United States Postal Service

FY2018 Annual Report to Congress

FY2018 Annual Report

FY2018 Comprehensive Statement of Postal Operations

FY2018 Performance Report and FY2019 Performance Plan

UNITED STATES POSTAL SERVICE ®

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USPS FIRST-CLASS PKG

Contents

Report Structure and Purpose

This document consists of three reports:

- The Fiscal Year (FY) 2018 Annual Report, including a statement from the USPS Postmaster General and USPS Board of Governors Chairman on our[1] operations.
- The FY2018 Comprehensive Statement on our operations.
- The FY2018 Annual Performance Report and FY2019 Annual Performance Plan.

This document's purpose is to provide information to stakeholders. It fulfills the requirements of the following articles in United States Code Title 39:

- 414(f), on the reporting of financial information related to special postage stamps (p. 6).
- 416(f), on the reporting of information related to semipostal stamps (p. 6).
- 2401(e), on the submission of a Comprehensive Statement (pp. 6–14).
- 2402, on the submission of an Annual Report (pp. 2–5).
- 2803, on the submission of an Annual Performance Plan (pp. 15–29).
- 2804, on the submission of an Annual Performance Report (pp. 15–29).
- 3652(g), on the submission of the Comprehensive Statement, Annual Performance Report and Annual Performance Plan (pp. 2–29).
- 3686(d), on the reporting of executive compensation in excess of Federal Level Executive 1 (p. 14).

[1] *The terms "we," "us" and "our" refer to the United States Postal Service.*

FY2018 Annual Report

Financial and Operational Highlights

	Totals at Sept. 30, 2018			Percent change	
	FY2018	**FY2017**	**FY2016**	**FY2018**	**FY2017**
(in millions, except percentages)					
Mail volume	146,402	149,590	154,342	(2.1%)	(3.1)%
Total revenue with investment and interest income	$ 70,783	$ 69,694	$ 71,530	1.6%	(2.6)%
Total expenses	$ 74,696	$ 72,436	$ 77,121	3.1%	(6.1)%
Net loss	$ (3,913)	$ (2,742)	$ (5,591)	42.7%	(51.0)%
Purchases of capital property and equipment	$ 1,409	$ 1,344	$ 1,428	4.8%	(5.9)%
Debt	$ 13,200	$ 15,000	$ 15,000	(12.0%)	– %
Capital contributions of U.S. Government	$ 3,132	$ 3,132	$ 3,132	– %	– %
Deficit since 1971 reorganization	$ (65,769)	$ (61,856)	$ (59,114)	(6.3%)	4.6%
Total net deficiency	$ (62,637)	$ (58,724)	$ (55,982)	(6.7%)	4.9%
(in actual units indicated, unaudited)					
Number of career employees	497,157	503,103	508,908	(1.2%)	(1.1)%
Number of non-career employees	137,290	141,021	130,881	(2.6%)	7.7%
New delivery points served	1,229,580	1,234,496	1,142,352	(0.4%)	8.1%

Letter from the Postmaster General and USPS Board of Governors Chairman

The United States Postal Service delivers for the American public. With every business, mailbox, and doorstep we visit, we bind the nation together by providing prompt, reliable, and efficient mailing and shipping services.

As you review this report, you will see that the Postal Service is a $71 billion business structured by Congress. We compete for every customer across each of our product lines. We pay for our operations entirely through the sale of postal products and services and do not receive tax revenues to support our business. If we were a private sector company, the Postal Service would rank 40th in the 2018 Fortune 500.

- We live, work, and serve in every community in America. We operate 34,700 Post Offices and have 58,000 retail partners and other access points, more than 232,000 delivery vehicles, and 8,500 pieces of automated processing equipment. On a typical day, our 634,000 employees physically deliver 493 million mailpieces to 159 million delivery points. For much of rural America we are often the only delivery option. We deliver 47 percent of the world's mail volume and more packages to the home than any other business.
- We deliver for the American economy. The Postal Service maintains and continually strengthens mail as a powerful marketing and communications channel. By delivering bills, statements, correspondence, catalogs, and a wide range of marketing materials we connect businesses with American consumers. To companies in nearly every economic sector — including retail, health care, real estate, and financial services — we are a strategic and closely aligned business partner. We are a major part of the nation's financial infrastructure, facilitating millions of transactions daily for virtually every commercial entity in America.
- We are a driver of America's rapidly expanding e-commerce sector. The Postal Service enables retailers and e-tailers — no matter their size or geographical location — to grow their businesses and meet rising consumer delivery expectations. Our unparalleled last-mile resources ensure universal access to online goods and services. Continual product and service innovation and new business solutions for America's shippers has propelled growth in our package revenues and in the broader package shipping sector.
- We are leveraging information and technology to transform the delivery experience. Our new digital offerings — such as Informed Delivery — are powered by an amazing digital infrastructure that processes 4 terabytes a minute and 1.2 billion scan records daily, providing a wealth of real-time information to our customers and employees about the movement of mail through our network.

However, while the Postal Service is a fundamentally strong organization — in terms of the value we deliver to our customers and the role we play in the economy — we are not financially strong. In fiscal year 2018 the Postal Service recorded a net loss of $3.9 billion.

Revenues continue to be pressured by the ongoing erosion of First-Class Mail volumes. Because mail products account for nearly 70 percent of our revenues, this ongoing decline puts significant financial strain on the organization. To meet universal service obligations our network infrastructure costs are largely fixed or are growing as we add approximately 1 million delivery points each year. We are also subject to inflationary pressures and legislative mandates, particularly with regard to employee and retiree benefits.

While aggressive management actions have generated new revenue — principally in an expanding package business — and generated cost savings and productivity gains, the Postal Service's business model is broken and will only produce widening losses in the coming years absent dramatic changes.

Our problems are serious, but solvable. Through legislation, regulatory reforms and other measures, we can stabilize our financial condition and return the organization to a sustainable business model.

Ahead lies the hard work of reshaping the organization to meet the future needs of the nation. In the coming year, we will work with our stakeholders including Congress, the Administration, the Postal Regulatory Commission, customers, unions, and others to determine the policies and business strategies necessary to put the Postal Service on a financially sustainable path.

As we do so, we know we must also build upon the strengths of today's Postal Service to ensure that it continues to bind the nation together and serve as an engine of economic growth.

On behalf of the men and women of the Postal Service — who take great pride in serving the nation and our customers reliably, securely, affordably, and universally — we hope you find this report informative and useful.

Thank you for your interest in the United States Postal Service.

Megan J. Brennan
Postmaster General and Chief Executive Officer

Robert M. Duncan
Chairman, Board of Governors

United States Postal Service Board of Governors

The Board of Governors of the U.S. Postal Service is comparable to a board of directors of a publicly held corporation. The Board normally consists of up to nine Governors appointed by the President of the United States with the advice and consent of the Senate.

The nine Governors select the Postmaster General, who becomes a member of the Board, and those 10 select the Deputy Postmaster General, who also serves on the Board. The Postmaster General serves at the pleasure of the Governors for an indefinite term and the Deputy Postmaster General serves at the pleasure of the Governors and the Postmaster General. The Board is required to have a quorum of six members to exercise certain powers. In 2014, the Board issued a resolution establishing a Temporary Emergency Committee (TEC), consisting of all remaining members of the Board, to exercise powers reserved to the Board in the event that the number of Governors in office is insufficient to form a quorum.

As of Sept. 30, 2018, the TEC consists of two appointed Governors, our Postmaster General and Deputy Postmaster General. Three additional Governor nominations have been sent to the Senate and await confirmation. For ease of use, references to the "Board" or "Board of Governors" encompass the TEC as appropriate.

Robert M. Duncan, USPS Board of Governors Chairman

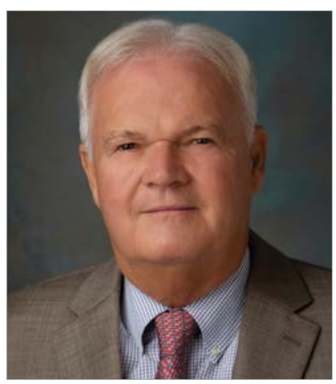
Robert M. Duncan's appointment to the Postal Service Board of Governors by President Donald Trump was confirmed by the Senate in August 2018. At the end of our fiscal year, Sept. 30, 2018, Duncan was serving the remainder of a seven-year term that expired Dec. 8, 2018, and was nominated to serve another seven-year term expiring Dec. 8, 2025.

Duncan was elected chairman of the Board of Governors on Sept. 13, 2018, and also appointed vice chairman of the board's Temporary Emergency Committee.

His federal government service began in 1989 with an appointment to the President's Commission on Executive Exchange. Duncan was also assistant director of the White House Office of Public Liaison under President George H.W. Bush, and he served as Chairman of the Republican National Committee from 2007 to 2009. Duncan served as a member of the Board of Directors of the Tennessee Valley Authority from 2006 to 2011. He was chairman of TVA's board from 2009 to 2010. In 2017, he was named the 17th chairman of the President's Commission on White House Fellowships.

Outside of government service, Duncan was president and CEO of the American Coalition for Clean Coal Electricity. He taught democracy to former communist leaders through the International Republican Institute, and he participated in the EastWest Institute's U.S. China High Level Political Party Leaders Dialogue. He is the chairman of the board of trustees at Alice Lloyd College, a private four-year liberal arts college in Pippa Passes, Kentucky, and chairman and CEO of the Inez Deposit Bank in Inez, Kentucky.

Duncan holds degrees from University of the Cumberlands and the University of Kentucky College of Law, and he has completed various executive education programs.



David C. Williams, USPS Board of Governors Vice Chairman

David C. Williams' appointment to the Postal Service Board of Governors by President Donald Trump was confirmed by the Senate in August 2018. Williams, a native of Illinois, is serving the remainder of a seven-year term expiring Dec. 8, 2019. He was elected vice chairman of the Board of Governors on Sept. 13, 2018, and also appointed chairman of the board's Temporary Emergency Committee.

Williams retired from the U.S. Postal Service Office of Inspector General (IG) in 2016. He had served as IG since Aug. 20, 2003, and was responsible for a staff of more than 1,125 employees. Since March of 2016, he has been a Distinguished Visiting Professor at George Mason University in Fairfax, Virginia.

In July 2011, Williams was appointed by President Barack Obama to serve as vice chairman of the Government Accountability and Transparency Board. He also served as the deputy assistant administrator for Aviation Operations at the Transportation Security Administration from August 2002 until August 2003, where he managed the Aviation Inspection Program at federalized airports.

Williams has served as IG for five federal agencies. He was first appointed by President George H.W. Bush to serve as IG for the U.S. Nuclear Regulatory Commission from 1989 to 1996. President William Clinton next appointed him IG for the Social Security Administration from 1996 to 1998, and then as IG for of the Department of the Treasury in 1998. In 1999, President Clinton named him as the first IG for Tax Administration of the Department of Treasury, where he directed a staff of 1,050 to detect fraud, waste and abuse. In 2001, President George W. Bush named Williams the acting IG for the Department of Housing and Urban Development, while he was also serving at the Department of the Treasury.

A U.S. Army veteran, Williams is the recipient of the Bronze Star and the Vietnamese Medal of Honor for service in Vietnam. He began his civilian federal career as a special agent with the U.S. Secret Service. Moving up the career ladder, he served as Director of Operations in the Office of Labor Racketeering at the Department of Labor; supervisory staff investigator for the President's Commission on Organized Crime; and as Director of the Office of Special Investigations at the U.S. General Accounting Office.

Williams graduated from Southern Illinois University and received master's degree in education from the University of Illinois. He also attended the U.S. Military Intelligence Academy, the Federal Law Enforcement Training Center and the U.S. Secret Service Training Academy.

Megan J. Brennan, USPS Postmaster General and Chief Executive Officer

Megan J. Brennan is the 74th and the first female Postmaster General of the United States and the Chief Executive Officer of the world's largest postal organization.

Appointed by the Governors of the Postal Service, Brennan began her tenure as Postmaster General in February 2015. In the prior four years, Brennan served as Chief Operating Officer and Executive Vice President of the Postal Service, and held prior roles as Vice President of both the Eastern Area and Northeast Area Operations. Brennan began her 30-year Postal Service career as a letter carrier in Lancaster, Pennsylvania.

Brennan earned a master of business administration degree as a Sloan Fellow at the Massachusetts Institute of Technology. She is also an alumna of Immaculata College in Pennsylvania.

Ronald A. Stroman, USPS Deputy Postmaster General and Chief Government Relations Officer

Ronald A. Stroman was named the 20th Deputy Postmaster General (DPMG) in March 2011. As the second-highest ranking postal executive, he serves on the Postal Service Board of Governors and on Postmaster General Megan Brennan's Executive Leadership Team.

Stroman has more than 30 years of professional experience in government, legislative affairs and leadership before becoming DPMG. From 1978 to 1984, he was an attorney with the Department of Housing and Urban Development. He then moved into a position as counsel on the Judiciary Committee of the U.S. House of Representatives. He also worked for the Committee on Government Operations and became a minority staff director and counsel for the House Committee on Oversight and Government Reform.

In 1997, Stroman took a director's position with the U.S. Department of Transportation. In 2001, he joined the General Accounting Office as managing director for the Office of Opportunity and Inclusiveness. He returned to the House in 2009, where he served as staff director, Committee on Oversight and Government Reform, before joining the Postal Service.

Stroman earned his Juris Doctorate from Rutgers University Law Center.

FY2018 Comprehensive Statement

Overview of Postal Operations

Mission

According to Title 39 of the United States Code, “The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by an Act of Congress, and supported by its people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal services to all communities.”

Services

Postal services are provided at 34,772 Post Offices, stations and branches; including approximately 3,500 additional Contract Postal Units, Village Post Offices and Community Post Offices; a network of commercial outlets; and our website, *www.usps.com*. We deliver to nearly 159 million city, rural, Post Office Box (PO Box) and highway delivery points. In planning and building new facilities, and in renovating existing facilities, we aim to make our retail locations convenient, accessible and cost-effective.

In fulfilling our universal service obligation, we provide services to patrons in all areas and communities in the United States. This includes rural areas, communities and small towns where Post Offices are not financially self-sustaining. We use a variety of transportation methods to move mail through this large network, including highway and air transportation.

Postal Rates

Postal rates are established to be fair, equitable and affordable. Prices and fees are reviewed and approved by our Governors and subject to a review process by the Postal Regulatory Commission (PRC). In FY2018, our retail price for a First-Class Mail stamp ($0.50) continued to be the most affordable postal rate among all posts in industrialized nations.

We offer two categories of products, which are classified for regulatory purposes as Market-Dominant products and Competitive products. Market-Dominant products include, among others, First-Class Mail, USPS Marketing Mail (more commonly known as Marketing Mail) and Periodicals. Currently, price increases for Market-Dominant products are subject to a price cap based on the Consumer Price Index for All Urban Consumers (CPI-U). Our most profitable Market-Dominant product, First-Class Mail, experienced a decline in volume with decreases of 3.6 percent in FY2018, 3.9 percent in FY2017 and 2.2 percent in FY2016, because of the continued migration toward electronic communication and transaction alternatives.

Competitive products, such as Priority Mail, Priority Mail Express, Parcel Select, Parcel Return Service, First-Class Package Services — Retail and First-Class Package Services — Commercial (formerly combined and known singularly as First-Class Package Services) and some types of International Mail, have greater pricing flexibility. Our Board of Governors sets prices for Competitive products and the PRC reviews them for legal compliance. By law, prices must cover costs attributable to each product (i.e., the direct and indirect costs attributable to such products) and must contribute a reasonable share (currently 5.5 percent) of our institutional costs, as determined by the PRC. Prices for these Competitive products increased an average of 4.1 percent, 3.9 percent and 9.5 percent in January 2018, January 2017 and January 2016, respectively.

Semipostal Stamps

The Semipostal Authorization Act, Pub. L. 106–253, grants the U.S. Postal Service discretionary authority to issue and sell semipostal fundraising stamps to advance such causes as it considers to be “in the national public interest and appropriate.” Under the program, the Postal Service intends to issue five semipostal fundraising stamps over a 10-year period, with each stamp to be sold for no more than two years. In November 2017, the *Alzheimer’s* semipostal stamp was the first in the new series and will be followed by a *Post-Traumatic Stress Disorder* semipostal stamp to be issued in 2019. As of Sept. 30, 2018, the next three discretionary semipostal stamps have not yet been determined.

These semipostal stamps are postage stamps with a postage value equal to the First-Class Mail single-piece, one-ounce stamp rate in effect at the time of purchase, plus an amount to fund a designated cause. By law, revenue from sales of semipostal stamps, less the postage paid and the reasonable costs incurred by us, is distributed to designated agencies to support the designated causes.

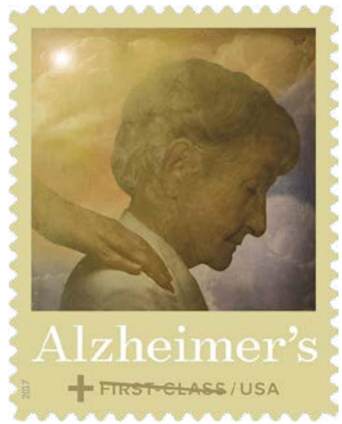
In FY2018, we sold three congressionally mandated semipostal stamps, the *Breast Cancer Research* semipostal stamp, the *Save Vanishing Species* semipostal stamp, and the *Alzheimer's* semipostal stamp.

Breast Cancer Research

The Breast Cancer Research semipostal stamp generated approximately $1.9 million in funds in excess of the postage value in FY2018. We did not deduct any costs in connection with these stamps in FY2018. The Postal Service distributed approximately $1.3 million (70 percent) to the National Institute of Health within the Department of Health and Human Services and approximately $570,000 (30 percent) to the Breast Cancer Research Program within the Department of Defense.

Save Vanishing Species

The Save Vanishing Species semipostal stamp generated approximately $1.1 million in funds in excess of the postage value in FY2018. We did not deduct any costs in connection with these stamps in FY2018. All of the funds collected in excess of the postage value were given to the U.S. Fish and Wildlife Service to support the Multinational Species Conservation Funds.



Alzheimer's

The newest semipostal stamp, Alzheimer's, helps raise funds to fight Alzheimer's disease. In FY2018, the sale of the Alzheimer's stamp generated approximately $626,500 in funds in excess of the postage value in FY2018. We did not deduct any costs in connection with these stamps in FY2018. Net proceeds were distributed to the National Institute on Aging within the U.S. Department of Health and Human Services.

Public Opinion

Public interest and opinion of our organization remain strong, despite our changing business model. In a December 2017 Gallup Poll, 74 percent of Americans rated the job performance of the organization as "excellent" or "good," placing the United States Postal Service as the highest rated governmental agency.

Additionally, a Pew research poll released in February 2018 found that 88 percent of Americans held a favorable opinion of the United States Postal Service, ranking the Postal Service as the highest rated federal agency.

Key Financial and Operating Statistics

Financial History Summary

(in millions)

	FY2018	FY2017	FY2016
Operating results			
Total revenue [1]	$ 70,660	$ 69,636	$ 71,498
Operating expenses			
Compensation and benefits [2]	50,004	49,108	48,441
Unfunded retirement benefits amortization	2,398	2,658	248
Retiree health benefits	4,481	4,260	9,105
Workers' compensation	4	(797)	2,682
Transportation	7,861	7,238	6,992
All other operating expenses	9,697	9,743	9,431
Loss from operations	$ (3,785)	$ (2,574)	$ (5,401)
Investment and interest income (expense), net	(128)	(168)	(190)
Net loss	**$ (3,913)**	**$ (2,742)**	**$ (5,591)**
Financial position			
Cash and cash equivalents [3]	$ 10,061	$ 10,513	$ 8,077
Property and equipment, net	14,616	14,891	15,296
All other assets	2,011	1,990	1,846
Total assets	**$ 26,688**	**$ 27,394**	**$ 25,219**
Retiree health benefits	$ 42,641	$ 38,160	$ 33,900
Workers' compensation costs	16,409	17,910	20,039
Debt	13,200	15,000	15,000
All other liabilities	17,075	15,048	12,262
Total liabilities	**$ 89,325**	**$ 86,118**	**$ 81,201**
Total net deficiency	**$ (62,637)**	**$ (58,724)**	**$ (55,982)**

[1] *Includes other non-operating income such as sale of land and buildings, sale of miscellaneous equipment, and sale of motor vehicles.*

[2] *Excludes amortization of unfunded retirement benefits, retiree health benefits and workers' compensation.*

[3] *Cash and cash equivalents are unrestricted.*

Revenue, Pieces and Weight Statistics

(in millions of units indicated, unaudited)

		FY2018		FY2017		FY2016
First-Class Mail [1]						
Revenue	$	24,976	$	25,689	$	27,508
Number of pieces		56,714		58,834		61,240
Weight, pounds		2,750		2,867		3,058
Marketing Mail [2]						
Revenue	$	16,512	$	16,626	$	17,622
Number of pieces		77,269		78,329		80,885
Weight, pounds		7,346		7,577		7,961
Shipping and Packages [3]						
Revenue	$	21,507	$	19,529	$	17,427
Number of pieces		6,152		5,758		5,159
Weight, pounds		12,088		10,887		9,454
International Mail						
Revenue	$	2,630	$	2,614	$	2,674
Number of pieces		941		1,001		1,005
Weight, pounds		504		501		484
Periodicals						
Revenue	$	1,277	$	1,375	$	1,507
Number of pieces		4,993		5,301		5,586
Weight, pounds		1,744		1,922		2,058
U.S. Postal Service Mail [4]						
Number of pieces		291		322		422
Weight, pounds		113		106		118
Free matter for the blind [5]						
Number of pieces		42		45		45
Weight, pounds		15		20		18
Other services – revenue [3]	$	3,720	$	3,760	$	3,630
Change in accounting estimate [6]	$	—	$	—	$	1,061
Postal Service totals						
Operating revenue	**$**	**70,622**	**$**	**69,593**	**$**	**71,429**
Number of pieces		**146,402**		**149,590**		**154,342**
Weight, pounds		**24,560**		**23,880**		**23,151**

Note: We have reclassified the totals for certain mail categories for prior years to conform with classifications used in the current year.

[1] *Excludes First-Class Mail Parcels.*

[2] *Excludes Marketing Mail Parcels.*

[3] *See Shipping and Packages and Other Services Statistics table on the following page.*

[4] *No revenue is received or recorded for this category of mail.*

[5] *By law, USPS is required to offer below-cost postage prices to certain categories of mailers including blind individuals. Congress reimbursed the Postal Service for revenue it had forgone by offering these below-cost postage prices.*

[6] *During FY2016, we revised the methodology used to estimate our deferred revenue — prepaid postage liability for Forever stamps. As a result, deferred revenue — prepaid postage was decreased by nearly $1.1 billion. In accordance with accounting principles generally accepted in the United States (GAAP), the change was accounted for as a change in accounting estimate.*

Shipping and Packages and Other Services Statistics

(in millions of units indicated; pieces, articles and weights unaudited)

	FY2018	FY2017	FY2016
Priority Mail Express			
Revenue	$ 751	$ 766	$ 809
Number of pieces	28	30	33
Weight, pounds	30	33	37
First-Class Packages [1]			
Revenue	$ 3,871	$ 3,353	$ 2,782
Number of pieces	1,275	1,157	1,028
Weight, pounds	491	455	371
Priority Mail [2]			
Revenue	$ 9,387	$ 8,717	$ 8,206
Number of pieces	1,089	1,045	1,029
Weight, pounds	2,793	2,542	2,581
Parcel Select Mail and Marketing Mail Parcels			
Revenue	$ 6,450	$ 5,707	$ 4,662
Number of pieces	3,031	2,837	2,414
Weight, pounds	7,202	6,347	5,014
Parcel Return Service Mail			
Revenue	$ 220	$ 183	$ 168
Number of pieces	89	69	64
Weight, pounds	230	195	188
Package Services			
Revenue	$ 828	$ 803	$ 800
Number of pieces	640	620	591
Weight, pounds	1,342	1,315	1,263
Total shipping and packages			
Revenue	**$ 21,507**	**$ 19,529**	**$ 17,427**
Number of pieces	**6,152**	**5,758**	**5,159**
Weight, pounds	**12,088**	**10,887**	**9,454**
Other services			
Certified Mail			
Revenue	$ 614	$ 672	$ 672
Number of articles	179	201	198
Return Receipts			
Revenue	$ 323	$ 340	$ 359
Number of articles	142	147	154
USPS Tracking			
Revenue	$ 1	$ 1	$ 1
Number of articles	5,338	4,951	4,318
PO Box Services revenue	$ 999	$ 964	$ 951
Money Orders			
Revenue	$ 147	$ 147	$ 153
Number of articles	83	87	90
Insurance			
Revenue	$ 79	$ 74	$ 79
Number of articles	18	15	16
Shipping and mailing supplies			
Revenue	$ 109	$ 109	$ 109
Number of articles	54	55	54
Miscellaneous other services revenue	$ 1,448	$ 1,453	$ 1,306
Total other services revenue	**$ 3,720**	**$ 3,760**	**$ 3,630**

Note: We have reclassified the totals for certain mail categories in prior years to conform with classifications used in the current year.

[1] Includes First-Class Mail Parcels, First-Class Package Services — Retail and First-Class Package Services — Commercial.

[2] Includes USPS Retail Ground (formerly Standard Post), which is a retail-only product classified as Market-Dominant. USPS Retail Ground is priced identically to Priority Mail for Zones 1–4 and is functionally equivalent to Priority Mail for those zones.

Post Offices and Delivery Points

(in actual units indicated, unaudited)

	FY2018	FY2017	FY2016
Post Offices, stations and branches			
Postal Service-managed			
Post Offices	26,365	26,410	26,611
Classified stations, branches and carrier annexes	4,959	4,967	4,974
Total Postal Service-managed	**31,324**	**31,377**	**31,585**
Contract Postal Units	2,240	2,331	2,458
Village Post Offices	743	821	877
Community Post Offices	465	476	503
Total offices, stations and branches	**34,772**	**35,005**	**35,423**
Residential delivery points			
City delivery	83,279,977	82,855,611	82,411,214
Rural	43,591,733	42,805,252	42,065,134
PO Box	15,960,945	15,954,141	15,926,420
Highway contract	2,959,424	2,924,386	2,880,500
Total residential delivery	**145,792,079**	**144,539,390**	**143,283,268**
Business delivery points			
City delivery	7,709,827	7,690,284	7,664,927
Rural	1,673,267	1,639,505	1,614,185
PO Box	3,301,930	3,379,418	3,452,198
Highway contract	81,153	80,079	79,602
Total business delivery	**12,766,177**	**12,789,286**	**12,810,912**
Total delivery points	**158,558,256**	**157,328,676**	**156,094,180**
Change in delivery points	1,229,580	1,234,496	1,142,352

Number of Routes by Type of Delivery

(in actual units indicated, unaudited)

Route	FY2018	FY2017	FY2016
City	143,358	143,937	144,571
Rural	78,737	75,433	74,724
Highway contract route	9,748	9,810	9,809
Total	**231,843**	**229,180**	**229,104**

Postal Vehicle Inventory
(in actual units indicated, unaudited)

Vehicle type	FY2018	FY2017	FY2016
Delivery and collection (0.5–2.5 tons)	208,133	205,997	203,853
Mail transport (tractors and trailers)	5,566	5,379	5,511
Mail transport (5–11 tons) [1]	2,389	2,080	2,100
Administrative and other	7,196	7,507	6,357
Service (maintenance)	6,398	7,034	7,191
Inspection Service and law enforcement	2,920	2,942	2,884
Total	**232,602**	**230,939**	**227,896**

[1] *Previously referred to as Mail transport (3-9 tons).*

Real Estate Inventory
(in actual units indicated, unaudited)

Real estate inventory	FY2018	FY2017	FY2016
Owned properties	8,362	8,448	8,484
Owned interior square feet	192,842,955	191,745,056	192,521,396
Leased properties	23,147	23,184	23,214
Leased interior square feet	79,047,136	78,335,141	78,735,195
GSA[1]/other government properties	294	285	285
GSA/other government interior square feet	1,797,769	1,839,972	1,885,956

[1] *General Services Administration.*

Real Estate Inventory Actions
(in actual units indicated, unaudited)

Real estate inventory actions	FY2018	FY2017	FY2016
Lease actions (alternate quarters, new leases and renewals)	4,667	3,927	5,050
Property disposals [1]	14	18	27
New construction [2]	77	69	52
Repair and alteration projects	58,653	53,694	53,466
Repair and alteration expense totals (rounded)	$ 215,000,000	$ 217,000,000	$ 245,000,000
Repair and alteration projects (capital)	4,464	4,598	5,102
Repair and alteration capital totals (rounded)	$ 483,400,000	$ 389,500,000	$ 314,000,000

[1] *Total partial and complete property sales (does not include non-property sales such as right-of-ways/easements, sale of rights, defaults, installment payments, etc.).*

[2] *Includes the build-out of pre-existing spaces that we did not previously own (alternate quarters), the new construction of leased or owned space and the expansion of existing spaces.*

Employees

(actual numbers, unaudited)

	FY2018	FY2017	FY2016
Headquarters and HQ-related employees			
Headquarters	3,254	3,252	3,098
Headquarters – field support units	3,491	3,581	3,640
Inspection Service – field	2,389	2,439	2,411
Inspector General	1,029	1,067	1,134
Total HQ and HQ-related employees	**10,163**	**10,339**	**10,283**
Field employees			
Area offices	899	825	821
Postmasters/installation heads	13,742	13,641	14,398
Supervisors/managers	25,590	25,281	24,832
Professional administration and technical personnel	4,672	4,580	4,526
Clerks/nurses	121,622	128,256	130,178
Mail handlers	37,535	39,307	39,405
City delivery carriers	168,199	166,569	170,885
Motor vehicle operators	8,411	8,147	7,723
Rural delivery carriers – full-time	70,852	69,462	68,261
Building and equipment maintenance personnel	30,219	31,366	32,307
Vehicle maintenance employees	5,253	5,330	5,289
Total field employees	**486,994**	**492,764**	**498,625**
Total career employees	**497,157**	**503,103**	**508,908**
Non-career employees			
Casuals	879	922	1,633
Postal support employees	26,386	26,823	26,368
Non-bargaining temporary	285	304	355
Rural part-time	59,183	59,655	53,183
Postmaster relief and leave replacements	2,168	2,368	3,626
City carrier assistant	42,115	44,486	40,436
Mail handler assistant	6,274	6,463	5,280
Total non-career employees	**137,290**	**141,021**	**130,881**
Total employees	**634,447**	**644,124**	**639,789**

Executive Compensation

The Board establishes executive officer compensation and benefits, subject to the requirements and limitations of federal law. Although our governing law provides that executives should be compensated at a level comparable to the private sector, we do not have the resources to achieve this level of compensation. Compensation for our executive officers remains significantly below that of similarly-ranked senior executives in the private sector.

In most circumstances, we cannot compensate our executives more than the rate for Level 1 of the Executive Schedule ($207,800 in Calendar Year 2017). Under certain programs, we can award bonuses or other rewards, which raise the level of compensation beyond this limit; however, compensation is still limited by federal law.

Performance-based payments for FY2016 were paid in Calendar Year 2017 and were approved by the Governor in place in 2016.

In accordance with legal reporting requirements, the following table reports Calendar Year 2017 compensation information including 1) our executives compensated in excess of Federal Executive Level 1 in Calendar Year 2017, and 2) the amount of bonus or other payments that caused pay to exceed Level 1 of the Executive Schedule in Calendar Year 2017. The terms “bonus or other payment” in the second column of the table are statutory terms that represent various amounts which are a part of an executive’s total compensation; these amounts are predicated on the Postal Service’s maintenance of a performance appraisal system that makes meaningful distinctions based on relative performance.

Executive Name	CY2017 Bonus or Other Payment	CY2017 Compensation in Excess of Level 1 of Executive Schedule
Megan J. Brennan	$ 79,728	$ 79,728
Robert Cintron	1,648	1,648
James P. Cochrane	53,484	53,484
Joshua D. Colin	10,648	10,648
Joseph Corbett	54,261	54,261
Guy J. Cottrell	2,199	2,199
Gregory G. Graves	2,387	2,387
Linda M. Malone	1,648	1,648
Thomas J. Marshall	52,020	52,020
Kevin L. McAdams	1,574	933
Maura McDevitt	2,163	2,163
Julie S. Moore	2,779	2,779
Shaun E. Mossman	1,624	1,624
Edward F. Phelan Jr.	1,624	1,624
Gary C. Reblin	1,553	756
William C. Rucker III	16,382	16,382
Tom Samra	2,417	2,215
Kristin A. Seaver	51,178	51,178
Jacqueline K. Strako	10,648	10,648
Ronald A. Stroman	60,793	60,793
Douglas A. Tulino	1,574	1,450
David E. Williams Jr.	51,178	51,178
Jeffrey C. Williamson	52,020	52,020

Note: Legislation requires reporting compensation in the last full calendar year. This does not align with our fiscal year, which is from October to September.

FY2018 Performance Report and FY2019 Performance Plan

Corporate-Wide Goals and Targets

We are a self-supporting, independent federal agency and the only delivery service that reaches every address in the United States. Everyone living in the United States and its territories has access to postal products and services and pays the same for a First-Class postage stamp regardless of their location.

The United States Postal Service puts information and technology at the center of its business strategies. We are speeding the pace of innovation, developing mobile and digital tools to play a larger role in the daily digital lives of customers, and use the world's most advanced tracking and information systems to speed the flow of mail and packages throughout our network. We leverage the information derived from our robust scanning and tracking systems to add value to the senders and receivers of mail and packages — and to create new products and services to spur growth in the mailing industry.

We continue to play an indispensable role as a driver of commerce and as a provider of delivery services that connects Americans to one another — reliably, affordably and securely, and to every residential and business address.

To provide reliable, efficient, trusted and affordable universal delivery service, we established four strategic areas of focus:

- Deliver a World-Class Customer Experience
- Equip, Empower and Engage Employees
- Innovate Faster to Deliver Value
- Invest in our Future Platforms

To assess our efforts in achieving these strategies, we measure our performance through progress against corporate performance outcomes:

- High-Quality Service
- Excellent Customer Experiences
- Safe Workplace and Engaged Workforce
- Financial Health

For each of these outcomes, the following subsections describe both the outcomes and measures used to assess our progress, a report of our performance in FY2018 and our plan for FY2019, including indicator targets. The table on the following page shows our performance from FY2015–FY2018 and our targets for FY2018–FY2019 for each outcome.

These targets are aligned with the FY2019 Integrated Financial Plan (IFP), which includes our planned revenue and expenses for FY2019. Every fiscal year, we develop a budget and plan that we intend to be sufficient for our field offices to meet their non-financial performance outcomes. We design all of our corporate-wide targets to be achievable given the planned finances in the IFP.

We measure "Controllable Income (Loss)" as one of our indicators for the outcome "Financial Health." This measure is based on planned expenditures and revenues for every program activity (i.e., budget item contributing to controllable income [loss]) outlined in the IFP. Controllable income (loss) is a non-GAAP (accounting principles generally accepted in the United States) measure defined as total revenue less controllable expenses and one-time accounting adjustments. Controllable expenses consist of compensation and benefits; transportation; depreciation; supplies and services; and rent, utilities and other controllable expenses. They do not include non-controllable expenses, discussed in detail later in this document. In the subsection "Controllable Income (Loss)," we provide the planned revenues and expenditures for FY2019, as well as actual revenues and expenditures for FY2018. This plan yields a target controllable loss for FY2019, which is our target for the FY2019 IFP, for the reasons discussed in that subsection.

In the day-to-day operation of our business, we focus on costs within our control, such as salaries and transportation. We calculate controllable income (loss) by excluding items we cannot control, such as Postal Service Retiree Health Benefits Fund (PSRHBF) actuarial revaluation and amortization expenses, workers' compensation expenses caused by actuarial revaluation and discount rate changes, retirement expenses caused by actuarial revaluation, and adjustments for non-recurring items, such as the 2016 change in accounting estimate for *Deferred revenue-prepaid postage*. Controllable income (loss) should not be considered a substitute for net income (loss) and other GAAP reporting measures.

We developed the budget in the IFP to be consistent with our planned work hours, which are used in the calculation of the targets for the measure "Deliveries per Total Work Hours, % Change."

FY2015–FY2018 Results and FY2018–FY2019 Targets for Corporate-Wide Performance Outcomes

Corporate Performance Outcome	Measure	FY2019 Target	FY2018 Actual	FY2018 Target	FY2017 Actual	FY2016 Actual	FY2015 Actual
High-Quality Service [1]	Single-Piece First-Class Mail						
	Two-day	96.50	93.78	96.50	94.72	94.66	93.28
	Three-to-five-day	95.25	82.48	95.25	85.57	83.66	76.56
	Presort First-Class Mail						
	Overnight	96.80	96.00	96.80	96.46	96.16	95.74
	Two-day	96.50	94.92	96.50	95.58	95.05	93.56
	Three-to-five-day	95.25	91.96	95.25	93.16	91.68	87.78
	First-Class Mail Letter and Flat Composite (FCLF) [2]	96.00	92.07	96.00	93.29	92.34	89.44
	Marketing Mail and Periodicals Composite [3]	91.80	89.26	91.80	91.44	90.01	86.77
Excellent Customer Experiences	Customer Experience Composite Index [4]	80.00	67.47	80.93	88.30	87.62	85.73
	Business Service Network (BSN)	96.73	95.90	96.73	96.25	95.13	94.32
	Point of Sale (POS)	90.42	87.98	90.42	88.53	86.38	86.28
	Delivery	86.33	80.47	86.33	83.22	76.26	77.49
	Customer Care Center (CCC) [5]	55.00	39.19	69.17	86.80	85.18	76.00
	Enterprise Customer Care (eCC) [6]	70.00	36.73	70.00	3.78	5.19	NA
	Large Business Panel	NA	72.34	78.00	76.75	75.88	74.61
	USPS.com [7]	65.00	57.54	66.33	NA	NA	NA
	Business Mail Entry Unit (BMEU) [7]	95.13	95.33	95.00	NA	NA	NA
Safe Workplace and Engaged Workforce	Total Accident Rate	15.00	15.09	15.00	15.43	16.09	16.44
	Engagement Survey Response Rate [8]	0.51	0.42	0.75	0.46	0.30	0.47
Financial Health	Controllable Income (Loss) ($ in billions)	(3.10)	(1.95)	(1.40)	(0.81)	0.61	1.19
	Deliveries per Total Work Hours, % Change [9]	1.40	(0.50)	2.10	(0.50)	0.10	0.20

Note: NA indicates that either no data was collected or no target was set for the relevant indicator and year.

[1] The Postal Service is providing nonpublic service performance data for certain competitive products as part of the Nonpublic Annex in the Annual Compliance Report proceeding conducted by the Postal Regulatory Commission.

[2] For our FY2015–FY2018 actuals and FY2018–FY2019 targets, we report the First-Class Mail Letter and Flat (FCLF) Composite in lieu of the First-Class Composite, which we reported in previous Annual Reports to Congress. FCLF Composite does not include First-Class Mail parcels. FCLF Composite numbers are based on the externally-measured quarterly service performance data that we file with the PRC pursuant to Part 3055 of Title 39 of the Code of Federal Regulations; they do not include mitigating factors used internally for compensatory purposes. Additionally, service measurement adjustments altered one previously reported end-of-year actual (FY2017 First-Class Mail Letter and Flat Composite), which is accurately reflected in this table.

[3] For our FY2015–FY2018 actuals and FY2018–FY2019 targets, we report the Marketing Mail and Periodicals Composite in lieu of Standard Composite, which we reported in previous Annual Reports to Congress.

[4] In FY2017, the Customer Insights Composite Index was based on BSN, POS, Delivery, CCC and eCC. In FY2018, the Customer Insights Composite Index was based on BSN, POS, Delivery, CCC, eCC, Large Business Panel, USPS.com and BMEU. In FY2019, the renamed Customer Experience Composite Index will be based on BSN, POS, Delivery, CCC, eCC, USPS.com and BMEU.

[5] The FY2019 target is based on satisfaction with both live agents and our Interactive Voice Response system, while the FY2015–FY2018 actuals and FY2018 target are based on satisfaction with live agents only. Because of this change in measurement, the FY2019 target is not directly comparable to the FY2018 target.

[6] The FY2019 target is based on overall customer satisfaction with the resolution quality received and year-to-date overall satisfaction improvement as compared to the same period last year, while the FY2015–FY2017 actuals are based on the percentage of cases that were reopened.

[7] The USPS.com and BMEU performance indicators were added to the Customer Experience Composite Index in FY2018.

[8] In FY2015–FY2018, and for the FY2019 target, we used the Postal Pulse survey. For FY2018, we chose a significant stretch goal to emphasize the importance of this measure.

[9] FY2015 has been recast to account for the adjustment to workhours based on earned workload.

High-Quality Service

Our commitment to execute our mission to "…bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal services to all communities" (Title 39 CFR) forms the core of our operations.

To measure our performance relative to our mission, we evaluate our delivery service performance continuously by randomly sampling mailpieces and measuring the time between when mail is deposited in a postal facility and when a USPS employee delivers it at a home, business or PO Box.

Below we describe the categories of mail standards that we use to gauge service performance.

Single-Piece First-Class Mail. The measures for Single-Piece First-Class Mail represent the performance of Single-Piece First-Class Mail letters, postcards and flats throughout the fiscal year. The indicators show the estimated percent of total mail by service standard (two-day and three-to-five-day) that was delivered to customers on time.

Presort First-Class Mail. The measures for Presort First-Class Mail represent the performance of commercial presorted First-Class Mail letters, postcards and flats delivered throughout the fiscal year. The indicators show the estimated percent of total mail by service standard (overnight, two-day and three-to-five-day) that was delivered on time.

First-Class Mail Letter and Flat Composite. The First-Class Mail Letter and Flat (FCLF) Composite category is the weighted average of the performance of Single-Piece First-Class Mail and Presort First-Class Mail across all service standards, weighted by volume.

Marketing Mail and Periodicals Composite. The Marketing Mail and Periodicals Composite category is a composite indicator of the percent of all Marketing Mail and Periodicals that were delivered within the service standard established during the year. This includes Marketing Mail letters, Marketing Mail flats and Periodicals. Approximately two-thirds of mail volume in this composite is Marketing Mail letters, while the remainder is Marketing Mail flats and Periodicals.

FY2018 Performance Report

We did not meet any of our FY2018 service performance targets for our Market-Dominant product categories: Single-Piece First-Class Mail (all service standards), Presort First-Class Mail (all service standards), First-Class Mail Letter and Flat Composite and Marketing Mail and Periodicals Composite.

During the first half of FY2018, when we process our highest mail and package volumes, we experienced considerable service disruptions because of extreme weather and natural disasters across the nation including three major hurricanes, wildfires, mudslides, heavy rainfall, ice and snow. These natural disasters significantly affected three of seven USPS Areas and disrupted operations across our network.

In the second quarter of FY2018, in response to the continued decline of First-Class Mail volume, double-digit growth in package volume, and over a million more delivery points, we conducted a network-wide job realignment and bidding process. This effort limited our ability to quickly normalize operations and return service performance to standards, but will benefit operations in FY2019 and beyond.

Our annual service performance metrics are cumulative and volume weighted. Thus, performance during the first half of the year (when volume is highest) sets the pace for the remainder of the year. Service performance scores improved in the Marketing Mail and Periodicals Composite and exceeded target during the second half of FY2018.

To address and recover from these network disruptions, we leveraged tools such as Lean Six Sigma to coordinate network-wide improvement initiatives aimed at improving service across our mail processing and delivery operations. As an example, we developed and deployed several advanced service diagnostics tools and created or overhauled numerous dashboards to proactively identify and resolve systemic issues affecting our service and improve operational efficiencies. Additionally, we trained employees on the use of these diagnostic tools through formal classes, webinars and training videos.

FY2019 Performance Plan

We have experienced and anticipate further significant weather events in FY2019. We have incorporated lessons learned from the 2018 weather disruptions into our response efforts to normalize operations quickly with the least amount of disruptions.

To meet our FY2019 targets, we will continue implementing operational, technological and training initiatives to improve the mail delivery process. We will leverage data analytics to better monitor systems and analyze scans, track mail at every step of the mail-handling process, and proactively identify potential root causes of lower service performance. We will deploy tools to more accurately generate daily processing and operational plans and predict transportation capacity needs.

In FY2019, we will use Service Performance Measurement (SPM) as the official measurement system which will replace the External First Class Measurement (EXFC) system. This change was approved by the Postal Regulatory Commission in 2018. This measurement system will provide more accurate, reliable and representative service performance reporting by gathering data from multiple sources including live scans of the billions of pieces moving through the postal network, rather than relying on samples of test pieces and test recipients. This system will allow us to provide a much more accurate reflection, in near real-time, of the organization's service performance and better use data analytics to identify systemic or localized areas for improvement.

Finally, we will prioritize capital investments on key infrastructure upgrades that best achieve improvements in service, processing capacity, labor efficiencies and maintenance costs. We will also continue our efforts to actively engage our employees to implement these process changes and technologies to better serve our customers.

Excellent Customer Experiences

The Customer Experience composite measurement system provides a comprehensive view of the customer experience across the most frequently used postal customer contact channels and is measured as a composite index of component survey scores. The measure — Customer Experience (CX) Composite Index[2] — is comprised of component surveys of each of these customer touchpoints. The components are:

Point of Sale (POS) survey. The POS survey measures customers' overall satisfaction with their experiences at retail locations.

Delivery survey. The Delivery survey measures the overall satisfaction of Residential and Small/Medium Business customers' delivery experience. In FY2018, this metric was changed to a single overall satisfaction (OSAT) question measuring customers' experience with USPS delivery about mail or packages recently received. The OSAT score is itself a composite of Residential and Small/Medium Business survey scores, including both street addressed and PO Box deliveries.

Business Service Network (BSN) survey. The BSN provides nationwide support to qualified business customers on service issues, information and requests. The BSN survey measures businesses' overall satisfaction with their BSN account representative in resolving their issue.

Business Mail & Entry Unit (BMEU) survey. The BMEU survey measures each commercial mailers' experience with their overall satisfaction and customer opinion of BMEU employees, the service they received, and suggestions for areas of improvement. It was added in FY2018 as part of the CX Composite Index.

Enterprise Customer Care (eCC) customer survey. The eCC survey measures resolution satisfaction of customers who file a complaint through either a Customer Care Center live agent or on USPS.com.

Customer Care Center (CCC) survey. The CCC survey measures customer satisfaction with calls made to our customer care centers.

[2] Beginning in FY2019, Customer Insights (CI) Composite Index has been renamed to Customer Experience (CX) Composite Index.

USPS.com survey. The USPS.com survey measures customer satisfaction with the USPS website as well as solicits customer opinion of website elements. In FY2018, USPS.com survey was added to the CX Composite Index.

Large Business Panel survey. The Large Business Panel survey measures large business customer satisfaction and opinion on Market-Dominant products and satisfaction with shipping services.

FY2018 Performance Report

In FY2018, we continued to evolve and improve our measurement, reporting and evaluation of our customers' experiences with our organization. We identified important customer touchpoints that had previously not been measured and implemented surveys to measure experience. Additionally, we evaluated each pre-existing survey for effectiveness in measuring overall customer satisfaction. These survey improvements increased the number of survey participants while simplifying the overall survey process.

In FY2018, the CX Composite Index score for FY2018 was 67.47 percent, lower than our FY2018 target of 80.93 percent. With the exception of the BMEU component metric, customer experience scores across all surveyed touchpoints missed their FY2018 targets. The two primary contributors for missing the composite target were the eCC and CCC survey results.

The following sections address FY2018 actual scores, FY2018 target, accomplishments achieved throughout the year and other related information if the FY2018 target was not met for each CX Composite index component.

POS survey. In FY2018, we achieved a score of 87.98 percent, lower than our target of 90.42 percent. Throughout the fiscal year, enhanced retail associate training was provided to improve customer service and employee knowledge of U.S. Postal Service products and services.

Delivery survey. In FY2018, we achieved a score of 80.47 percent, lower than our target of 86.33 percent. Our underperformance relative to FY2018 target was largely due to significant service disruptions including weather and natural disasters in the first half of the year.

BSN survey. In FY2018, we achieved a score of 95.90 percent, slightly lower than the target of 96.73 percent. We continued to implement BSN process improvements aimed at improving customer experiences, improving the number of respondents, and better representing our business customers' overall satisfaction with our BSN services versus just the last transaction.

An example of a process improvement was our deployment of the Single Package Look-Up (SPLU) tool, which enables our BSN representatives to seamlessly search all postal tracking systems to more quickly assess and effectively resolve package delivery issues.

BMEU survey. In FY2018, we achieved a score of 95.33 percent, exceeding our target of 95.00 percent. During the year, we provided training focused on instructing low-performing BMEU units on best-in-class business mail acceptance workflow procedures. These additional training touchpoints enabled our employees to deliver superior performance within this customer channel.

eCC survey. In FY2018, we achieved a score of 36.73 percent, substantially lower than our target of 70.00 percent. The primary reason cited by customers was that their issues were not adequately resolved quickly.

CCC survey. In FY2018, we achieved a score of 39.19 percent, significantly lower than our target of 69.17 percent. The primary root causes identified by customers were long wait times before speaking to a USPS representative and the inability to resolve their issues at first contact with our Interactive Voice Response system.

Another contributing factor to the decrease in customer satisfaction scores was a change we made to streamline the Customer Care Center customer satisfaction survey. In order to increase survey response rates, we both reduced the number of questions and asked customers to participate in the survey during the call, resulting in a six-fold increase in survey responses as compared to the prior year.

USPS.com survey. In FY2018, we achieved a score of 57.54 percent, lower than our target of 66.33 percent. Survey respondents identified both website functionality and design as contributors to their dissatisfaction. To address their concerns and improve the customer experience, we refreshed the USPS.com website with new user interfaces, better navigation and improved functionality throughout the year.

Large Business Panel survey. In FY2018, we achieved a score of 72.34 percent, lower than our target of 78.00 percent. Survey respondents identified two contributing factors to our underperformance: ease of contacting a Large Business Panel representative and issue/claim resolution.

FY2019 Performance Plan

In FY2019, excellent customer experiences will continue to be a focus of the organization, from improving the way we engage with customers to enhancing how we measure customer experiences. Across all channels, we will strive to better provide our customers with the experience they desire.

To emphasize the organization's commitment to improve our customer experiences, the Postmaster General realigned her leadership team in FY2018, establishing the Vice President of Customer Experience position to provide leadership, organizational coordination and focused attention on improving the customer experience.

In FY2019, we will calculate the CX Composite Index differently than in the previous year. The CX Composite Index will measure the aggregate variance of customer satisfaction scores across each touchpoint relative to the performance target we establish for each touchpoint. Previously, the weighted average of customer satisfaction raw scores was totaled to create the CX Composite Index. This will better enable us to incent performance improvements appropriate for each touchpoint.

We opted to remove the Large Business Panel survey in FY2019 to reduce customer segment survey redundancies as business customer experience is captured in our expanded BSN and BMEU surveys.

In FY2019, we will modify how we gauge success of our Enterprise Customer Care operations by measuring both overall satisfaction with the resolution quality received and year-to-date overall satisfaction improvement as compared to the same period last year. This change differs from FY2018 where we measured the overall satisfaction with the quality of service received in response to the issue. This will allow us to both measure the current success of our employees' efforts to satisfy our customers and provide incentive for our employees to continually improve customer satisfaction efforts. We believe that this change will better align with our goal to equip, engage and empower our employees to more swiftly resolve customer issues.

We plan to improve our ability to identify root causes of undesirable customer experiences in FY2019 by better enabling our workforce to enact actionable plans, allocate resources efficiently, and deliver a world-class customer experience.

Safe Workplace and Engaged Workforce

Employee Safety

Employee safety is a top priority for the organization. For the fourth year in a row we reduced total accidents. Prevention is the guiding principle for occupational safety and health legislation and the underlying philosophy of the USPS Safety Program. To avoid accidents and occupational diseases, we have adopted standard requirements for safety and health protection at the workplace and have established compliance protocols to ensure effective implementation.

Risk assessment and management are fundamental to the prevention and control of risks to safety and health in the workplace. This includes taking into account all relevant risks, checking the efficiency of the safety measures adopted, documenting the outcomes of the assessment and reviewing and updating the assessment regularly.

Our safety performance is measured by using a total accident rate metric. This metric is the total accident count for the year, multiplied by the approximate number of annual work hours per employee (2,000), multiplied by 100 and divided by the total yearly number of work hours. This yields, approximately, the annual accident frequency per 100 employees. This rate uses the same calculation developed by the Occupational Safety and Health Administration (OSHA) for OSHA Illness and Injury (I&I) rates but expands it to include accidents that do not result in medical expenses, days away from work or restrictions from performing full duty. Using the total accident rate is an industry best practice that enables us to design targeted prevention strategies designed to eliminate accidents and reduce the severity of impact on both the employee and the organization.

FY2018 Performance Report

In FY2018, our total accident rate was 15.09. Total accidents for FY2018 decreased more than 3.5 percent compared with FY2017, while the employee base declined by 1.5 percent. Nonetheless, we did not meet our aggressive accident rate target of 15.00. The table below shows accidents by type in FY2018 and FY2017.

Accident Count by Type

	FY2018	FY2017	Percent change
OSHA I&I	36,690	38,653	(5.08)%
Non-Recordable	50,969	52,184	(2.33)%
Motor Vehicle[1]	29,944	29,425	1.76%
Total	**87,659**	**90,837**	**(3.5)%**

[1] *Motor vehicle accidents are included in both the OSHA I&I and non-recordable accident counts.*

FY2019 Performance Plan

The FY2019 target for the total accident rate is 15.00. To achieve this, we will continue to focus on prevention and a proactive approach to safety through efforts designed to address the most frequent hazards of the workplace such as dog bites, extreme weather, distracted driving and improper lifting.

We will also focus on the importance of leadership in maintaining a culture of safety. Our safety initiatives will assist our processing facilities and Post Offices by establishing effective accident reduction plans, enlisting the cooperation and support of our employees and taking steps to address motor vehicle accidents through training, engineering controls and consistent communication. In addition, we will continue to recognize Postal leaders who demonstrate exceptional commitment to creating a safe work environment.

Employee Engagement

We believe that an engaged workplace is one in which individuals and teams thrive, consistently perform at high levels and achieve positive organizational outcomes. To measure the level of employee engagement within our organization, we administer the Postal Pulse survey, a 13-question instrument developed by Gallup, Inc. and have established the Engagement Survey Response Rate as the corporate measure of progress.

The Engagement Survey Response Rate measures the level of participation of all potential respondents during each survey administration. In addition to participation rate, the grand mean score is used as a measurement of the overall level of engagement of surveyed respondents. While the employee engagement grand mean score is not a corporate measure, it is important to note the grand mean score has increased since survey inception in 2015.

FY2018 Performance Report

Although we continued to improve our corporate grand mean employee engagement score in FY2018, we did not achieve our corporate target: Engagement Survey Response Rate. In FY2018, our Engagement Survey Response Rate of 42 percent did not meet our stretch target of 75 percent.

Throughout the year, we continued delivering a program of engagement training to all executives, managers and non-bargaining employees across the organization, which included the instructor-led training “Creating an Engaging Workplace at USPS.” In total, more than 47,000 leaders participated in engagement training.

Additionally, to increase the opportunity for employees to voice their opinions, we introduced a comment box feature to the Postal Pulse survey in FY2018. The received comments were used to identify additional employee engagement insights and actions.

FY2019 Performance Plan

Our FY2019 Postal Pulse Engagement Response Rate target is 51 percent. To achieve this target, we will continue to improve our efforts to communicate the importance of employee participation in the survey and provide postal employees with the training and tools necessary to equip each employee to best identify, assess and address engagement strengths and areas of opportunity specific to improving their local work environments.

In addition, we will continue to showcase employee success stories by recognizing our Engagement Leader of the Year award recipients, recognizing teams that have created great work environments, and sharing employee work team tips in daily news articles published across the Postal Service.

Financial Health

Several factors affected our FY2018 financial results including overall customer demand; the changing mix of postal services and contributions associated with those services; fluctuating volumes of mail and packages processed through our network; and our ability to manage our cost structure in line with declining levels of mail volume; growth in legacy retirement and retiree health benefit costs; growth in more labor-intensive shipping and package volume; and an increase in the number of delivery points.

First-Class Mail and Marketing Mail continued to provide the majority of our operating revenue in FY2018. As a percentage of operating revenue, First-Class Mail and Marketing Mail combined represented 58.7 percent, 60.8 percent and 64.1 percent (before the 2016 change in accounting estimate) for the years ended Sept. 30, 2018, 2017 and 2016, respectively. Combined First-Class Mail and Marketing Mail volume represented 91.5 percent, 91.7 percent and 92.1 percent in FY2018, FY2017 and FY2016, respectively.

While we continue to experience strong results in our Shipping and Packages business, it represented 30.5 percent of our operating revenue for the year ended Sept. 30, 2018, compared to First-Class Mail, which represented 35.4 percent. Further, our Shipping and Package business generated 4.2 percent of our volume for the year ended Sept. 30, 2018, while the costs to process and deliver these shipping and package services were higher than costs associated with First-Class Mail (on a per-piece basis).

Although revenue and volume are closely linked to the strength of the U.S. economy and changes in how our customers use the mail, we have proactively targeted opportunities to grow our business. We continue to focus on our customers' needs and have increased our marketing investment in mail and package innovation. However, we also recognize that revenue growth is constrained by laws and regulations restricting the types of products, services and pricing we may offer to our customers, and the speed with which we can bring new products to market.

We anticipate that the volume of First-Class Mail will continue to decline in future years with the migration to electronic communication and transactional alternatives resulting from technological changes. To address the long-term trend that such changes have had on our First-Class Mail revenue and volume, we have focused on providing new services and innovations with Marketing Mail. We have expanded service offerings such as Informed Delivery, which enable customers to preview mail and packages scheduled to arrive as a means of merging digital and physical mail. We believe these service offerings will help to stabilize Marketing Mail volume.

With our Shipping and Packages business, we have focused on growing e-commerce and implementing marketing campaigns that have helped us grow. By offering day-specific delivery, improved tracking and text alerts and up to $50 of free insurance on most Priority Mail packages, we have demonstrated our responsiveness to our customers.

In FY2018 and years prior, we implemented price increases on various Market-Dominant and Competitive services to remain competitive within the industry. However, these price increases have not fully offset our losses due to overall First-Class Mail volume decline.

Controllable Income (Loss)

Our financial results are significantly affected by expenses that are not reflective of our operational decisions and are subject to large fluctuations outside our control. We use controllable income (loss), rather than net income (loss), to assess our financial performance as net income includes the effect of factors (such as interest rate changes) that cannot be controlled or influenced by management.

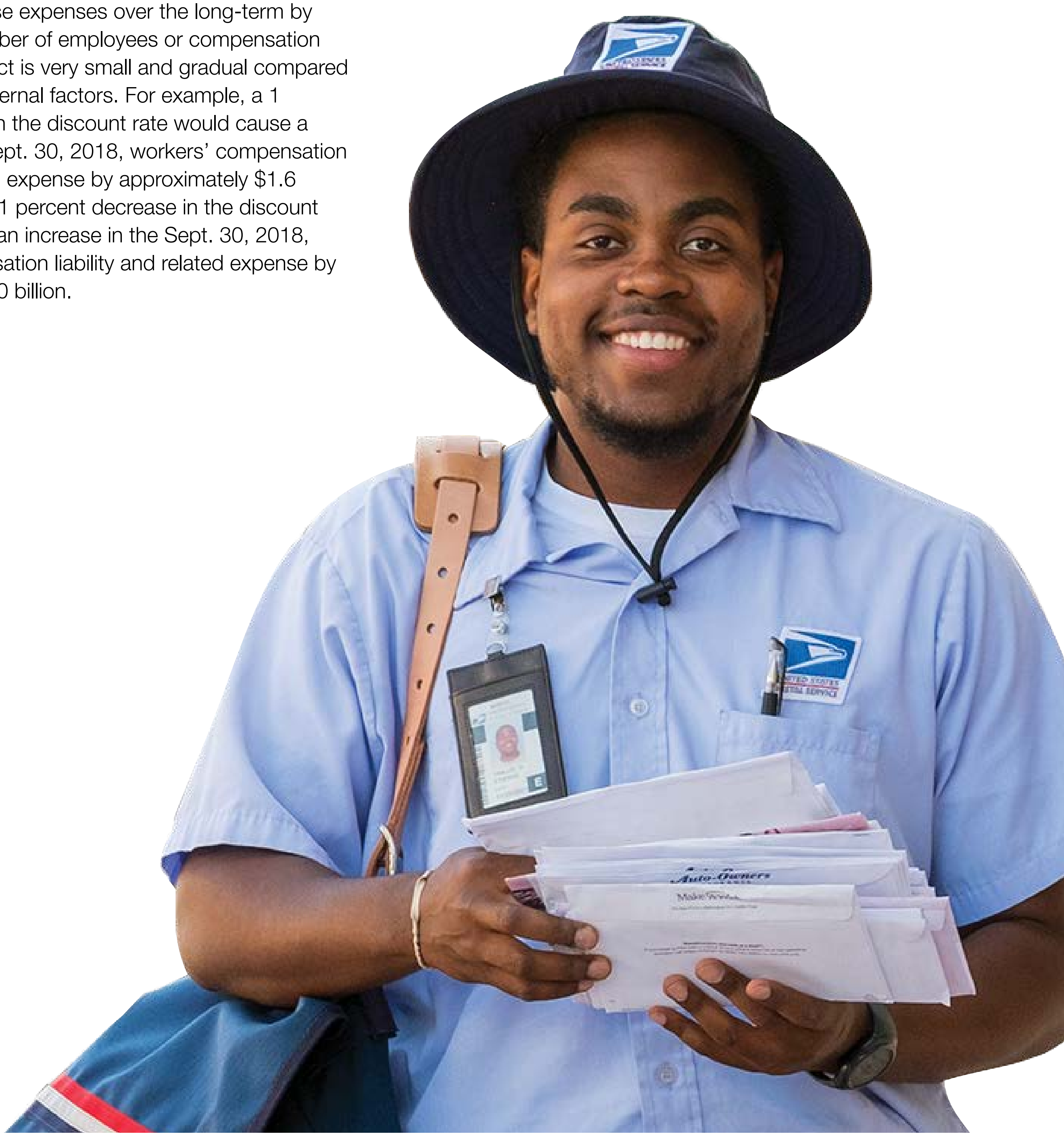
Non-Controllable Expenses

Non-controllable expenses include revaluations of the Postal Service Retiree Health Benefits Fund (PSRHBF) normal cost by OPM; the amortization of our unfunded PSRHBF liabilities; the amortization of our unfunded liabilities for our participation in the Federal Employees Retirement System (FERS) and Civil Service Retirement

System (CSRS); the 2016 change in accounting estimate of *Deferred revenue — prepaid postage* liability for Forever stamps; and non-cash expenses related to the changes in our liability for participation in the federal workers' compensation program. We exclude these items from the calculation of controllable income (loss).

Fluctuations in these expenses are caused by changes in actuarial assumptions, such as interest and inflation rates, and employee and retiree demographics. We can only influence these expenses over the long-term by changing the number of employees or compensation rates, but this effect is very small and gradual compared to the effect of external factors. For example, a 1 percent increase in the discount rate would cause a decrease in the Sept. 30, 2018, workers' compensation liability and related expense by approximately $1.6 billion. Similarly, a 1 percent decrease in the discount rate would cause an increase in the Sept. 30, 2018, workers' compensation liability and related expense by approximately $2.0 billion.

The table on the following page includes revenue, controllable income (loss), net income (loss) and shows planned revenues and expenses by category for FY2018 and FY2019, as well as actual data for FY2015–FY2018.



Revenue and Expenses

(in billions, unaudited[1])

	FY2019 Plan (IFP)	FY2018 Actual	FY2018 Plan (IFP)	Actual vs Plan	FY2017 Actual	FY2016 Actual	FY2015 Actual
First-Class Mail	$ 24.2	$ 25.0	$ 24.8	$ 0.2	$ 25.7	$ 26.6	$ 27.2
Marketing Mail	16.8	16.5	16.2	0.3	16.6	17.6	16.9
Shipping and packages	23.1	21.5	21.4	0.1	19.5	17.3	15.0
International	2.9	2.6	2.7	(0.1)	2.6	2.7	2.7
Periodicals	1.2	1.3	1.3	—	1.4	1.5	1.5
Other [2]	3.9	3.9	3.8	0.1	3.9	3.7	3.5
Revenue	**$ 72.1**	**$ 70.8**	**$ 70.2**	**$ 0.6**	**$ 69.7**	**$ 69.4**	**$ 66.8**
Temporary Exigent Surcharge	—	—	—	—	—	1.1	2.1
Total revenue	**$ 72.1**	**$ 70.8**	**$ 70.2**	**$ 0.6**	**$ 69.7**	**$ 70.5**	**$ 68.9**
Compensation and benefits [3]	52.5	51.4	50.7	0.7	50.5	53.2	51.8
PSRHBF normal cost [4]	4.0	3.7	3.5	0.2	2.8	—	—
Transportation	8.3	7.9	7.3	0.6	7.2	7.0	6.6
Depreciation	1.7	1.7	1.7	—	1.7	1.7	1.8
Supplies and services	3.0	3.0	3.0	—	3.0	2.8	2.7
Rent, utilities and other [5]	5.7	5.3	5.4	(0.1)	5.3	5.2	4.8
Controllable expenses	**$ 75.2**	**$ 72.8**	**$ 71.6**	**$ 1.2**	**$ 70.5**	**$ 69.9**	**$ 67.7**
Controllable income (loss)	**$ (3.1)**	**$ (2.0)**	**$ (1.4)**	**$ (0.6)**	**$ (0.8)**	**$ 0.6**	**$ 1.2**
PSRHBF pre-funding	—	—	—	—	—	(5.8)	(5.7)
PSRHBF normal cost actuarial revaluation [4]	—	(0.1)	—	(0.1)	(0.5)	—	—
PSRHBF unfunded liability amortization	(1.1)	(0.8)	(1.2)	0.4	(1.0)	—	—
FERS unfunded liability amortization	(1.0)	(1.0)	(0.9)	(0.1)	(0.9)	(0.2)	(0.2)
CSRS unfunded liability amortization	(1.4)	(1.4)	(1.7)	0.3	(1.7)	—	—
Workers' comp. fair value and other non-cash adjustments	—	1.4	—	1.4	2.2	(1.3)	(0.4)
Deferred revenue — prepaid postage change in estimate [6]	—	—	—	—	—	1.1	—
Non-controllable items	**$ (3.5)**	**$ (1.9)**	**$ (3.8)**	**$ 1.9**	**$ (1.9)**	**$ (6.2)**	**$ (6.3)**
Net income (loss)	**$ (6.6)**	**$ (3.9)**	**$ (5.2)**	**$ 1.3**	**$ (2.7)**	**$ (5.6)**	**$ (5.1)**

[1] Due to rounding, numbers presented throughout this table may not add up precisely to totals provided elsewhere in this report and percentages may not precisely reflect the absolute figures.

[2] Includes investment and interest income, gain or loss on sale and income from the outlease of property.

[3] Excludes PSRHBF pre-funding, normal cost, amortization and actuarial revaluation; non-cash adjustments to workers' compensation liabilities; and FERS and CSRS unfunded liabilities amortization, which are excluded from controllable expenses. Includes PSRHBF premiums (FY2015–FY2016) and workers' compensation cash expenses.

[4] Total PSRHBF normal cost in FY2018 was $3.7 billion, of which $3.5 billion was classified as a controllable expense. The remaining $0.2 billion was classified as an PSRHBF normal cost actuarial revaluation.

[5] Includes interest expense.

[6] During FY2016, we revised the methodology used to estimate our deferred revenue — prepaid postage liability for Forever stamps. As a result, deferred revenue — prepaid postage was decreased by nearly $1.1 billion. In accordance with accounting principles generally accepted in the United States (GAAP), the change was accounted for as a change in accounting estimate.

FY2018 Performance Report

The major factors that affected our financial results include overall customer demand, the mix of postal services and contribution associated with those services, volume of mail and packages processed through our network and our ability to manage our cost structure in line with declining levels of mail volume, growth in more labor-intensive Shipping and Packages volume and an increasing number of delivery points and legacy costs for retirement and retiree health benefits. We operate as a single segment and report our performance as such.

In FY2018, our total revenue, including interest and investment income was $70.8 billion and total expenses, including interest expense, were $74.7 billion, resulting in a net loss of $3.9 billion. This was $1.3 billion less than the $5.2 billion net loss planned in the FY2018 IFP. The lower-than-anticipated net loss was primarily due to a $700 million decrease in FERS and CSRS unfunded liabilities payable to OPM caused by actuarial changes to assumptions and $1.4 billion of favorable non-cash adjustments to our workers' compensation liability, primarily arising from higher interest (discount) rates.

For FY2018, we had a controllable loss of $2.0 billion, compared to our planned controllable loss of $1.4 billion. This result was primarily attributable to higher-than-expected compensation and benefit expenses and transportation costs.

Revenue

Revenue includes funds received from the sale of postage, mailing and shipping services; passports; PO Box rentals; gain or loss on sale and income from the outlease of property; and interest and investment income. Our FY2018 total revenue of $70.8 billion was $0.6 billion more than planned, largely due to higher-than-expected Marketing Mail volume.

First-Class Mail primarily consists of single-piece and presort letters and postcards. Revenue from First-Class Mail was $25.0 billion, $0.2 billion above plan, mainly due to higher-than-expected presort letters and postcards volume.

Marketing Mail consists of mail that we do not require customers to mail as First-Class or Periodicals and may include advertising, newsletters, catalogs, small marketing parcels and other printed matter. Revenue from Marketing Mail was $16.5 billion, $0.3 billion above the planned amount, due to higher-than-expected volume.

Shipping and Packages consist largely of Competitive services that can be priced to reflect current market conditions. These include Priority Mail and Priority Mail Express, business-oriented services such as Parcel Select and Parcel Return, First-Class Mail parcels and certain other package delivery services. Revenue from Shipping and Packages was $21.5 billion, $0.1 billion more than our planned amount, due to continued e-commerce growth and the successful implementation of various marketing and sales campaigns.

International Mail includes services that enable customers, both domestic and abroad, to send international mail and packages, with either standard or express delivery options. The majority of our International Mail revenue is generated from outbound services that allow customers in the U.S. to send mail and packages to other countries. Revenue from International Mail was $2.6 billion, $0.1 billion below our plan.

Periodicals mail is comprised primarily of newspapers, magazines and other periodical publications whose primary purpose is transmitting information to an established list of subscribers or requesters. Revenue from Periodicals was $1.3 billion, in line with our plan. Continued decline in hard-copy reading and advertising shifts away from print have depressed this segment for several years.

Other revenue includes ancillary services, such as Certified Mail, PO Box services, Return Receipt services, and money order and passport services. Other revenue was $3.9 billion, $0.1 billion more than our FY2018 plan.

Controllable Expenses

Controllable expenses exclude certain items that we consider non-controllable, discussed in the "Non-Controllable Expenses" section. Our ability to affect the amount of controllable expenses is limited by various legal requirements, including our universal service obligation, our collective bargaining obligations and our obligation to participate in federal benefits programs. This section describes the various categories of controllable expenses and their performance in FY2018.

Compensation and benefits expenses include salaries, basic retirement and employee health benefit expenses for our active employees and workers' compensation cash outlays. These expenses were $51.4 billion, $0.7 billion more than planned, largely due to contractual wage adjustments and additional work hours, driven by the more labor-intensive shipping and packages business as well as growth in our delivery network.

PSRHBF normal cost expense is the expense we incur to fund retirement health benefits for our active employees. Our normal cost of $3.7 billion was $0.2 billion above our planned amount; however, this excess is considered a non-controllable expense, as it is the result of differences between amounts forecast by OPM and their financial calculation, due to actuarial and experience differences. The controllable portion of PSRHBF normal costs was in line with the plan.

Transportation expenses include the costs we incur to transport mail and other products between our facilities, including highway, air and international transportation contracts, plus contract delivery services. Transportation expenses do not include the compensation and benefits of employees responsible for transporting mail and other products between our facilities or to delivery points. The non-personnel costs of transportation to delivery points, excluding contract delivery services, are included in rent, utilities and other expenses. Total transportation expenses were $7.9 billion, $0.6 billion above our plan and largely due to the nationwide shortage of long-haul truck drivers, highway contract rate increases and rising fuel costs.

Depreciation expense allocates the cost of long-lived assets to the periods in which they are used. These assets include items such as buildings, equipment, vehicles, leasehold improvements and capitalized software. Depreciation expense was $1.7 billion, in line with our IFP estimate.

Supplies and services expenses include minor equipment, spare parts, furniture, services, cost of sales and office supplies. Supplies and services expenses in FY2018 were $3.0 billion, in line with the planned amount.

Rent, utilities and other expenses include the cost of leasing buildings, utilities, building repairs and alterations, vehicle fuel, information technology, interest expense and all other miscellaneous items. These items collectively cost $5.3 billion, which was $0.1 billion below our plan.

FY2019 Performance Plan

In FY2019, we plan for a $3.1 billion controllable loss, in which revenue growth of $1.3 billion is more than offset by inflationary and contractual cost increases and an anticipated increase in the controllable portion of the PSRHBF normal cost.

Revenue

Revenue is planned to increase by $1.3 billion compared to FY2018. This increase is driven primarily by increases in Shipping and Packages, International, and Marketing Mail. First-Class Mail revenue is estimated to decrease by $0.8 billion due to continued electronic diversion, slightly offset by a planned CPI-U price increase in January 2019. Marketing Mail revenue is estimated to increase by $0.3 billion, as we expect the CPI-U price increase to offset a slight decrease in volume. Shipping and Packages revenue is estimated to increase by $1.6 billion, mainly because of continued volume growth and market price increases. International revenue is estimated to increase $0.3 billion due to price increases. Periodicals revenue is estimated to decrease marginally as electronic content continues to grow in popularity. Other revenue is estimated to remain flat.

Controllable Expenses

Compensation and benefits expenses are planned to increase by $1.1 billion in FY2019, due to wage increases by $0.6 billion resulting from contractual general increases and cost-of-living adjustments which we offset by the utilization of newer, less expensive employees in accordance with our labor agreements. PSRHBF normal cost expense is planned to increase by $0.5 billion over the FY2018 controllable amount, in line with OPM projections of medical inflation rates and an expected reduction in the discount rate. Transportation expenses are estimated to increase by $0.4 billion, largely due to growth in package volume and inflationary pressures. Depreciation expense is expected to remain flat. Supplies and services expenses are expected to remain flat, primarily accounting for information technology and cyber security enhancements. Rent, utilities and other expenses are estimated to increase by $0.4 billion due to normal inflationary pressures, particularly those related to vehicle fuel, heating oil and vehicle repairs. We also plan to reduce the number of work hours through increased efficiency.

Non-Controllable Expenses

The PSRHBF normal cost actuarial revaluation and amortization expense of $0.1 billion in FY2018 accounts for the difference in the PSRHBF normal cost charged by OPM over their previous estimate. Our FY2018 IFP included $3.5 billion for PSRHBF normal cost as part of compensation and benefits, included in controllable expenses, based on projections from OPM. In FY2018, OPM increased its normal cost calculation. As this increase in PSRHBF normal costs was due to changes in the actuarial assumptions by OPM, we treated this amount as non-controllable. There is no plan for a normal cost revaluation expense in FY2019 as we cannot predict calculation changes by OPM.

OPM calculates the PSRHBF amortization expense to allow us to pay down our unfunded liability obligations in the PSRHBF program. The FY2018 IFP included $1.2 billion in expense, based on the most recent OPM data available at the time we published the IFP. The actual billed amount in FY2018 was $0.8 billion. This lower amortization requirement primarily resulted from a lower-than-expected actuarial liability resulting from OPM's adoption of Postal Service-specific demographic assumptions. Based on the latest available information, the FY2019 IFP includes a $0.9 billion expense for PSRHBF unfunded liability amortization.

OPM calculates both FERS and CSRS amortization payments to allow us to pay down our unfunded liability obligations in the FERS and CSRS programs. We consider these expenses non-controllable because the amount depends on actuarial assumptions, including interest and inflation rates, over which we have no control. FY2018 planned expenses for FERS and CSRS amortization were $0.9 billion and $1.7 billion, respectively, based on the most recent data available at the time we published the IFP. The actual charged amounts in FY2018 were $1.0 billion and $1.4 billion, respectively, largely due to the adoption of postal-specific demographic assumptions by OPM. Our FY2019 IFP includes CSRS and FERS amortization expenses equal to their actual FY2018 values[3].

GAAP requires us to record our Sept. 30, 2018 workers' compensation liability based on the prevailing interest rates on that date. The adjustment to the liability is non-controllable, as it is a function of events taking place in the general economy and well outside our control. We do not plan for this adjustment in our IFP, as we cannot predict future interest rates. In FY2018, we recorded a $1.4 billion non-controllable reduction in workers' compensation expense, due primarily to the favorable impact that increasing interest rates has on our workers' compensation liability. This represents a $0.8 billion lower benefit compared to the prior year. This lower benefit primarily resulted from changes in rules for pharmaceutical compounding in FY2017 that were not repeated in FY2018, and to a lesser extent an increase in discount rates in 2018.

Forward Looking

In order for the Postal Service to effectively leverage the best available technologies and solutions to enhance our operations and products, and best serve our customers by providing reliable postal services, we will continue to take aggressive management actions to control costs and increase efficiency. However, we need both Congress and the PRC to make necessary statutory and regulatory business model changes to assist our internal efforts. The Postal Service will continue to take aggressive management actions to enable our organization to return to long-term financial stability. We are relying on Congress to enact effective postal reform legislation, the centerpiece of which must be a requirement that postal retirees enroll in Medicare. This is a near-universal practice for businesses that still provide retiree health benefits and would ensure that the Postal Service's retiree health benefits program aligns with private sector best practices.

Also critical to solving our long-term financial challenges is the 10-year statutory review of the system for regulating rates and classes for Market-Dominant products being conducted by the PRC. Changes to the current pricing system are necessary because the current regulatory structure restricts our ability to adjust prices of Market-Dominant products. This current model is predicated on a price cap that does not take changes in Postal Service volumes and costs into account. As the past decade has illustrated, this system is unsuitable to ensuring the Postal Service's continued ability to provide prompt and reliable universal services, and meet our other statutory obligations in a self-sufficient manner. The Postal Service seeks a structure that gives us the ability to set prices at levels necessary to ensure our financial stability.

[3] OPM periodically notifies the Postal Service regarding its revaluation of unfunded CSRS and FERS liabilities. In October 2017, OPM issued a new rule announcing its intent to calculate future unfunded CSRS and FERS obligations using Postal Service-specific demographic assumptions but not Postal Service-specific salary growth assumptions, and OPM implemented this for its valuation as of Sept. 30, 2017, which impacts our FY2018 financial statements.

Deliveries per Total Work Hours, % Change

Deliveries per Total Work Hours, % Change (DPTWH % Change) is a measure of our efficiency. It is calculated by multiplying the total possible deliveries by the number of delivery days and dividing that product by total work hours. We target our percent improvement in DPTWH % Change from year to year.

We adjust work hours to reflect changes in workload compared to the prior year. This adjustment accounts for changes in the network size (the addition of delivery points), changes in the number of non-Sunday delivery days and changes in the mix of mail types (for example, a package usually contributes much more to workload than a letter or flat). The adjustment ensures that DPTWH % Change is comparable from year to year.

Finally, DPTWH % Change is calculated by comparing the current year DPTWH % Change (based on adjusted work hours) with prior year DPTWH % Change (based on unadjusted work hours). The following table shows how the annual percent change in DPTWH % Change is calculated.

Deliveries per Total Work Hours, % Change Calculation

	FY2019 Plan	FY2018 Actual	FY2018 Plan	FY2017 Actual	FY2016 Actual	FY2015 Actual [1]
Work hours (millions)	1,161.0	1,169.6	1,141.0	1,163.9	1,157.6	1,127.9
Less adjustment to work hours based on earned workload [2] (millions)	(4.9)	(5.4)	(4.0)	(5.4)	18.0	15.4
Adjusted work hours (millions)	1,165.9	1,175.0	1,145.0	1,169.3	1,139.6	1,112.4
Total deliveries (millions)	48,358	47,825	47,835	47,604	47,366	46,829
Deliveries per total work hours (unadjusted)	41.7	40.9	41.9	40.9	40.9	41.5
Deliveries per total work hours (adjusted)	41.5	40.7	41.8	40.7	41.6	42.1
Deliveries per total work hours, % change [2]	1.4%	(0.5)%	2.1%	(0.5)%	0.1%	0.2%

[1] *FY2015 actuals have been recast to account for the adjustment to workhours based on earned workload.*

[2] *The percent change in DPTWH is the percent difference between current year DPTWH % Change (based on adjusted work hours) and prior year DPTWH % Change (based on unadjusted work hours).*

FY2018 Performance Report

Package volume and delivery points grew in FY2018; however, both letter and flat volumes decreased significantly. The total number of deliveries grew by approximately 221 million, due to the addition of about 1.2 million new delivery points, a decrease in non-Sunday delivery days by one (from 303 to 302), as well as a small impact from increased Sunday deliveries. The FY2018 plan anticipated a 2.1 percent improvement in DPTWH % Change. However, in FY2018, DPTWH % Change instead decreased by 0.5 percent primarily due to overrunning our workhour plan. With a decline in letters and flats volume and an increase in package volume, we used additional overtime hours along with our lower cost, flexible non-career workforce in an attempt to improve service.

FY2019 Performance Plan

The FY2019 DPTWH % Change target of 1.4 percent assumes we will capture work hour reductions from declining mail volume and from operational initiatives to improve efficiencies in Mail Processing, Delivery, and Customer Service.

Other Productivity Measures

Total Factor Productivity (TFP) measures how efficiently we use our resources[4]. An increase in TFP indicates that the ratio of work completed to the resources used is increasing and we are operating more efficiently. Work completed depends on three primary components: 1) the number of delivery points, 2) mail volume weighted by product type and 3) miscellaneous output (such as other services we provide, including passport services).

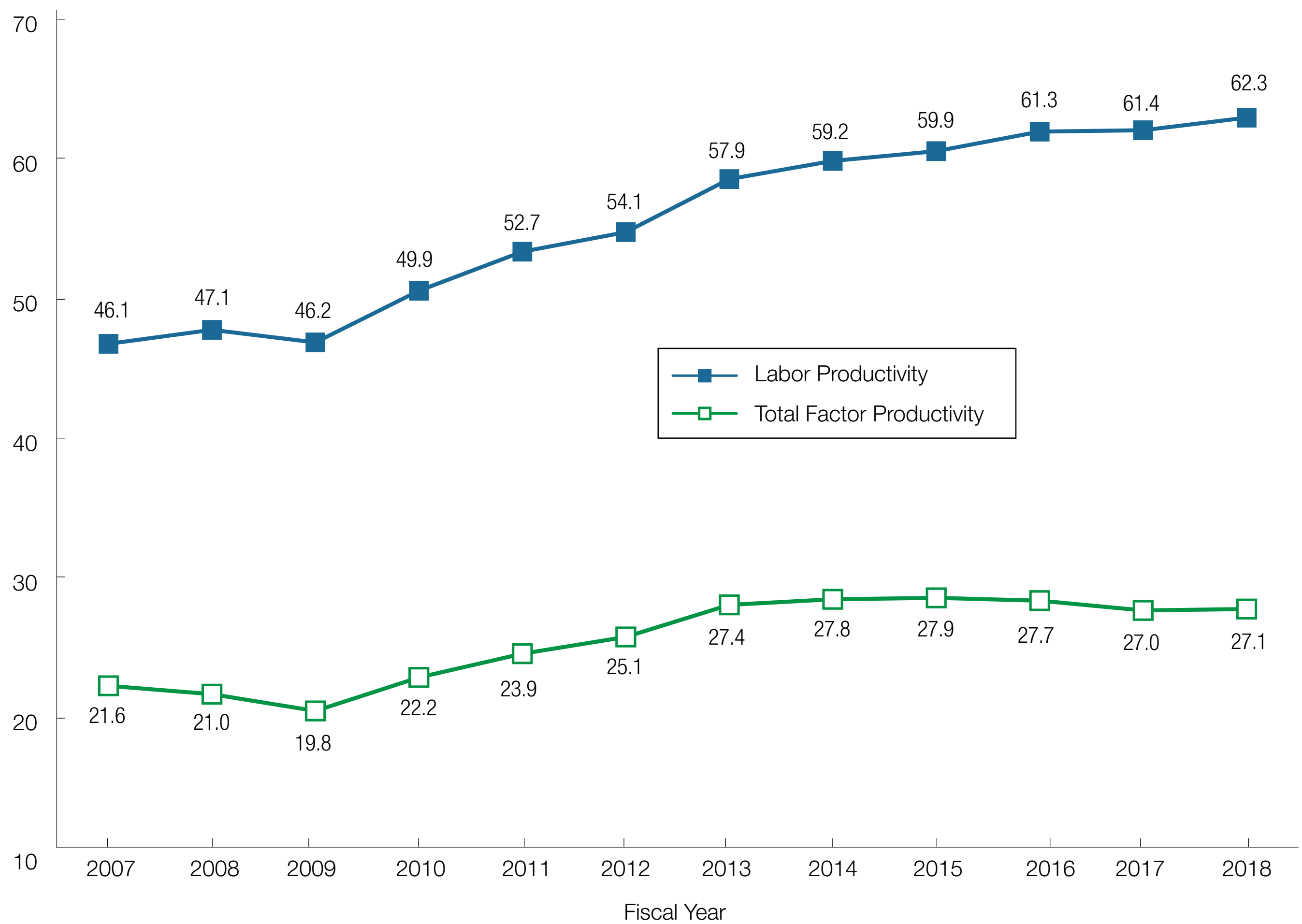
[4] *We use DPTWH % Change rather than TFP as our primary indicator for two reasons: 1) DPTWH % Change is easier to understand and target at the area and district level and 2) DPTWH % Change can be calculated in a more timely manner than TFP, allowing us to more quickly assess our performance.*

Labor productivity measures the efficiency of labor. An increase in the labor productivity index indicates that more workload is being handled per unit of labor.

Labor productivity increased for the ninth year in a row in FY2018. Excluding 2009, labor productivity has increased each year since 1997. TFP has increased significantly since FY2009, though it decreased slightly in FY2016 and FY2017, before increasing by 0.1 in FY2018. The increase in TFP is largely attributable to positive labor productivity due to a more cost-effective workforce, offset by declining mail volume, increased transportation expenses, and increased investments. A number of factors, including the decline in mail volume in recent years, have made it more challenging to generate additional productivity growth. For both indices, resource usage is based on the constant-dollar amounts of labor, capital and materials used. Because some productivity improvements take years for the effects to be realized, it is more informative to consider changes in TFP and labor productivity over a period of years, rather than year-to-year.

The following chart starts with the cumulative TFP and labor productivity improvement from 1971 to 2007 and then shows the cumulative change each year since then.

Total Factor Productivity and Labor Productivity, Cumulative Change Since 1971[1]



[1] *TFP and Labor Productivity for FY2018 is preliminary until the final Cost and Revenue Analysis (CRA) report is released in January 2019.*

Strategic Initiatives

We have established strategic goals as described in our *FY2017-2021 5-Year Strategic Plan*. To help achieve these goals, we have implemented a portfolio of strategic initiatives and a rigorous portfolio management process. This process is based on well-established methods to apply strategic and financial rigor to decision-making and to navigate significant organizational changes.

Each strategic initiative has a specific set of measures to track performance aligned to achieve both short-term performance and build long-term capabilities. The portfolio of initiatives is dynamic and changes as priorities and resources change, and as programs are completed or adjusted based on external events.

The changes to our initiatives from FY2018 to FY2019 fall into the following categories:

1. Continued: Initiative continued into FY2019 with minimal changes from FY2018.
2. Refined: Initiative was modified to achieve greater alignment with organizational goals and the current business environment.
3. Combined: Initiative was combined with one or more similar initiatives to more accurately reflect the current business environment and provide greater alignment organizationally.

The table on the following page shows how the strategic initiatives implemented in FY2018 and planned for FY2019 align to the strategies from our 5-Year Strategic Plan and to the corporate-wide performance metrics.

FY2018 and FY2019 Strategic Initiatives

FY2018 Corporate Outcomes Supported						FY2019 Corporate Outcomes Supported					
Strategies from the FY2017–FY2021 5-Year Strategic Plan	**FY2018 Strategic Initiatives**	**High-Quality Service**	**Excellent Customer Experiences**	**Safe Workplace And Engaged Workforce**	**Financial Health**	**Change from FY2018 to FY2019**	**FY2019 Strategic Initiatives**	**High-Quality Service**	**Excellent Customer Experiences**	**Safe Workplace And Engaged Workforce**	**Financial Health**
Deliver World-Class Customer Experience	Build a World-Class Customer Experience	X	X	X		Continued	Build a World-Class Customer Experience	X	X	X	
	Build a World-Class International Platform	X	X		X	Combined (with Accelerate Innovation to Maximize Business Value)					
Equip, Empower, & Engage Employees	Build a World-Class Employee Experience			X	X	Refined	Improve Employee Experience			X	X
Innovate Faster to Deliver Value	Accelerate Innovation to Maximize Business Value	X	X	X	X	Continued	Accelerate Innovation to Maximize Business Value	X	X	X	X
	Accelerate Innovation to Create Customer Value and Maximize Revenue and Profit	X	X		X	Refined	Accelerate Innovation to Create Customer Value and Maximize Revenue and Profitability	X	X		X
Invest in Our Future Platforms	Optimize Network Platform	X			X	Refined	Optimize Network Platform	X			X
	Delivery Structure Rationalization	X	X		X	Continued	Delivery Structure Optimization	X	X		X
	Build a World-Class Package Platform	X	X		X	Refined	Build Platform to Grow Profitable Packages Business	X	X		X

Additional Information

For more information on our programs and policies, please visit *usps.com*.

Trademarks

The eagle logo, the trade dress of USPS packaging, the letter carrier uniform, trade dress of the round top collection box and the postal truck and the following word marks are among the many trademarks owned by the United States Postal Service®: Certified Mail®, First-Class™, First-Class Mail®, First-Class Package®, Forever®, Informed Delivery®, Informed Visibility®, Parcel Select®, P.O. Box™, PO Box™, Post Office™, Postal Pulse®, Postal Service™, Priority Mail®, Priority Mail Express®, Priority Mail Express International®, Priority Mail International®, Standard Mail®, Standard Post™, United States Postal Inspection Service®, United States Postal Service®, U.S. Mail®, U.S. Postal Service®, USPS®, USPS BlueEarth®, USPS Marketing Mail®, USPS Retail Ground®, USPS Tracking®, usps.com®, Village Post Office™, and ZIP Code™.

Year References

All references to a specific year or “the year” refer to the Postal Service fiscal year ending Sept. 30, 2018. However, specific month and year references pertain to the calendar date.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