Postal Regulatory Commission

Postal Regulatory Commission
901 New York Avenue, NW
Suite 200
Washington, DC 20268-0001
www.prc.gov

Phone: 202-789-6829
Fax: 202-789-6891

Contact: Gail Adams
gail.adams@prc.gov

Press Release

April 19, 2019

PRC Releases Report on Postal Service Financial Condition

Losses from Operations Continue to Grow

Washington, DC – Today the Postal Regulatory Commission (Commission) issued its *Financial Analysis* report, an examination of the U.S. Postal Service's (Postal Service) financial results and 10-K Statements for Fiscal Year (FY) 2018.

The Postal Service reported a net loss from operations of $2.1 billion in FY 2018. This loss was largely due to the continual decline of Market Dominant volume and higher operating expenses, and is nearly $748 million more than the $1.3 billion operating loss reported in FY 2017. The Commission's analysis found that when non-operating expenses are included, the Postal Service's total net loss was $3.9 billion—a decline of $1.2 billion when compared to the previous year. Reportedly, this decline resulted from a $1.8 billion increase in operating expenses and an $823 million increase in the non-cash change to the workers' compensation expense, offset by a $1 billion increase in operating revenue and a combined $400 million decrease in expenses related to retirement.

These continuing losses have negatively affected the financial position of the Postal Service, creating a substantial gap between the Postal Service's assets and liabilities. During FY 2018, total assets decreased by $0.7 billion while total liabilities increased by $3.2 billion. At the end of FY 2018, the Postal Service recorded total assets of $26.7 billion and total liabilities of $89.3 billion. Total assets and liabilities are comprised of current and noncurrent portions. In FY 2018, the Postal Service had current assets of $11.6 billion and current liabilities of $69.5 billion. If current assets are insufficient to meet its short-term liabilities, the Postal Service could have problems paying its creditors in the short term.

In FY 2018, for the first time since FY 2010, the Postal Service experienced a decline in its cash balance of $452 million, but total liquidity continued to improve. Also for the first time since FY 2011, the Postal Service paid down $1.8 billion of its $15 billion debt. However, one reason for the improved liquidity is that the Postal Service has not made statutorily required payments to its unfunded retirement-related liabilities. These substantial unfunded liabilities for pension and annuitant health benefits continue to threaten the improvements in liquidity.

Overall, Market Dominant revenue decreased 2.2 percent compared to FY 2017. Market Dominant volume continued its decline in FY 2018; albeit at a slower rate than FY 2017.

In contrast, total volume for Competitive products increased 11.0 percent in FY 2018, as every category except Priority Mail Express and Competitive International Mail experienced volume growth. First-Class Package Service experienced the largest increase in volume of 32.8 percent in FY 2018, in part due to the transfer of single-piece retail parcels from the Market Dominant product list to a new "Retail" rate category within the First-Class Package Service product. Priority Mail and ground parcels volume increased more modestly in FY 2018, 5.0 percent and 7.5 percent, respectively.

Total Competitive product revenue increased 11.5 percent, or $2.4 billion, in FY 2018. Revenue for every domestic Competitive product except Priority Mail Express increased, mirroring increases in volume. On a unit basis, revenue increased by approximately 4 percent for all domestic Competitive products.

Following are a summary of other significant highlights in the FY 2018 *Financial Analysis* report:

- Consumer price index (CPI)-based price increases were not enough to offset revenue lost from declining volumes.
- Market Dominant products average unit revenue and average unit attributable cost remained unchanged at 0.33 cents and 0.20 cents.
- Competitive products volume continued to grow in FY 2018, but the rate of increase was lower than in recent years.
- Competitive products attributable cost grew 11.4 percent, and contribution to institutional cost grew 11.6 percent.
- Competitive products share of total Postal Service revenue, attributable cost, and contribution to institutional cost has nearly tripled since FY 2007.
- Total Factor Productivity (TFP) increased slightly compared to FY 2017.
- Accumulated net deficit is $62.6 billion, resulting from several years of net losses starting in FY 2007.
- Financial sustainability continues to erode due to large personnel related liabilities and the slow replacement of fully depreciated capital assets. The overall financial condition is adversely impacted by insufficient current assets (43 percent of total assets) to cover current liabilities (78 percent of total liabilities).
- The Postal Service's FY 2018 working capital was negative $57.9 billion.

A complete copy of the Commission's *Financial Analysis* report may be found at www.prc.gov.