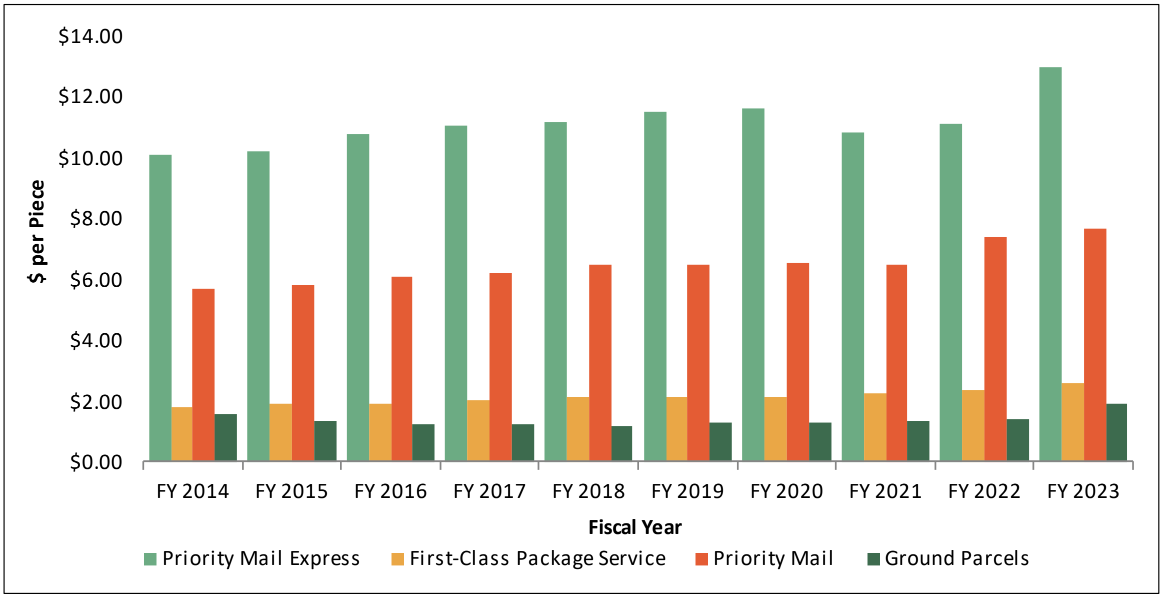
Figure III-18
Competitive Products Volume by Category, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

As volumes grew over the last decade, the attributable cost of Competitive products has also grown rapidly and now comprises 44.8 percent of the total attributable costs of the Postal Service. Figure III-19 shows the average unit attributable cost by category from FY 2014 to FY 2023. In general, average unit attributable cost increased from FY 2014 to FY 2020, decreased in FY 2021, and increased again in FY 2022 and FY 2023.

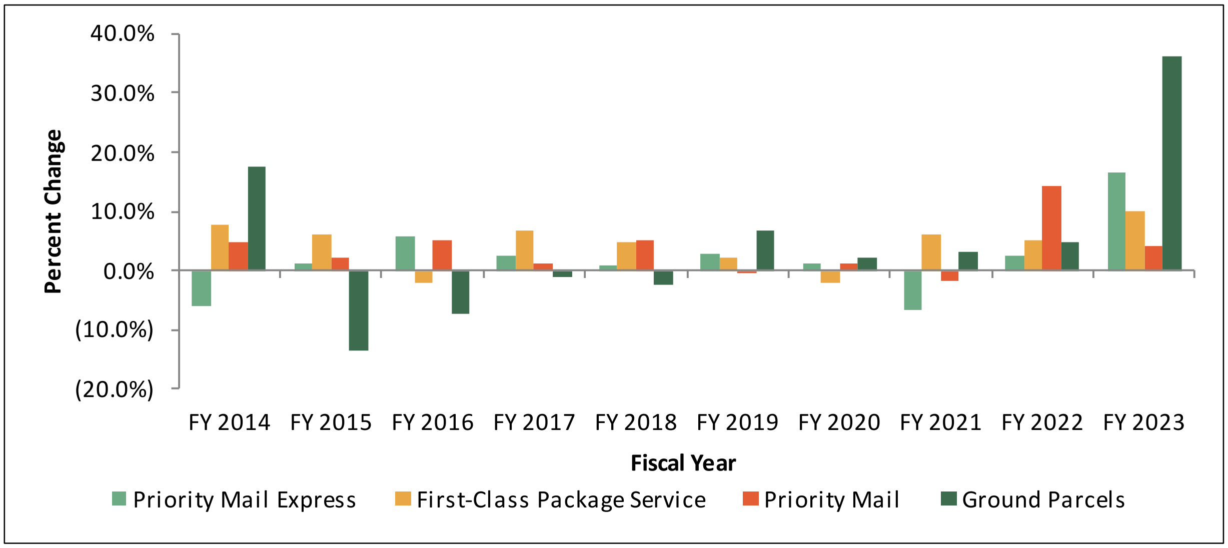
Figure III-19
Competitive Products Average Unit Attributable Cost by Category, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Figure III-20 shows the percent change in average unit attributable cost by category from FY 2014 to FY 2023. From FY 2016 to FY 2021, unit attributable costs were generally stable. Larger swings before FY 2016 were generally caused by product transfers from the Market Dominant to the Competitive product list, while more recent volatility was caused by the COVID-19 pandemic and related adverse economic conditions.

Figure III-20
Competitive Products Percent Change in Average Unit Attributable Cost by Category, FY 2014–FY 2023



Source: PRC-LR-1, FY 2014-FY 2023.

Chapter IV. Cost and Profit Analysis

Introduction

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

The basis of the analyses in this chapter are reports filed by the Postal Service; the Form 10-K, the CRA Report; the CSC Report; and payroll data. Docket No. RM 2024-4, Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products, April 5, 2024 (Order No. 7032) provides the background for the section "Revenue from CPI Rate Authority".

Analysis of Inflationary Impact on Financial Condition

Inflation economy-wide began to decline in FY 2023, but for most of the year it was well above historical levels for the second year in a row. High levels of inflation have affected symmetrically the Postal Service's net income by driving increases in specific costs and by creating higher rate authority that the Postal Service has utilized to generate additional revenue.

THE CPI-BASED RATE AUTHORITY IS SUBSTANTIALLY OFFSETTING THE EFFECTS OF INFLATION-DRIVEN COST INCREASES WITH HIGHER REVENUES.

The Postal Service states that inflationary pressures resulted in higher costs for compensation, retirement benefits, transportation, and fuel.[63] The Postal Service has also identified inflation-related cost increases as a source of financial stress.[64] An examination of the net effects of recent inflation on the costs and revenues of the Postal Service however suggests that the CPI-

[63] Postal Service FY 2023 Form 10-K at 18.

[64] United States Postal Service, United States Postal Service Delivering for America Second-Year Progress Report, April 27, 2023, at 10 (available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/usps-dfa-two-year-report.pdf).

based rate authority is substantially offsetting the effects of inflation-driven cost increases with higher revenues.

Inflation affects different Postal Service costs in different ways, so it is not practical to develop a complete alternative estimate of costs under a counterfactual low-inflation scenario. However, for the major cost categories it is possible to estimate specific inflationary effects on costs. Compensation, fuel, transportation, rent, and amortization of CSRS and FERS liabilities are all closely tied to inflation and have been substantially affected by recent high inflation.[65]

Cost of Living Adjustments Compensation

Compensation or accrued salary cost encompasses pay for workhours including straight time, overtime, premiums, paid leave and absences. Compensation costs for bargaining employees are influenced by contractual general pay increases, net salary creep reflecting turnover effects, step advancement, craft upgrades, overtime, and COLAs. With the exception of COLAs these factors are not directly affected by inflation. Comparing the estimated annual COLAs for bargaining employees for FY 2021, FY 2022 and FY 2023 provides an estimate of the effect of recent inflation on compensation costs. The estimated COLAs increased from approximately $290 million in FY 2021 to $1.3 billion per year in FY 2022 and FY 2023,[66] resulting in approximately $2 billion in additional inflation-related costs over the past 2 years.

Fuel

Fuel costs are recorded in Cost Segment 12 and include bulk fuel and oil and fuel purchases from commercial service stations for fleet vehicles used by city and rural carriers and vehicle service drivers. The movement of these costs followed the trends in gas prices, increasing by $269 million in FY 2022 and remaining $225 million higher in FY 2023 than in FY 2021. This resulted in about $500 million in additional costs over 2 years.

Purchased Transportation

Purchased transportation expenses cover moving mail and packages between facilities using highway, air, and international transportation contracts, as well as contract delivery services. In FY 2022, both highway transportation expenses (up $696 million, or 12.8

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[65] Health benefits, FERS normal costs, utilities, supplies, and workers' compensation costs are also potentially subject to the effects of inflation, but an examination of these cost categories did not reveal any clear substantial effects in FY 2022 and FY 2023.

[66] Rural Carrier non-career bargaining employees receive a deferred payment equivalent to the accumulated COLA over the contract period. This amount is not factored into the effective increase due to the difficultly in estimating the timing of the distribution.

percent) and air transportation expenses (up $60 million, or 1.7 percent) increased. In FY 2023, highway transportation expenses increased by $432 million (7.1 percent) but this was more than offset by a $600 million (16.3 percent) decrease in air transportation expenses.

Isolating the impact of inflation on transportation is challenging due to variations in mail and package volume, weight, transportation mode, and fuel prices. The data available does not isolate the impact of shifting from air to highway transportation. Without specific data on this shift, assessing its impact on expenses remains uncertain. Nevertheless, the net changes in highway and air transportation expenses (up $756 million in FY 2022 and down $168 million in FY 2023) are consistent with the trends in fuel prices[67] over the same period and represent an additional $1.3 billion in expenses over two years.

Rent

Expenses related to renting facilities include various components such as variable lease payments covering common area maintenance costs, portions of operating costs, and real estate taxes. These expenses are generally pass-through charges based on actual amounts incurred by the lessor,[68] with a higher susceptibility to inflation due to predetermined rents set in contracts. Additionally, any new facilities rented within the year would also be subject to inflationary impacts on the newly set rents. The total increase in rent expenses in FY 2022 (up $92 million) and FY 2023 (up $43 million) was influenced by the inflationary pressures on rents and represents $226 million in additional expenses over the last two years. The Postal Service expected rent in both years to increase with the addition of annexes. *See* FY 2023 United States Postal Service Annual Report to Congress at 57; FY 2022 United States Postal Service Annual Report to Congress at 48.

CSRS and FERS Amortization

The amortization costs for the funding of the remaining unfunded liabilities of the CSRS and the FERS are also affected by inflation. Both CSRS and FERS amortization costs increased 20 percent in FY 2022 and 32 percent in FY 2023, mainly attributed to a rise in actual annuitant COLAs for CSRS and FERS,[69] which replaced long term COLAs assumptions.[70] These COLAs increases were the primary drivers for the increase in CSRS and FERS

[67] In 2023, U.S. retail gasoline prices were on average $3.52 per gallon, down almost 10.89 percent from $3.95 in 2022, averaging $0.43 per gallon (gal) less than in 2022, according to data from U.S. Energy Information Administration in their *Gasoline and Diesel Fuel Update*.
[68] Postal Service FY 2023 Form 10-K at 51
[69] In FY 2022, actual annuitant COLA for CSRS and FERS annuitants increased by 4.6 percent and 3.6 percent, respectively. In FY 2023, this increase for both CSRS and FERS was 2.8 percent.
[70] *Id.* at 28.

amortization expenses totaling $1.9 billion in FY 2022 and FY 2023, as other long term economic assumptions used in calculating these costs remained largely unchanged.[71]

Revenue from CPI Rate Authority

As part of the price cap on market dominant products, the Postal Service accrues rate authority equal to the changes in CPI-U. CPI-based rate authority is intended to allow the Postal Service to generate sufficient revenue to compensate for the effects of inflation on costs. The Postal Service has used CPI-based authority to increase rates four times between the last quarter of FY 2021 and the end of FY 2023: by 1.244 percent in August 2021, 5.135 percent in July 2022, 4.200 percent in January 2023, and 3.406 percent in July 2023.

The Commission estimates that these CPI-based rate increases generated $4.7 billion in revenue over the past two fiscal years.[72] This estimate does not include the effects of price elasticity on volume, and therefore overstates the net increase in revenue resulting from the price increases. Nevertheless, it is consistent with the magnitude of the effects of inflation on the Postal Service's costs over the same period. Moreover, there is a lag effect on revenue because CPI-based rate authority is generated after inflation has already occurred, and only produces revenue after it is used to increase rates. As a result, inflation that drove the Postal Service's costs higher in FY 2022 was not fully reflected in higher rates until late in FY 2023. The most recent CPI-based rate increases generated little revenue in FY 2023 but will generate much more in FY 2024 when they will be in effect for the entire year.

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.

[71] Id.

[72] This estimate is developed by applying the approach used to calculate the revenue generated by retirement-based rate authority. *See* 39 C.F.R. § 3030.184.

The contribution margin income statement analyzes the relationships between revenue, attributable costs, institutional costs, and overall net income or loss. The sections below individually examine each component of the contribution margin income statement.

Contribution margin on the contribution margin income statement differs from the controllable loss on the Postal Service FY 2023 Form 10-K. Postal Service FY 2023 Form 10-K at 19. The Postal Service defines controllable loss, a non-GAAP measure, as the excess of revenue over costs for normal business operations that the Postal Service deems under management control. The Postal Service calculates controllable loss by excluding costs that it determines do not arise from normal business operations and over which it has no control. Those "non-controllable" costs include amortization of unfunded retirement obligations, actuarial revaluation of and discount rate changes on workers' compensation obligations, and in FY 2022, the one-time impact of the PSRA legislation cancelling the unpaid PSRHBF obligations.[73]

Table IV-1 presents a high-level view of the contribution margin income statement, highlighting total attributable and institutional costs. From FY 2022 to FY 2023, total revenue, excluding the one-time impact of the PSRA, increased by 0.7 percent and total attributable costs increased by 1.9 percent. Total institutional costs increased by 15.8 percent.

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

Table IV-1
Condensed Contribution Margin Income Statement[74]

	FY 2022	FY 2023	FY 2023 over FY 2022	
			$ Change	% Change
Total Revenue excluding impact of PSRA	**$ 78,811**	**$ 79,324**	**$ 513**	**0.7%**
Total Attributable Costs	47,035	47,944	909	1.9%
Contribution Margin	31,776	31,380	(396)	(1.2%)
Total Institutional Costs excluding impact of PSRA	32,706	37,858	5,153	15.8%
Net Loss excluding impact of PSRA	**$ (929)**	**$ (6,478)**	**$ (5,549)**	**(597.1%)**
Impact of PSRA	56,975	0	(56,975)	NM
Net Loss	**$ 56,046**	**$ (6,478)**	**$ (62,524)**	**NM**
Total All Mail and Services Volume (in Millions)	**127,263**	**116,201**	**(11,061)**	**(8.7%)**

Decrease in expenses is denoted by (). NM denotes not meaningful. Numbers may not add across due to rounding
Source: Docket No. ACR2022, Library Reference USPS-FY22-1, December 29, 2022, REVISED March 24,2023; Docket No. ACR2023, Library Reference USPS-FY23-1, December 29, 2023, (Collectively Postal Service CRA Report, FY 2022- FY 2023).

Attributable costs are the "direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type[.]" 39 U.S.C. § 3622(c)(2). In Order No. 3506, the Commission revised the methodology for determining attributable cost to include inframarginal costs developed to estimate incremental costs. Previously, attributable cost only included the sum of volume-variable costs, which, in the aggregate, increase as volume increases and decrease as volume decreases, and product-specific fixed costs, which are costs caused by a specific product or class but do not vary with volume.

The Postal Service initially records costs as accrued costs. Accrued costs are separated into cost segments generally corresponding to major divisions in the Postal Service's chart of accounts. The use of various systems designed to break down the cost of various postal activities determines separation. Identifying cost drivers that reflect the essential activity of each cost component determines the volume variable portion of attributable costs. Most cost segments contain multiple cost components. Attributable costs are distributed to products using distribution keys that reflect the underlying cost driver.[75]

[74] The Postal Service CRA Report includes inframarginal and group-specific costs in attributable costs. Table IV-3 is calculated using the Postal Service's Cost and Component Reports which reallocates inframarginal and group-specific costs as institutional costs.
[75] 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.

After attributable costs are determined, the residual costs are classified as institutional costs. Institutional costs cannot be attributed to specific products or services and are equal to total costs minus total attributable costs. While sometimes referred to as "fixed cost," institutional cost is more accurately characterized as "common cost" because it includes costs that are variable but not causally related to an individual product or class. Institutional costs include costs for carrier network travel time, amortization of unfunded retirement-related liabilities apportioned to prior years, and various administrative costs.

In FY 2022 and FY 2023, 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 2022 and FY 2023, the net loss excluding the impact of the PSRA increased by $5.5 billion. Total volume declined 8.7 percent during that same period. All else being constant, total attributable costs should generally track with volume declines; however, changes to the mail mix and cost of inputs impact expected results.

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

BETWEEN FY 2022 AND FY 2023, THE NET LOSS INCREASED CLOSE TO SIX TIMES. TOTAL VOLUME DECLINED 8.7% DURING THAT SAME PERIOD.

To better understand the decrease in "Other" cost in FY 2023, the Commission analyzes individual cost segment changes. 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 "other costs"), so analysis of them provides insights into the composition and behavior of institutional costs. Table IV-2 presents the underlying changes in institutional cost by year, beginning in FY 2019. Apart from FY 2022, the largest changes have been in workers' compensation. In FY 2022, the impact of the elimination of the required annual retiree health benefit payments[76] is seen in the comparatively large decrease when compared to the prior fiscal year.

Table IV-2
Change in Other Cost by Segment, FY 2019–FY 2023 ($ in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
CSRS Supplemental Liability	$ 204	$ 225	$ 64	$ 445	$ 743
FERS Supplemental Liability	102	283	57	226	514
City Carriers Street Activities	145	353	395	399	349
Rural Carriers	218	179	284	391	272
Highway Transportation	87	100	86	(98)	122
Clerks and Mailhandlers	(25)	39	147	97	108
Other	351	475	35	1,735	719
Subtotal	**$ 1,082**	**$ 1,654**	**$ 1,068**	**$ 3,197**	**$ 2,828**
Workers' Compensation	3,495	(657)	(3,431)	(1,463)	2,716
Annuitant Health Benefits	9	71	255	(2,765)	0
Total Change	**$ 4,586**	**$ 1,069**	**$ (2,107)**	**$ (1,031)**	**$ 5,544**

Decrease in expenses is denoted by ().
Source: Postal Service CSC Report, FY 2022- FY 2023; Docket No. ACR2021, Library Reference USPS-FY21-2, December 29, 2021; Docket No. ACR2020, Library Reference USPS-FY20-2, December 28, 2020; Docket No. ACR2019, Library Reference USPS-FY19-2, December 27, 2019 (Collectively Postal Service CSC Report, FY 2019–FY 2023).

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

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

Table IV-3
Contribution Margin Income Statement, FY 2022 and FY 2023 ($ in Millions)

	FY 2022	FY 2023	FY 2022 over FY 2023	
			$ Change	% Change
Total Revenue excluding impact of PSRA	**$ 78,811**	**$ 79,324**	**$ 513**	**0.7%**
Volume Variable and Product Specific Costs:				
Postmasters	$ 55	$ 60	$ 4	7.8%
Supervisors and Technicians	1,915	2,084	169	8.8%
Clerks and Mailhandlers	13,257	13,080	(178)	(1.3%)
City Delivery Carriers – Office Activity	3,338	3,374	36	1.1%
City Delivery Carriers – Street Activity	5,199	5,254	55	1.1%
Vehicle Service Drivers	590	636	46	7.8%
Rural Carriers	3,553	3,753	200	5.6%
Custodial and Maintenance Services	2,119	2,203	84	4.0%
Motor Vehicle Service	797	859	62	7.8%
Miscellaneous Local Operations	291	281	(10)	(3.6%)
Purchased Transportation	8,433	8,155	(278)	(3.3%)
Building Occupancy	1,643	1,707	64	3.9%
Supplies and Services	1,601	1,724	123	7.7%
Research and Development	0	0	0	NM
Servicewide Personnel Benefits and HQ/Area Operations	872	794	(78)	(8.9%)
General Management Systems	0	0	(0)	(5.4%)
Other Accrued Expenses (Servicewide)	1,400	1,618	218	15.6%
Total Volume Variable and Product Specific Costs	**$ 45,064**	**$ 45,582**	**$ 518**	**1.1%**
Contribution Margin	**$ 33,747**	**$ 33,742**	**$ (5)**	**(0.0%)**
Other Costs:				
Postmasters	$ 1,759	$ 1,892	$ 133	7.6%
Supervisors and Technicians	1,451	1,583	131	9.0%
Clerks and Mailhandlers	2,987	3,095	108	3.6%
City Delivery Carriers – Office Activity	474	450	(25)	(5.2%)
City Delivery Carriers – Street Activity	9,228	9,577	349	3.8%
Vehicle Service Drivers	386	416	30	7.8%
Rural Carriers	6,314	6,586	272	4.3%
Custodial and Maintenance Services	1,146	1,229	83	7.2%
Motor Vehicle Service	1,340	1,442	103	7.7%
Miscellaneous Local Operations	525	422	(104)	(19.7%)
Purchased Transportation	1,837	1,956	119	6.5%
Building Occupancy	645	714	69	10.6%
Supplies and Services	2,307	2,247	(60)	(2.6%)
Research and Development	14	7	(7)	(49.3%)
Servicewide Personnel Benefits and HQ/Area Operations	3,596	7,747	4,151	115.4%
General Management Systems	17	19	3	14.9%
Other Accrued Expenses (Servicewide)	650	838	188	28.9%
Total Other Costs	**$ 34,677**	**$ 40,220**	**$ 5,544**	**16.0%**
Total Costs	**$ 79,741**	**$ 85,802**	**$ 6,062**	**7.6%**
Net Loss excluding impact of PSRA	**$ (929)**	**$ (6,478)**	**$ (5,549)**	**597.1%**
Total All Mail and Services Volume (in Millions)	**127,263**	**116,201**	**(11,061)**	**(8.7%)**

Decrease in expenses is denoted by (). Numbers may not add across due to rounding.
NM denotes not meaningful.
Source: Postal Service CSC Report, FY 2022-FY 2023.

As seen in Table IV-3, certain cost segments show large absolute increases from FY 2022. The four largest absolute changes from the prior year, which occur in the cost segments for Service-wide Personnel Benefits and HQ/Area Operations, Rural Carriers, and City Carriers–Street Activity and Other Accrued Expenses (Servicewide) are discussed below.

Service-wide Personnel Benefits and HQ/Area Operations cost segment consists of costs for salaries, benefits, supplies, and other related costs for Headquarters, Field Service Units, the Security Force, and Area Offices, and corporate-wide personnel expenses that are not reported by employee category, such as supplemental costs of CSRS, FERS Supplemental Liability and workers' compensation.[77] The increase in Components 486 (Workers' Compensation), 071 (FERS Supplemental Liability) and 201 (CSRS Supplemental Liability) largely accounted for the increase in this cost segment.

The workers' compensation component contains current year costs, prior year costs, costs associated with Post Office Department, and former postal employees on workers' compensation (Office of Workers Compensation Programs (OWCP) Health Benefits). Prior year workers' compensation costs are the residual difference between the accrued workers' compensation costs and the current year workers' compensation costs, arising from changes in discount rates and/or actuarial revaluation of past year injuries.[78] The prior year workers' compensation costs are not related to mail volume in the current fiscal year and are thus treated as institutional costs.

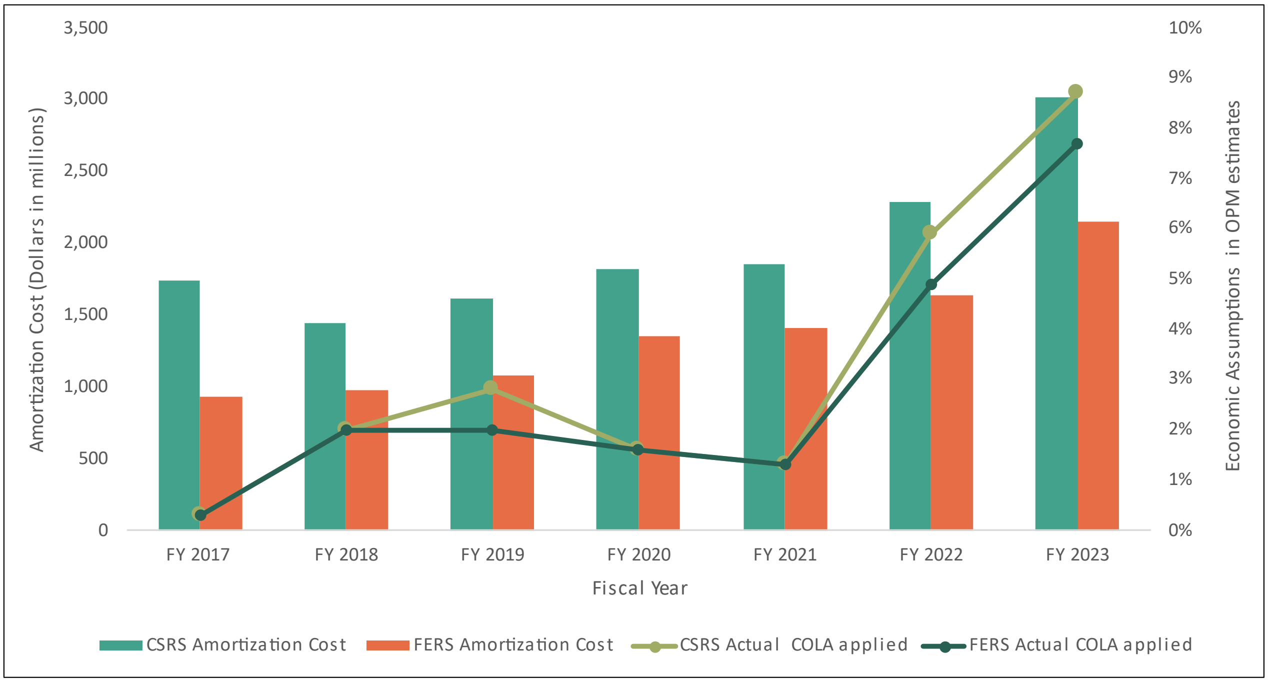
In FY 2023, the portion of workers' compensation expense (benefit) attributable to the impact of discount rate changes increased $2.8 billion, compared to 2022.[79]

The Civil Service Retirement Supplemental Liability (Component 201) and FERS Supplemental Liability, (Component 71) contains the annual payment, calculated by OPM, to amortize the unfunded retirement obligation. Starting in FY 2017, PAEA required the Postal Service to make annual payments to fully amortize its CSRS unfunded liabilities. CSRS costs increased by 32 percent from the prior year. The increase was largely related to the 2.8 percent increase in CSRS Actual Annuitant COLAs[80] applied in place of long term COLAs assumptions.[81] The Postal Service is required to make annual amortization

[77] United States Postal Service, Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2022, file "CS18-22.docx," July 3, 2022 at 18-1 (Postal Service FY 2022 Summary Description).
[78] *Id.* at 18-17
[79] Postal Service FY 2023 Form 10-K at 34.
[80] The impact of inflation related on overall finances are discussed in the section "Analysis of Inflationary Impact on Postal Financial Condition."
[81] Postal Service FY 2023 Form 10-K at 28.

payments to pay down the unfunded FERS liability over a 30-year period. The impact of the increase in COLAs on the pension amortization cost is seen in Figure IV-1.

Figure IV-1
Impact of COLAs on CSRS and FERS Total Amortization Cost, FY 2017–FY 2023



Source: PRC derived from Form 10-K 2023 page 28, Form 10-K 2021 page 36, and Form 10-K 2019 page 30.

Rural carriers deliver to and collect mail from non-urban zones that are determined through labor negotiations.[82] The rural carrier cost segment is comprised of three cost components: Evaluated Routes, Other Routes, and Equipment Maintenance Allowance.[83] The largest portion of cost in this segment is comprised of labor costs for full-time or Evaluated Routes, which increased by 6.5 percent from FY 2022. Compared to FY 2022, higher costs in this segment partly result from a 4.3 percent increase in headcount for part-time rural delivery carriers[84] and from a related increase of 15 percent in FERS and 18 percent in Social Security employer contributions[85] from the prior year. Additionally, overtime pay increased by 20 percent from the prior year.[86]

[82] Postal Service FY 2022 Summary Description, file “CS10-23.docx,” at 10-1.
[83] CSC Report, FY 2023
[84] USPS-FY23-17, file “FY23.Annual.Report.USPS.FY23.17.pdf,” at 35
[85] PRC derived from USPS-FY23-5, tab “seg10”; USPS-FY22-5, tab “seg10.”
[86] Id.

City Delivery Carrier –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).[87] The largest portion of the increase in FY 2023 in this cost segment occurred in total accrued cost for Delivery Activities, increasing 3.2 percent.[88] Salary cost based on straight time rate for hours worked by fulltime city carriers increased by 7.6 percent and the related FERS contribution increased by 5.4 percent from the prior year,[89] consistent with a 3.0 percent increase in headcount for full time employees.[90]

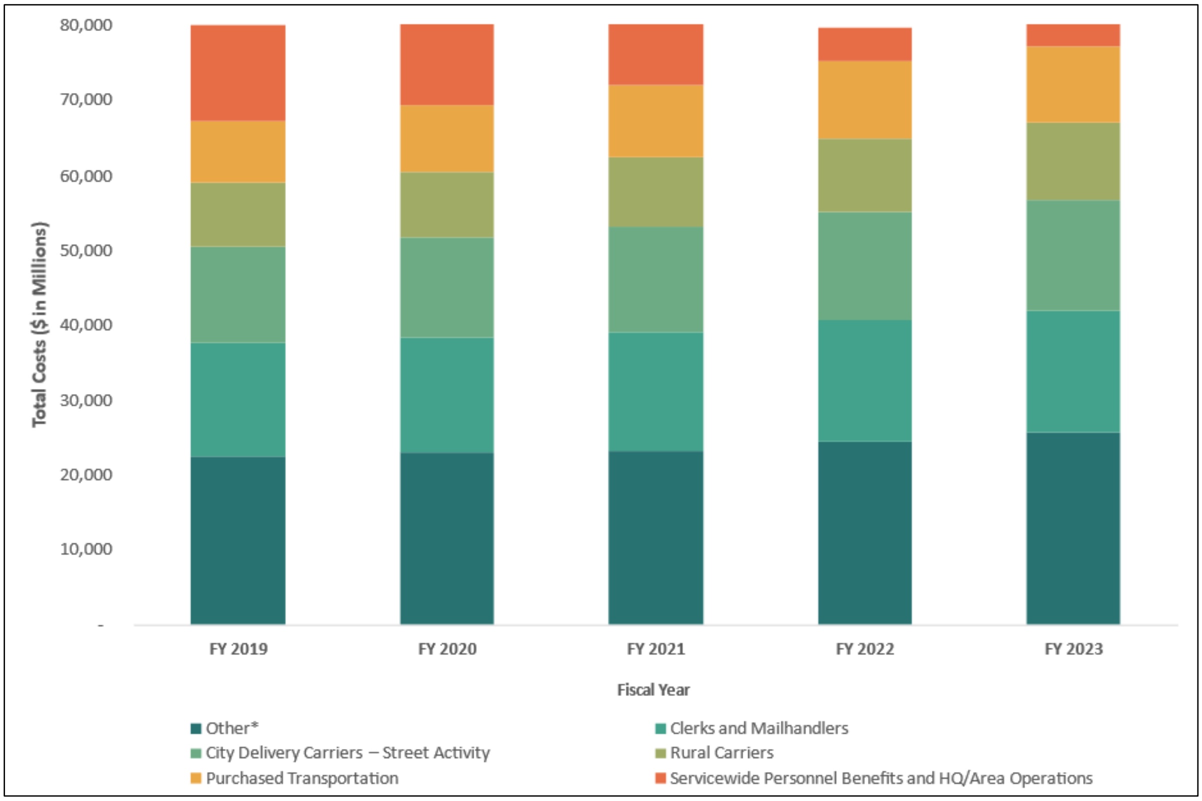
Other Accrued Expenses (Servicewide) covers non-personnel costs for miscellaneous items of expense, including depreciation of buildings, vehicles, equipment, and other assets; indemnities (both domestic and foreign) and insurance claims; interest expense; and other miscellaneous operating activities.[91] The largest increase in this cost segment in FY 2023 resulted from the change in Interest Expense.[92] In FY 2023, the costs in general ledger account 58102, Interest Expense – Notes, included in this component, increased by 142 percent.[93] This account records interest accrued during the year on Postal Service Notes with the Federal Financial Bank.[94] The weighted average interest rate of 4.202 percent for all outstanding debt as of September 30, 2023,[95] was much higher than the weighted average interest rate for all outstanding debt of 2.757 percent as of September 30, 2022.[96] Additionally, during FY 2023, the Postal Service borrowed $3.0 billion from the Federal Financing Bank (FFB) on various long-term fixed rate notes.[97]

Analysis of Cost Segments

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

[87] Postal Service FY 2022 Summary Description, file "CS6&7-22.docx," at 7-1.
[88] FY 2023 CSC Report.
[89] PRC derived from Docket No. ACR2023, Library Reference USPS-FY23-5, December 29, 2023, tab "seg6&7;" USPS-FY22-5, tab "seg6&7."
[90] USPS-FY23-17, file "FY23.Annual.Report.USPS.FY23.17.pdf," at 35
[91] Postal Service FY 2022 Summary Description, file "CS20-22.docx," at 20-1.
[92] *Id.*at file "CS20-22.docx," at 20-12.
[93] PRC derived from USPS-FY23-5, tab "seg20"; Docket No. ACR2022, Library Reference USPS-FY22-5, December 29, 2022, tab "seg20".
[94] Docket ACR 2023, Library Reference USPS-FY23-6, December 29, 2023.
[95] Postal Service FY 2023 Form 10-K at 64.
[96] Postal Service FY 2022 Form 10-K at 61.
[97] Postal Service FY 2023 Form 10-K at 37.

Figure IV-2
Share of Total Costs by Major Cost Segment, FY 2019–FY 2023



*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 2022-FY 2023; Docket No. ACR2021, Library Reference USPS-FY21-1, December 29, 2021; Docket No. ACR2020, Library Reference USPS-FY20-1, December 28, 2020; Docket No. ACR2019, Library Reference USPS-FY19-1, December 28, 2019 (Collectively Postal Service CRA Report, FY 2019-FY 2023)

Between FY 2019 and FY 2023, the total costs in these five cost segments experienced a growth rate of 4.2 percent, which was lower than the 7.1 percent growth rate in the Postal Service's total costs. This difference in growth rates can be attributed to the double-digit growth rates in Supplies and Services, Motor Vehicle Service, and Building Occupancy within the Other* segment compared to a FY 2019 benchmark.

Table IV-4 shows the proportion of costs that are "other costs" for each cost segment. In three out of the five cost segments identified in Figure IV-2, over 60 percent of total costs are "other costs." For CS18 Servicewide Personnel Benefits and HQ/Area Operations, the percentage of Other costs, as a fraction of the Total Accrued Costs, increased by 10.2 percentage points due to increases in three components: Workers Compensation (component 486), FERS Supplemental Liability (component 71) and CSRS Supplemental

Liability (component 201). The first two components have no volume variability, with the increases from the prior year categorized as other costs. The third component, CSRS Supplemental Liability, has a volume variability of 2 percent, with 98 percent categorized as Other costs. These increases in the three components resulted in a 10 percentage point increase in CS18 from the prior year.

Table IV-4
Other Cost Share of Total Costs, FY 2019–FY 2023

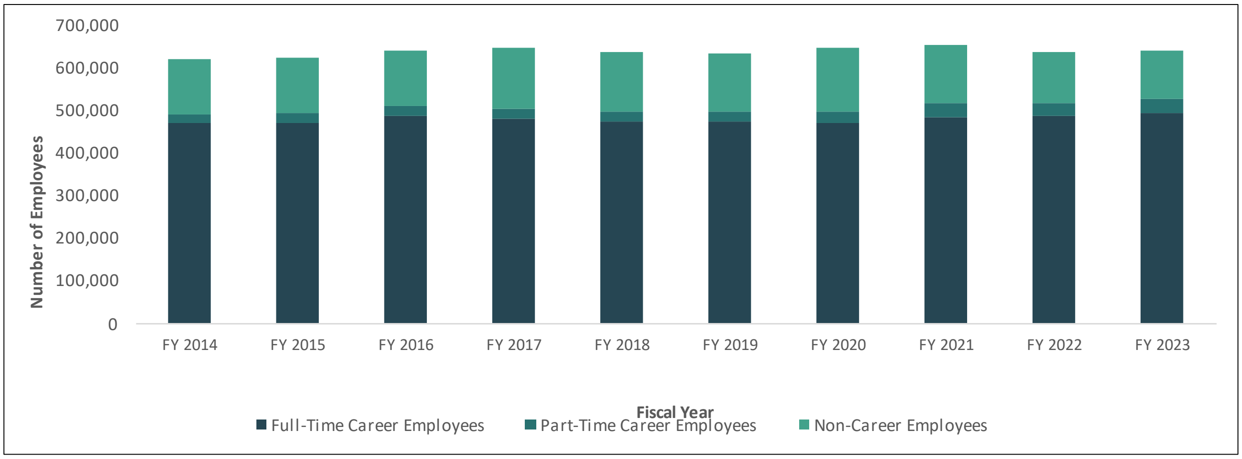
Cost Segments		Other Costs Share of Total Accrued Costs				
		FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
CS1	Postmasters	82.4%	82.4%	82.4%	97.0%	96.9%
CS2	Supervisors and Technicians	45.5%	45.2%	44.6%	43.1%	43.2%
CS3	**Clerks and Mailhandlers**	**18.0%**	**18.0%**	**18.2%**	**18.4%**	**19.1%**
CS6	City Delivery Carriers – Office Activity	16.6%	12.7%	12.2%	12.4%	11.8%
CS7	**City Delivery Carriers – Street Activity**	**62.2%**	**63.0%**	**63.1%**	**64.0%**	**64.6%**
CS8	Vehicle Service Drivers	39.6%	39.6%	39.6%	39.6%	39.6%
CS10	**Rural Carriers**	**64.1%**	**64.0%**	**63.8%**	**64.0%**	**63.7%**
CS11	Custodial and Maintenance Services	26.4%	33.3%	34.3%	35.1%	35.8%
CS12	Motor Vehicle Service	61.5%	62.5%	62.4%	62.7%	62.7%
CS13	Miscellaneous Local Operations	53.8%	50.3%	60.1%	64.3%	60.0%
CS14	**Purchased Transportation**	**21.0%**	**20.5%**	**20.2%**	**17.9%**	**19.3%**
CS15	Building Occupancy	29.1%	29.2%	27.9%	28.2%	29.5%
CS16	Supplies and Services	52.5%	54.2%	54.9%	59.0%	56.6%
CS17	Research and Development	100.0%	100.0%	99.6%	98.5%	100.0%
CS18	**Servicewide Personnel Benefits and HQ/Area Operations**	**76.0%**	**75.5%**	**66.3%**	**80.5%**	**90.7%**
CS19	General Management Systems	99.9%	99.5%	99.7%	99.6%	99.7%
CS20	Other Accrued Expenses (Servicewide)	30.2%	30.4%	29.7%	31.7%	34.1%

Source: Postal Service CRA Report, FY 2019–FY 2023.

Analysis of Employee Labor Cost

Employee labor costs, including compensation and benefits, are 74.2 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 2014–FY 2023), the Postal Service has added approximately 37,000 full-time and part-time employees and reduced its workforce by approximately 15,000 non-career employees. *See* Figure IV-3.

Figure IV-3
Breakdown of Workforce, FY 2014–FY 2023

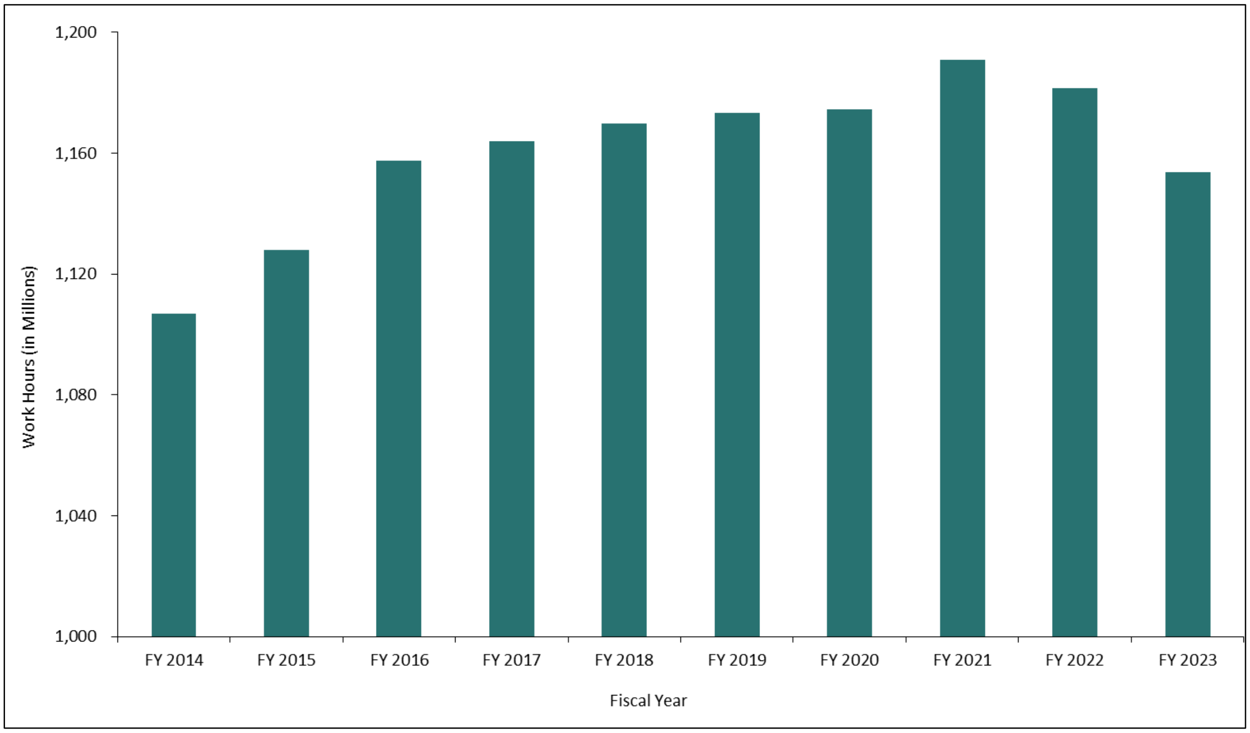


Source: Postal Service ORPES Report PP 20, FY 2021-FY 2023; United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2020, September 29, 2020; United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2019, October 15, 2019; United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2018, October 11, 2018; United States Postal Service, On-Roll and Paid Employee Statistics, Pay Period 20, 2017, October 6, 2017; United States Postal Service, On-Roll and Paid Employee Statistics September 2016, October 6, 2016; United States Postal Service, On-Roll and Paid Employee Statistics September FY 2015, September 24, 2015; United States Postal Service, On-Roll and Paid Employee Statistics September FY 2014, September 26, 2014 (Collectively Postal Service ORPES Report PP 20, FY 2014-FY 2023).

The trend of reduced workhours each year for the prior 15 years changed in FY 2015, and workhours increased annually through FY 2021. In FY 2015 and FY 2016, workhours increased by 1.9 percent and 2.6 percent, respectively. Since FY 2016, workhours have been increasing at a slower pace, at 0.5 percent or lower each year until FY 2021. During FY 2021, workhours increased 1.4 percent compared to the prior year, the highest annual rate in the past 5 years. This trend reversed in FY 2022 and FY 2023, decreasing by 0.8 percent and 2.3 percent, respectively. Figure IV-3 depicts annual workhours during the past 10 years.

IN FY 2023, WORKHOURS DECREASED 2.3%, THE SECOND CONSECUTIVE ANNUAL DECREASE FOLLOWING SEVEN YEARS OF INCREASES.

Figure IV-4
Total Workhours (Millions), FY 2014–FY 2023

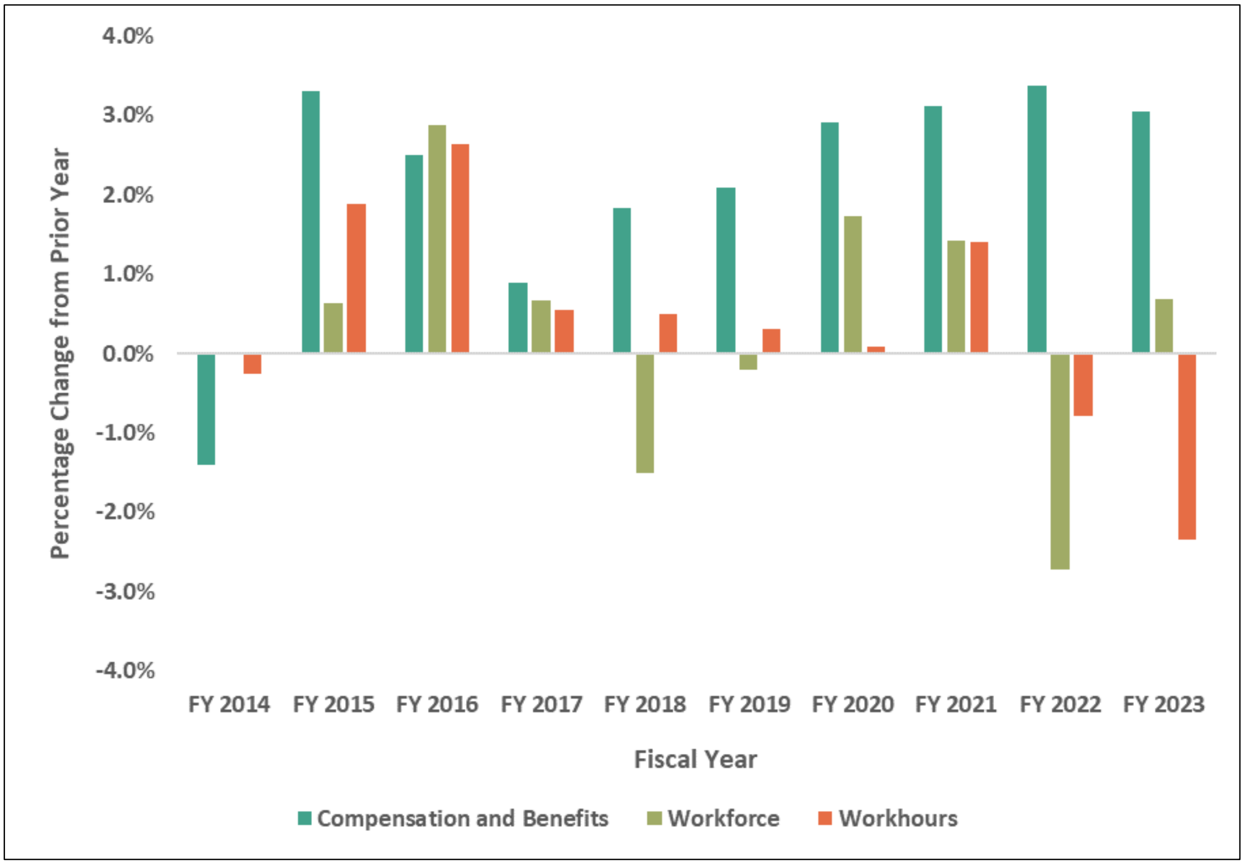


Source: USPS-FY23-17, compressed folder "FY23.17.Annual Report.zip," File folder "TFP Materials," Excel file "Table Annual 2023 ACR (Public).xls" Postal Service FY 2023 TFP, tab "Lab-13b."

As illustrated in Figure IV-5, the Postal Service reduced its cost of compensation and benefits and workhours in FY 2014. Decreases in compensation and benefit costs and workhours during this period reflect declines in mail volume, increased use of non-career employees, incentives for employees to retire or resign, and the slowing growth rate of new delivery points due to lower housing starts.

The cost of compensation and benefits spiked in FY 2015. Total workhours during FY 2015 increased by 1.9 percent, in part due to an increase in workhours for city delivery and customer service operations. The increase in workforce, a slight increase (0.6 percent) in career employees, and contractually obligated salary escalations during FY 2015 resulted in higher compensation and benefits costs. Retirement expenses during FY 2015 increased 12.5 percent, primarily due to increases in the FERS employer contribution rate from 11.9 percent to 13.2 percent. Compensation and benefits have continued to grow since FY 2017. Although there was a reduction in the workforce in FY 2018 and FY 2019, workhours and the cost of compensation and benefits continued to increase.

Figure IV-5
Percent Change from Prior Year in Compensation and Benefits, Workforce and Workhours, FY 2014–FY 2023



Source: Postal Service FY 2023 Form 10-K at 23 and 25; Postal Service FY 2022 Form 10-K at 24; Postal Service FY 2021 Form 10-K at 30; Postal Service FY 2020 Form 10-K at 34, 31; Postal Service FY 2019 Form 10-K at 25; Postal Service FY 2016 Form 10-K at 20; Docket No. ACR2021, USPS-FY21-17, December 29, 2021, compressed folder "FY21.17.Annual Report.zip", File folder "TFP Materials," Excel file "Table Annual 2021 ACR (Public).xls" (USPS-FY21-17); USPS-FY21-17, FY 2021 TFP, tab "Lab-13b;" Docket No. ACR2020, Library Reference USPS-FY20-17, December 29, 2020, compressed folder "FY20.17.Annual Report.zip," Excel file "TFP Table Annual 2020 ACR Public.xls," tab "Lab-13b;" Postal Service ORPES Report PP 20, FY 2014-FY 2023.

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

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

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

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

In FY 2020 and FY 2021, the employee mix changed as non-career employees were converted to career status and the headcount of the total postal workforce increased due to the hiring of additional casual employees to handle higher shipping volume.

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

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

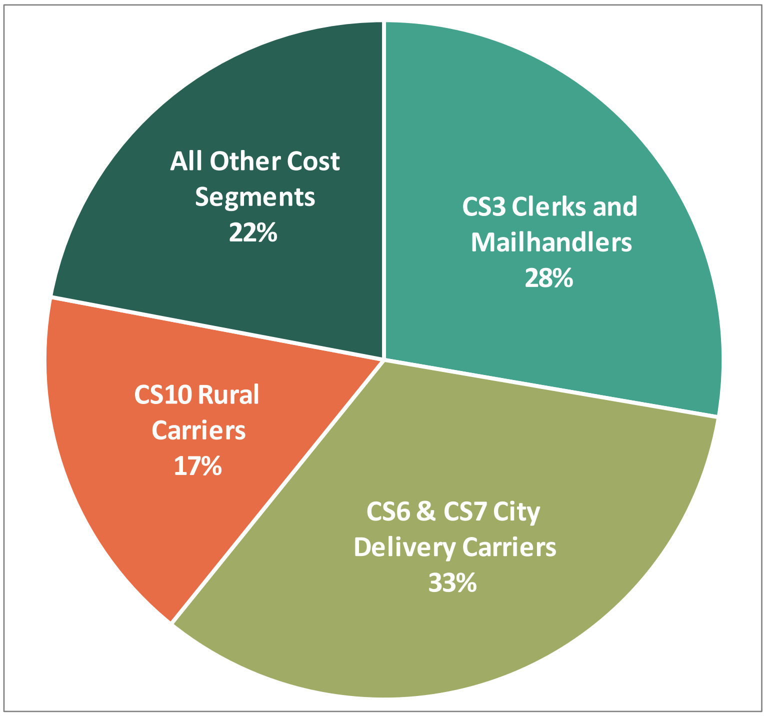
During FY 2023, compensation costs increased 2.1 percent, primarily driven by contractual wage increases and inflationary impacts on related COLAs. This increase was partially offset by a reduction in workhours.[98] The postal workforce increased slightly by 0.7 percent, with career employees increasing by 1.6 percent and non-career employees decreasing by 3.4 percent. The conversion of over 56,000 non-career employees to career status contributed to this shift.[99] Total workhours decreased by 2.3 percent, mainly due to a reduction in overtime hours. Employee health benefits expenses,100 including contributions to the Federal Employees Health Benefits (FEHB) program and Medicare taxes, increased by 3.1 percent, reflecting the growth in the workforce.[100] In FY 2023, Social Security expenses increased by 4.8 percent and FERS normal costs increased 8.8 percent compared to the prior year, consistent with the overall increase in compensation, an increase in the maximum benefit base, and the workforce composition.[101]

This section examines changes in compensation in FY 2023 across the three cost segments where labor costs are highest by comparing compensation costs (salary before benefits) in FY 2023 to the prior year.

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

[98] Postal Service FY 2023 Form 10-K at 23.
[99] *Id.* at 24.
[100] Id.
[101] *Id.* at 25.

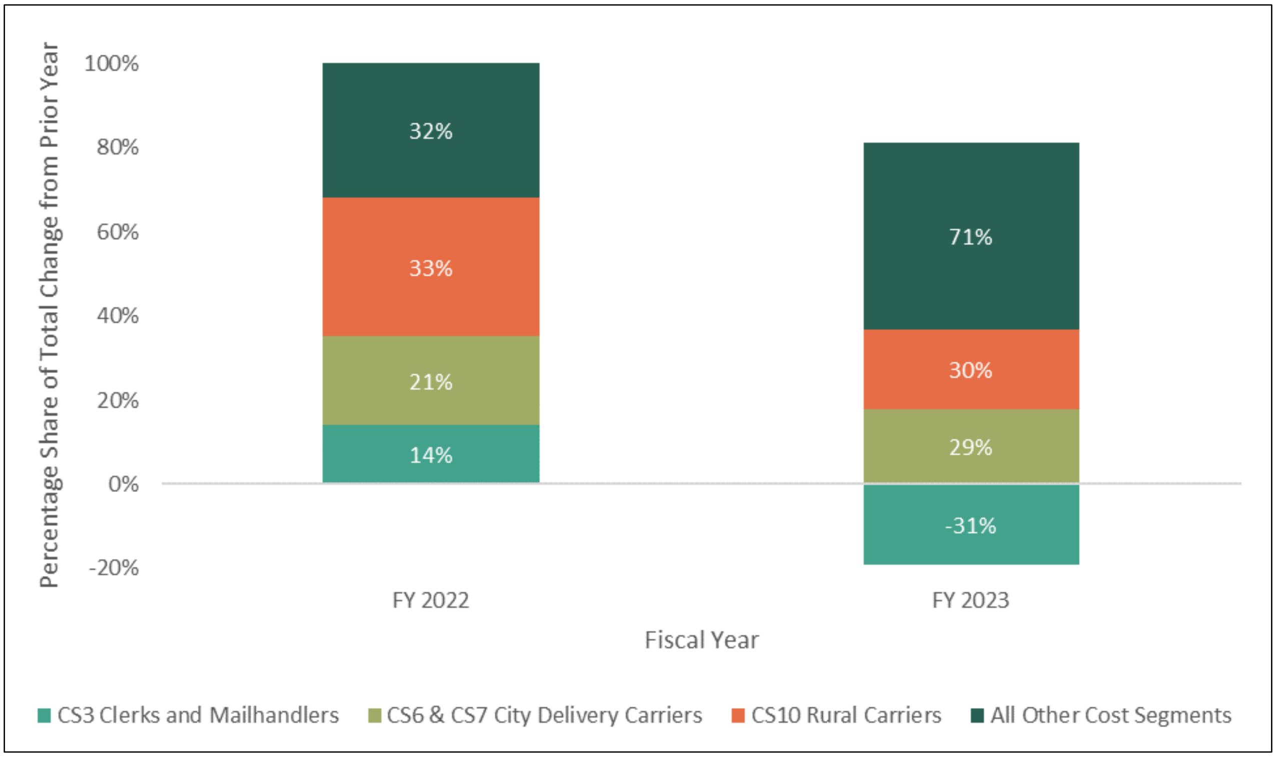
Figure IV-6
Cost Segment Share of Total Compensation Cost, FY 2023



Source: PRC derived from USPS-FY23-7, Excel file "Wkyrcalc.xls," tab "Calculations."

Figure IV-7 illustrates the relative shares of the growth in compensation for FY 2022 and FY 2023, showing significant changes in each cost segment's share of the total growth rate compared to the prior year. Notably, the share of growth in Clerks and Mailhandlers and Rural Carriers decreased, with the share of growth of Clerks and Mailhandlers decreasing by nearly one-third and the growth rate of City Delivery Carriers increasing by 8 percentage points.

Figure IV-7
Cost Segment Shares of Growth Rate of Total Compensation Cost, FY 2022-FY 2023

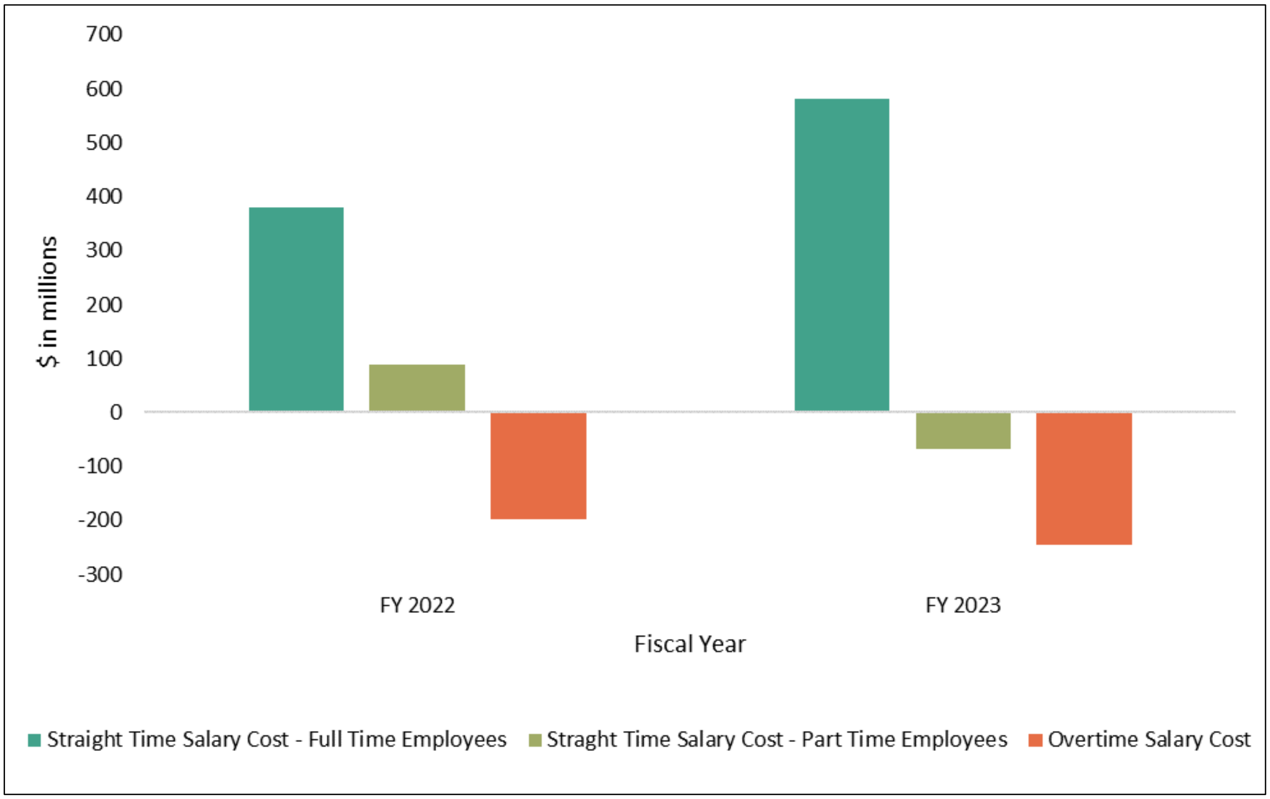


Source: PRC derived from USPS-FY23-7, Excel file “Wkyrcalc.xls,” tab “Calculations.”

These shifts, influenced by changes in workforce composition and types of workhours, led to changes in individual cost segment growth rates between FY 2022 and FY 2023, resulting in a shift in each cost segment’s share of total compensation costs.

In FY 2023, the total compensation cost for City Delivery Carriers increased by the same rate as the prior two years, 2 percent ($269 million). Figure IV-8 shows that compensation costs for overtime also decreased by the same rate as the prior year, 6 percent ($245 million). Straight-time compensation for full-time employees increased by 6 percent, a 2-percentage point additional increase from the increase in the prior year. Straight-time compensation for part-time employees decreased by 5 percent ($68 million), compared to prior year’s increase of 6 percent ($89 million).

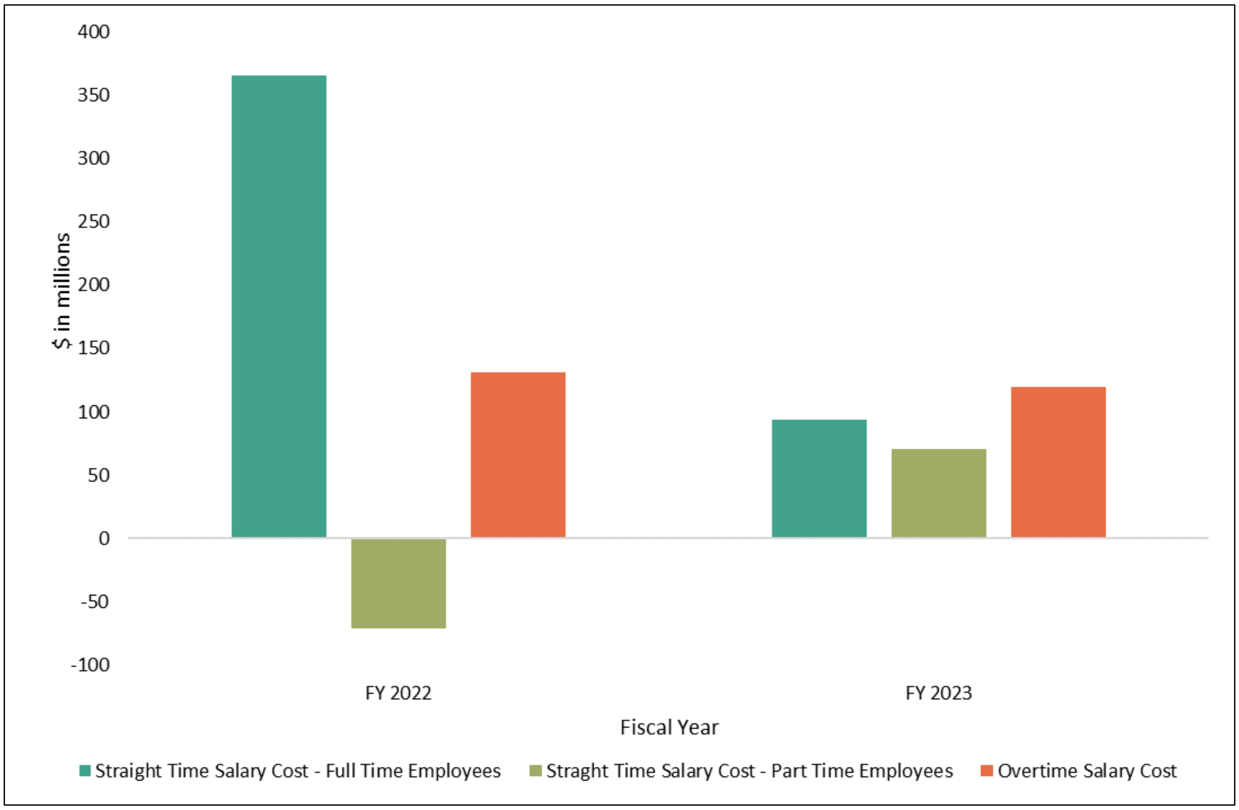
Figure IV-8
Composition of Cost Segments 6 & 7 City Delivery Carriers Change from Prior Year
FY 2022 and FY 2023



Source: PRC derived from USPS-FY23-7, Excel file "Wkyrcalc.xls," tab "Calculations."

In FY 2023 and FY 2022, total compensation costs for Rural Carriers increased by 4 percent ($284 million) and 7 percent ($426 million), respectively. In both years, compensation costs for overtime increased; by 18 percent ($120 million) in FY 2023 and 25 percent ($132 million) in FY 2022. Straight-time compensation for full-time employees increased by 2 percent ($94 million), lower than the 8 percent ($365 million) increase in the prior year. Straight-time compensation for part-time employees increased by 5 percent ($71 million) reversing the decrease of 4 percent ($71 million) in FY 2022.

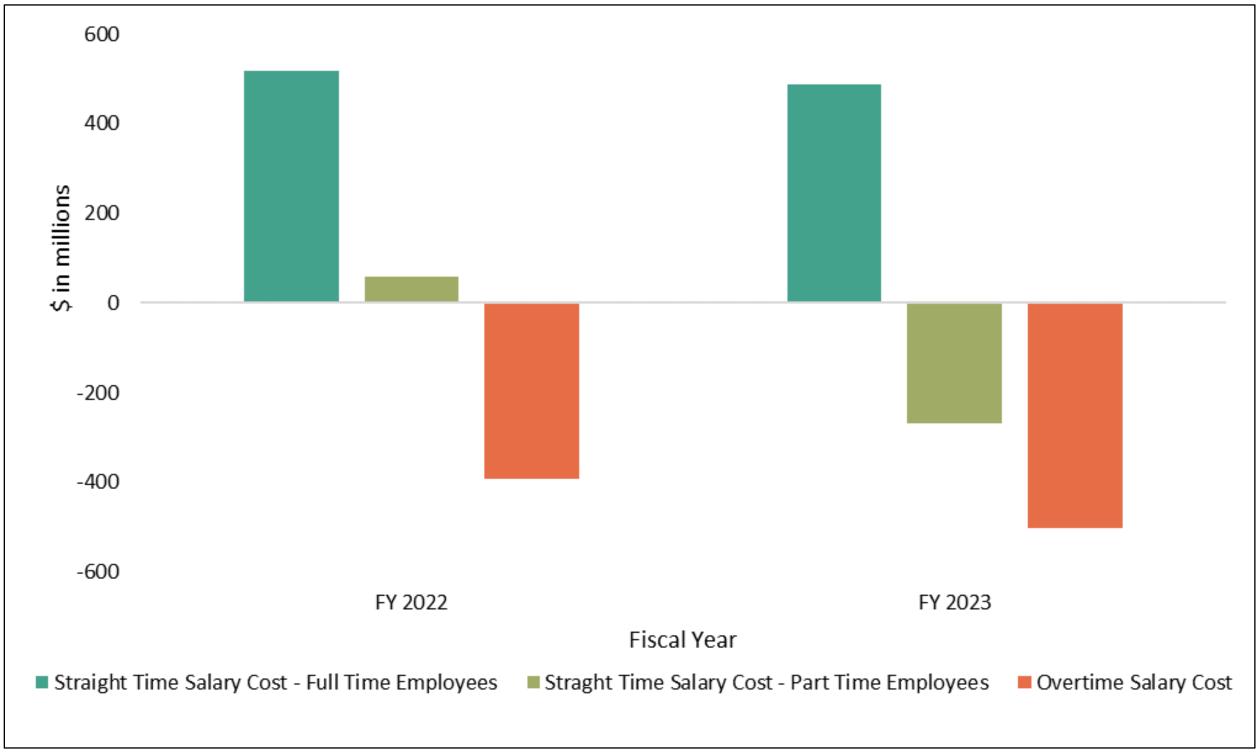
Figure IV-9
Composition of Cost Segment 10 Rural Carriers Change from Prior Year, FY 2022 and FY 2023



Source: PRC derived from USPS-FY23-7, Excel file "Wkyrcalc.xls," tab "Calculations."

In FY 2023 and FY 2022, total compensation costs for Clerks and Mailhandlers decreased by 2 percent ($285 million) reversing the prior year increase of 2 percent ($182 million), respectively. Compensation costs for overtime decreased by 28 percent ($503 million) in FY 2023 and by 18 percent ($393 million) in FY 2022. Straight-time compensation for full-time employees increased in both years, by 6.3 percent ($486 million) and by 7 percent ($517 million), respectively. Straight-time compensation for part-time employees decreased by 11 percent ($268 million) in FY 2023, more than offsetting the 2 percent ($58 million) decrease in FY 2022.

Figure IV-10
Composition of Cost Segment 3 Clerks and Mailhandlers Change from Prior Year, FY 2022 and FY 2023



Source: PRC derived from USPS-FY23-7, Excel file "Wkyrcalc.xls," tab "Calculations."

Figures IV-8, IV-9, and IV-10 illustrate that overall increase in compensation is due to an increase in straight-time compensation costs for full-time employees during FY 2023. However, this growth rate was slower than the increase from FY 2021 to FY 2022. This increase effectively offset the decrease in straight-time compensation costs for part-time employees and overtime in FY 2023 compared to the prior year. This trend aligns with the 3 percent reduction in non-career employees and the 1.6 percent increase in career employees during FY 2023.[102]

[102] Postal Service FY 2023 Form 10-K at 24.

APPENDICES

Appendix A

Table A-1
Fiscal Year 2023 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	24,032	713,930	311,405	402,525	2,970.704	1,295.776	1,674.928	229.3%
Priority Mail	1,057,981	10,806,647	8,124,905	2,681,742	1,021.441	767.963	253.477	133.0%
Total Ground	4,155,186	13,322,273	7,142,702	6,179,571	320.618	171.898	148.719	186.5%
First-Class Package Service	1,363,415	5,845,145	3,540,895	2,304,250	428.713	259.708	169.006	165.1%
Competitive Domestic Services		1,330,347	370,270	960,077				359.3%
Competitive International Mail & Services	150,441	1,331,257	1,119,930	211,327	884.900	744.429	140.471	118.9%
Total Competitive Group Specific & Non-Product Inframarginal Costs			572,984					
Total Competitive Mail and Services	**6,751,056**	**33,349,599**	**21,183,091**	**12,166,508**	**493.991**	**313.774**	**180.216**	**157.4%**
MARKET DOMINANT MAIL								
FIRST-CLASS MAIL								
Single-Piece Letters and Cards	11,784,857	7,340,413	4,644,540	2,695,873	62.287	39.411	22.876	158.0%
Presort Letters and Cards	33,249,078	15,595,078	5,256,633	10,338,445	46.904	15.810	31.094	296.7%
Flats	973,030	1,640,339	1,445,106	195,233	168.581	148.516	20.064	113.5%
First-Class Non-Product Inframarginal Costs			252,941					
Seamless Acceptance Incentive Payments		0						
Total Domestic First-Class Mail	**46,006,965**	**24,575,830**	**11,599,220**	**12,976,610**	**53.418**	**25.212**	**28.206**	**211.9%**
MARKETING MAIL								
High Density & Saturation Letters	5,601,823	1,143,438	618,290	525,148	20.412	11.037	9.375	184.9%
High Density & Saturation Flats & Parcels	8,887,073	1,781,933	1,452,085	329,849	20.051	16.339	3.712	122.7%
Carrier Route	4,024,763	1,335,993	1,353,584	(17,591)	33.194	33.631	(0.437)	98.7%
Letters	38,126,466	9,508,508	5,280,530	4,227,979	24.939	13.850	11.089	180.1%
Flats	2,227,825	1,205,185	1,867,658	(662,473)	54.097	83.833	(29.736)	64.5%
Parcels	25,411	58,745	49,151	9,594	231.184	193.428	37.756	119.5%
Every Door Direct Mail - Retail	555,570	106,007	49,361	56,646	19.081	8.885	10.196	214.8%
Marketing Mail Non-Product Inframarginal Costs			435,463					
Seamless Acceptance Incentive Payments		0						
Total Marketing Mail	**59,448,929**	**15,139,809**	**11,106,121**	**4,033,688**	**25.467**	**18.682**	**6.785**	**136.3%**
PERIODICALS								
Within County	451,825	60,405	105,303	(44,899)	13.369	23.306	(9.937)	57.4%
Outside County	2,541,109	862,272	1,430,664	(568,391)	33.933	56.301	(22.368)	60.3%
Periodicals Non-Product Inframarginal Costs			429					
Seamless Acceptance Incentive Payments		0						
Total Periodicals	**2,992,935**	**922,677**	**1,536,396**	**(613,719)**	**30.829**	**51.334**	**(20.506)**	**60.1%**
PACKAGE SERVICES								
Alaska Bypass	1,253	39,065	32,538	6,527	3,118.902	2,597.828	521.074	120.1%
Bound Printed Matter Flats	114,868	108,133	94,892	13,241	94.137	82.610	11.527	114.0%
Bound Printed Matter Parcels	226,433	317,270	266,906	50,365	140.117	117.874	22.243	118.9%
Media and Library Mail	92,258	429,134	478,187	(49,053)	465.146	518.316	(53.170)	89.7%
Package Services Non-Product Inframarginal Costs			619					
Seamless Acceptance Incentive Payments		0						
Total Package Services	**434,811**	**893,603**	**873,143**	**20,460**	**205.515**	**200.810**	**4.705**	**102.3%**
U.S. Postal Service Mail	376,075							
Free Mail	19,703		30,933	(30,933)		156.997		
Total Market Dominant Mail	**109,279,417**	**41,531,919**	**25,145,813**	**16,386,106**	**38.005**	**23.011**	**14.995**	**165.2%**
MARKET DOMINANT SERVICES								
Ancillary Services								
Certified Mail		652,432	454,778	197,654				143.5%
COD		4,417	3,915	502				112.8%
Insurance		68,877	24,773	44,104				278.0%
Registered Mail		21,027	16,796	4,231				125.2%
Stamped Envelopes		11,607	7,868	3,739				147.5%
Stamped Cards		685	113	572				608.2%
Other Ancillary Services		393,284	277,343	115,941				141.8%
Money Orders		220,430	165,620	54,811				133.1%
Post Office Box Service		321,605	138,694	182,911				231.9%
Caller Service		96,569	20,438	76,130				472.5%
Other Special Services		75,588	15,255	60,333				495.5%
Market Dominant Services Non-Product Inframarginal Costs			19,804					
Total Market Dominant Domestic Services		**1,866,522**	**1,145,397**	**721,125**				
Outbound Single-Piece Mail Intl	99,085	179,146	105,273	73,872				
Inbound Single-Piece Mail Intl	71,673	52,279	40,510	11,769				
International Services		8,768	4,777	3,991				
Market Dominant Intl Non-Product Inframarginal Costs			5	(5)				
Market Dominant International Mail & Services	**170,758**	**240,193**	**150,566**	**89,628**				
Federal Interagency Agreements		433,962	250,862	183,100				
Other Income		919,251		919,251				
Other International Mail Attributable			67,918	(67,918)				
Total Mail and Services	**116,201,231**	**78,341,446**	**47,943,646**	**30,397,800**	**67.419**	**41.259**	**26.160**	**163.4%**
Institutional Costs			37,858,402					
Impact of Postal Reform Legislation (Gain)								
Appropriations: Revenue Forgone		41,668						
Investment Income		940,837						
Total Revenues		**79,323,951**						
Total Costs			**85,802,048**					
Net Income (Loss)		**(6,478,097)**						

Source: Library Reference PRC-ACR2023-NPLR1

APPENDICES

Appendix B: Total Factor Productivity

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

The Postal Service is a labor-intensive organization. Approximately 75 percent of its resource usage is made up of labor. Prior to FY 2000, the Postal Service's growth in workhours outpaced its workload, resulting in either reductions or small gains in TFP. From FY 2000 to FY 2007, the Postal Service reduced its labor force while its workload remained basically flat, resulting in improvements in productivity. The large drop in mail volume in FY 2008 and FY 2009 resulted in a decline in workload and a corresponding decline in productivity.

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

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

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

APPENDICES

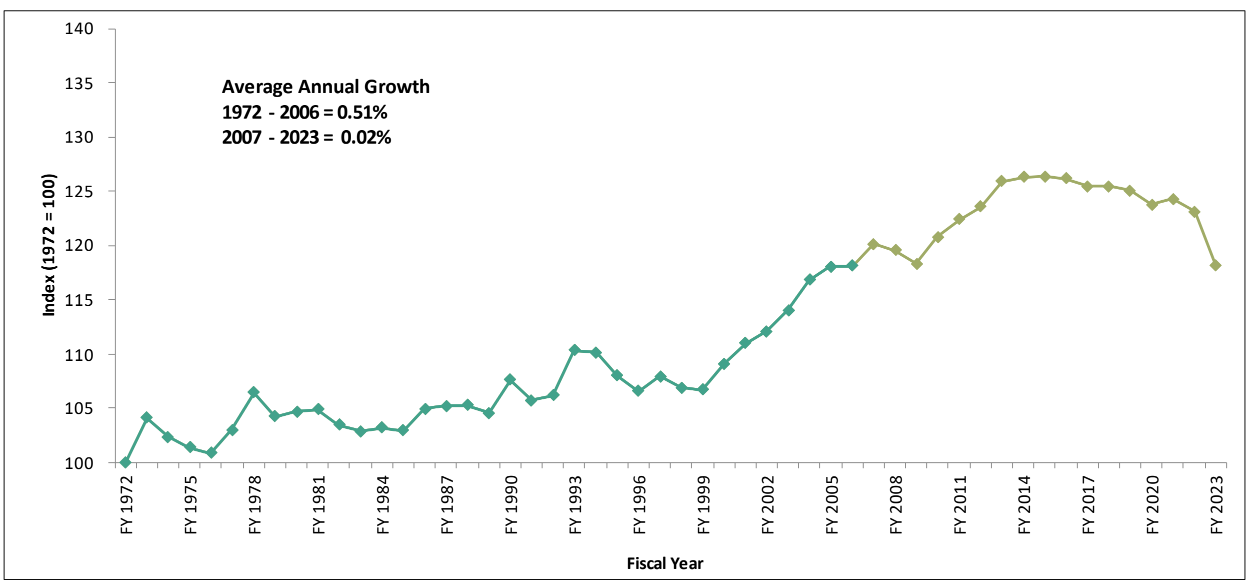
FY 2023 SAW THE LARGEST DECLINE IN TFP SINCE 1965.

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

FY 2023 saw the largest single-year decline in TFP since 1965. TFP declined 4.0 percent, due to reduced labor productivity. Workload decreased 4.7 percent, but resource usage only decreased by 0.7 percent. The largest component of workload, Weighted Mail Volume, decreased by 8.1 percent, driven by decreases in Priority Mail, USPS Marketing Mail Letters, and First-Class Package Service Mail. Miscellaneous output also decreased 10.1 percent, while delivery points increased 1.2 percent. Labor input, the largest component of resource usage, decreased by 1.9 percent mainly due to a 2.3 percent reduction in workhours, with reductions in Non-Career Clerks, Full-Time Clerks, and Non-Career City Delivery Carriers. Capital input decreased by 5.3 percent, and materials input increased 4.1 percent.

Figure B-1 shows the trend in TFP from FY 1972 through FY 2023.

Figure B-1
Postal Service Total Factor Productivity, FY 1972–FY 2023



Source: USPS-FY23-17, FY 2023 TFP, tab "Tfp-52."