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Key Takes on the U.S. Postal Service's Turnaround Plan

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Three years ago, just nine months into Postmaster General Louis DeJoy's tenure, the Postal Service (USPS) unveiled its Delivering for America (DFA) plan, with forecasts of key financial indicators for 10 fiscal years,[1] 2021 through 2030. Annual data provide an opportunity to assess results through 2023, and these results are alarming.

As background, USPS focuses on controllable expenses, defined as follows in management's 2021 Integrated Financial Plan:

> Expenses before Retiree Health Benefits (RHB) amortization and actuarial changes to RHB normal cost, Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS) unfunded liability amortization, and non-cash adjustments to workers' compensation liabilities [which are largely a function of changes in interest rates].

Controllable income/loss is therefore total revenue minus controllable expenses. Rather than "controllable," it would be more accurate for revenue and certain expenses to be deemed a verbally awkward "somewhat influenceable." Evidence for this view is found in variances versus forecasts.

For the three years ended 2023, total revenue exceeded the DFA forecast by $17.9 billion (8.3 percent). For the same period, controllable expenses exceeded the DFA forecast by $19.3 billion (8.7 percent). Total controllable losses over the three years were worse than forecast by $1.5 billion.[2]

In 2023, controllable financial results went the wrong direction, versus projections in DFA and compared to prior years' results. A cumulative favorable variance of $3 billion

[1] Fiscal years begin each October 1, end the following September 30, and are denoted by the year in which they end. All years herein refer to fiscal years.

[2] This $1.5 billion negative variance was calculated using revenue and controllable expense figures rounded to the nearest million.

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over DFA's first two years was more than offset by a negative variance of $4.5 billion – 5.7 percent of total revenue – in 2023. The 2023 controllable loss was $3.2 billion, versus the $1.3 billion of controllable income projected in DFA.

USPS's total cash and investments (unrestricted and restricted) last September 30 was $12.2 billion above the projection in DFA. The bad news is that three factors more than account for the $12.2 billion variance, and none reflects stronger than expected financial performance:

- DFA projections included $6.6 billion in yearend retirement benefits payments over three years, but USPS paid only $1.1 billion. Ultimately, USPS will need to properly fund its obligations to retirees.

- Over the past three years, capital investments were $4.2 billion less than projected in DFA, which cannot be fully implemented if capital investments continue to lag almost 40 percent below projections.

- In DFA, USPS projected debt of $10 billion at the end of 2023; instead, debt totaled $13 billion, adding $3 billion to total cash.

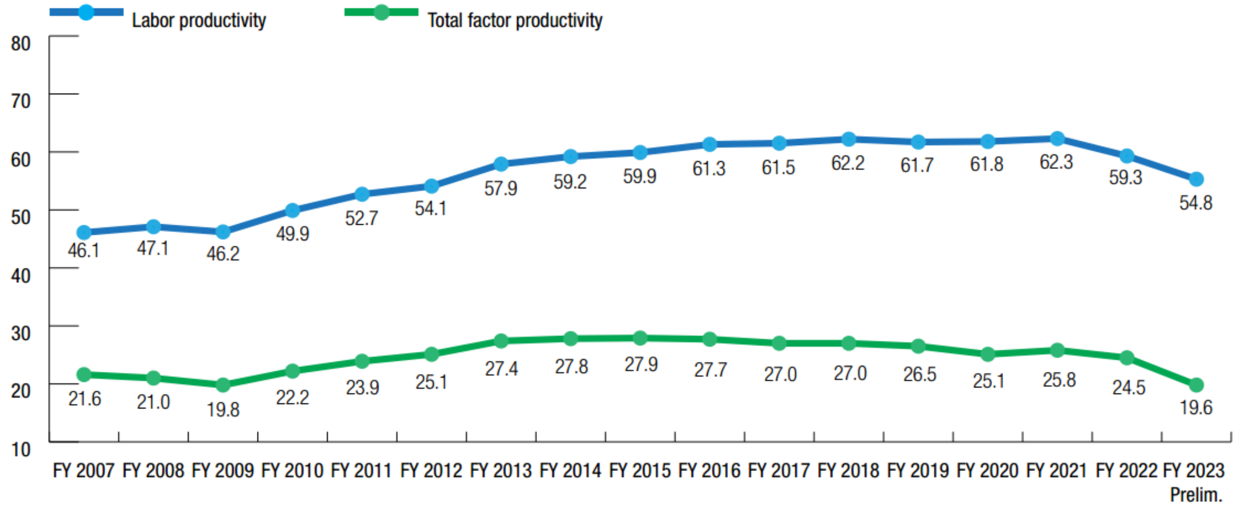
In 2022, USPS also unexpectedly received $3.0 billion from the federal government, for zero-emission vehicles and associated infrastructure. This was unequivocally good news.

To date, USPS has not gained the financial traction envisioned in DFA, even with total revenue $17.9 billion above forecast for the three years ended 2023. Further, despite a 90 percent increase in Shipping & Packages volumes over the past 10 years, it appears management has not captured economies of scale in its operations.

Figure 1 provides a graph found in the USPS FY 2023 Annual Report to Congress. In the first three years of the DFA Plan, labor productivity fell by 11.3 percent, and total factor productivity fell by a whopping 21.9 percent.[3] The three-year moving average of total factor productivity peaked in 2016 and has since fallen by 16.2 percent.

[3] In text accompanying the Figure 1 graph, USPS states the following regarding its productivity measures: "Total Factor Productivity (TFP) is a comprehensive measure of operational efficiency with which the USPS uses resources to create output." [A decrease in TFP indicates USPS is operating less efficiently.] Additionally, "Labor productivity measures the efficiency of labor."

Figure 1.



To date, increased revenue versus DFA has been more than offset by higher controllable expenses, as operations have become much less efficient. For the hopes embedded in DFA, it looks very much like 2023 was a tipping point.

About the Author: Robert J. Pedersen retired from federal service in 2021, after a career that included 19 years as a U.S. Postal Service finance executive and five years with the USPS Office of Inspector General. Viewpoints expressed herein are solely those of the author, and not those of any organization or governmental entity.