Fiscal Year 2018 Integrated Financial Plan

United States Postal Service

Introduction

The mission of the United States Postal Service is to bind the nation together by providing reliable, efficient, trusted, and affordable universal delivery service that connects people and helps businesses grow. As a self-supporting, independent establishment of the executive branch, we are the only delivery service that reaches every American address and we therefore play a vital role in the American economy.

We are a responsible employer, providing middle class jobs throughout the country. The Postal Service employs more than 640,000 men and women, and in 2017 processed over 149 billion pieces of mail, which were delivered to 157 million business and residential delivery points six days a week. In addition to being one of the nation's largest employers, we are also one of the nation's largest civilian employers of veterans, with over 100,000 of our employees having served in the military.

We are self-funded and pay for our operations through the sale of postal products and services, and do not receive tax revenues to support our organization. We compete for customers every day, in every product line, in a dynamic and changing marketplace. We are obligated to provide universal service and maintain the significant processing, transportation, and delivery infrastructure that is required to fulfill our mission for the American public. Paying for that infrastructure is becoming increasingly challenging, due to the cost of serving approximately one million new delivery points annually; however, it is necessary under our current universal service mandate. This challenge is exacerbated as mail volumes decline and mandated costs continue to rise. Under existing laws and regulations, our business model is broken.

The Postal Accountability and Enhancement Act of 2006 (PAEA) obligates us to fully fund the Postal Service Retiree Health Benefits Fund (PSRHBF) for the estimated employer's portion of the health benefits of postal retirees and survivors. Our total cost for retiree health benefits consists of two components: 1) the normal cost of the estimated retirement health benefits of active career employees and 2) the amortization of the unfunded liability. Through September 30, 2017, we have funded approximately $49.8 billion (44 percent) of our RHB liability, even though those benefits are not fully integrated with Medicare. The obligation to the PSRHBF would be substantially reduced if legislation were passed requiring that postal annuitants' health benefit plans be fully integrated with Medicare, which is the normal practice in the private sector. Additionally, our pension obligations to the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) are 87 percent funded. This pension liability is calculated based on overall federal government demographic and economic assumptions. If the U.S. Office of Personnel Management (OPM) were to calculate our pension liabilities based on postal-specific demographic and salary increase assumptions, these obligations could also be reduced, which would result in an even higher funded status.

In addition, the innovations we have achieved are confined to a very narrow range of products and services because of existing legal limitations. Moreover, we operate under a price-cap environment where the prices for products that generate approximately 70 percent of our annual revenue are capped at the level of the CPI increase in any given year — a limitation not faced by private companies. The cap limits price increases to changes in consumer inflation, which does not reflect the financial realities of our business. It severely limits our ability to raise the revenue necessary to cover the costs of universal service. Together, these constraints significantly limit our ability to generate enough revenue to pay our bills. The Postal Regulatory Commission (PRC) is currently reviewing the pricing system for our market-dominant products, including the rigid price cap that currently applies, and could change the system to give the Postal Service more pricing flexibility.

The Postal Service has responded to these many legal constraints and to market shifts that have reduced volume by 30 percent since 2006. We have reduced our annual cost base by approximately $13 billion since 2006 through a series of aggressive management actions, as reflected in the table on the following page. In that time period, we consolidated our processing, delivery and retail operations, reduced the size of our workforce, and dramatically improved productivity. Nevertheless, the Postal Service cannot overcome its long-term financial challenges without legislative reform and pricing system changes.

			Number	%
Infrastructure	Consolidated Mail Processing Facilities	↓	360	54%
	City Delivery Route Consolidations	↓	19,000	12%
	Retail Hours Consolidation	↓	13,000	36%
Workforce	Work Hours (annual ongoing)	↓	295M	20%
	Career employees	↓	192,000	28%
	Non-Career Employees	↑	39,000	39%
	Total Employees	↓	153,000	19%
	Administrative Positions	↓	25,000	33%
Administration / Investments	Reduced Annual Headquarters Spending			
	Reduced HQ Positions	↓	$750M	
	Reduction in contractor expenses			
	Number of Administrative Areas	↓	9 to 7	22%
	Number of Districts	↓	80 to 67	16%
	Capital Expenditures			
	Avg. '06 -'09 ~$2.2B	↓	$0.9B	41%
	Avg. '15 -'17 ~$1.3B			

America needs a financially strong Postal Service that is enabled to effectively leverage the best available technologies and solutions to enhance our operations and products to best serve our customers and communities. The Postal Service will continue to take aggressive management actions and needs Congress and the PRC to make the necessary statutory and regulatory business model changes to enable the Postal Service to return to long-term financial stability. Congress should enact postal reform legislation, the centerpiece of which must be a requirement that postal retirees generally enroll in Medicare. This would ensure that the Postal Service's retiree health benefits program aligns with private sector best practices. In this regard, it is a near-universal practice for businesses that still provide retiree health benefits to fully integrate with Medicare, and the law should be revised to likewise require postal annuitants to take advantage of the Medicare benefits that they have paid for.

Also critical to solving our long-term financial challenges is the 10-year review being conducted by the PRC. Changes to the current pricing system are necessary because the current regulatory structure governing our ability to adjust prices of market-dominant products is predicated on an austere price cap that does not take changes in Postal Service volumes and costs into account. As the past decade has clearly shown, this system is wholly 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 simply seeks a structure that gives us the ability to set prices at levels necessary to ensure our financial stability.

Thank you for taking the time to review our "Fiscal Year 2018 Integrated Financial Plan." We're proud to serve you, and all of the American public.

Note: Unless otherwise specified, all references to "years" refer to fiscal years beginning October 1 and ending September 30.

EXECUTIVE SUMMARY

In 2017, we reported a controllable loss of $0.8 billion, our first since 2013. Our net loss for the year was $2.7 billion. The three consecutive years of controllable income and four consecutive years of revenue growth prior to 2017 were largely the result of package growth, the temporary exigent surcharge on Market-Dominant products that expired on April 10, 2016, and continuing cost control initiatives.

Statement of Operations

In Billions		FY2017 Actual		FY2018 Plan
Revenue	$	69.7	$	70.2
Controllable Expenses [1, 2]		70.5		71.6
Controllable Income [1, 2]	**$**	**(0.8)**	**$**	**(1.4)**
RHB Normal Cost Actuarial Revaluation & Amortization [3]		(1.5)		(1.2)
Workers' Comp. Fair Value and Other Non-Cash Adj.		2.2		-
FERS Unfunded Liabilities Amortization [4]		(0.9)		(0.9)
CSRS Unfunded Liabilities Amortization		(1.7)		(1.7)
Net Loss	**$**	**(2.7)**	**$**	**(5.2)**
Mail Volume (Pieces)		**149.5**		**144.9**

1 - Before RHB amortization & actuarial revaluation, non-cash adjustments to workers' compensation liabilities and FERS and CSRS unfunded liabilities amortization, which are excluded from controllable expenses.
2 - RHB normal cost for 2017 totaled $2.8B. Controllable expenses include only the portion that was identified by OPM prior to the issuance of the FY2017 IFP.
3 - Includes effect of 18% increase in RHB normal cost due to OPM changes to actuarial assumptions and lower discount rate ($0.5B) and amortization of RHB unfunded liability ($1.0B).
4 - FERS is an estimate and subject to change once we receive the bill.

The 2018 Integrated Financial Plan (IFP) projects revenue growth of $0.5 billion over 2017. This increase is primarily driven by package volume growth and modest price increases for Market-Dominant and Competitive products. Controllable expenses in 2018 are expected to increase by $1.1 billion over 2017, with $0.7 billion of that increase from actuarially-determined retiree health benefits (RHB) normal cost. Excluding the impact of RHB normal costs, controllable expenses in 2018 are planned to increase by only $400 million (0.6 percent).

The 2018 IFP projects a controllable loss of $1.4 billion, versus an actual controllable loss of $0.8 billion in 2017. The 2018 net loss is projected to be $5.2 billion, compared to a net loss of $2.7 billion in 2017. The increase in the 2018 controllable loss is due primarily to a significant increase in the controllable portion of RHB normal costs, which goes from $2.8 billion in 2017 to $3.5 billion in 2018. This $0.7 billion increase in the controllable portion of RHB represents over 60 percent of the increase in controllable expenses in 2018.

Beginning in 2017, the 10-year RHB pre-funding schedule was replaced with a requirement that the Postal Service fund the normal costs of future RHB earned by current postal employees, as well as a requirement to fund the remaining unfunded liability calculated by the Office of Personnel Management (OPM) over a 40-year amortization period. The estimated RHB amortization expense for 2018 is $1.2 billion. Further, the Postal Service is now required to make an amortization payment to fund its obligation to the Civil Service Retirement System (CSRS), currently estimated by OPM at $1.7 billion per year, for 27 years, beginning in 2017. Lastly, the $0.9 billion Federal Employees Retirement System (FERS) unfunded liability amortization calculated by OPM continues. Both the FERS and CSRS amortization expenses projected in this plan are based on OPM's projections made using government-wide actuarial assumptions. OPM has recently indicated its intention to begin using postal-specific demographic assumptions (but not salary-increase assumptions, which may have a greater impact) with its 2018 actuarial valuation; however, sufficient information is not available to quantify the impact on the 2018 funding requirement. We do not anticipate having this information until late in 2018.

There is no estimate included in the plan for the non-cash portion of workers' compensation expense, because it is highly sensitive to changes in discount (interest) rates. For example, an increase of 1 percent in interest rates would decrease the liability at September 30, 2017, and 2017 expense by approximately $1.9 billion. A decrease of 1 percent would increase the liability at September 30, 2017, and 2017 expense by approximately $2.3 billion. All of these costs are excluded from our controllable income (loss) calculation, as they are dependent on actuarial assumptions, interest rates, and other factors outside of management's control.

The IFP projects that 2018 work hours will be reduced by 23 million compared to 2017. This is in spite of the continued growth in delivery points and the growth in more labor-intensive package volumes. These work hour reductions will be achieved by identifying and achieving efficiency improvements in all aspects of processing, delivery, retail, maintenance, and transportation, better aligning our infrastructure with mail volume declines. However, these work hour savings will not be sufficient to offset inflationary and other cost increase drivers.

The Postal Service ended 2017 with an unrestricted cash balance of $10.5 billion. Our average daily liquidity during the year was $9.4 billion, representing approximately 34 days of available liquidity[1]. This level of liquidity was achieved only by defaulting on RHB pre-funding payments totaling $33.9 billion from 2012 through 2016 and by not making $6.9 billion in lump-sum payments due on September 30, 2017 to the PSRHBF, CSRS and FERS. Aside from the non-payments, the $10.5 billion in available liquidity is also attributable to the temporary exigent surcharge, which generated approximately $4.6 billion in incremental revenue from January 2014 through April 10, 2016, as well as USPS's aggressive management of the capital expenditures and operating expenses within its control.

As of September 30, 2017

- **Total liabilities, including retirement obligations exceed assets by ~$122 billion.**
- **It would take RHB legislative change and decades of annual profits to remedy this level of excess liabilities and unfunded retirement obligations.**

CSRS Fund Balance [1]	$169.7B	CSRS Actuarial Liability	$196.0B
FERS Fund Balance [1]	$116.2B	FERS Actuarial Liability	$131.9B
RHB Fund Balance [2]	$49.8B	Retiree Health Benefits Obligation	$112.1B
Total Retirement-Fund Assets	$335.7B	Total Retirement-Related Liabilities	$440.0B
		Workers' Compensation	$17.9B
		Debt	$15.0B
Unrestricted Cash	$10.5B	Accrued Compensation, benefits, and leave	$4.3B
Land, Buildings & Equipment, net	$14.9B	Deferred Revenue	$2.2B
Other Assets	$2.0B	Other	$5.4B
Total Assets	**$363.1B**	**Total Liabilities**	**$484.8B**

- This table includes all assets and liabilities of pension and post-retirement health benefits obligations.
- Items highlighted in yellow are not shown on our balance sheet under GAAP multi-employer rules and are the OPM's projected valuation as of September 30, 2017.

[1] OPM projections as of September 30, 2017.
[2] OPM valuation as of September 30, 2017 (latest data available).

The Postal Service has no remaining borrowing capacity, as we ended 2017 with $15 billion in debt, which is the legally mandated ceiling. In 2018, our liquidity is projected to decrease to approximately $4.8 billion if we pay all of the required amortization and normal cost payments for 2018 (not including past due payments from prior years). This equates to approximately 17 days of available liquidity. By mid-October 2018, we estimate that liquidity would dip to approximately $3.7 billion (13 days). These levels are clearly insufficient for an organization with over $70 billion in annual controllable expenses and would place the Postal Service at inordinate risk of being unable to fund ongoing operations from existing liquidity in the event of an economic downturn or other adverse event.

It will take significant legislative reforms, a successful PRC 10-year pricing review, and years of sustained profitability to re-balance our assets and liabilities and eliminate the accumulated net deficiency.

The Postal Service continues to pursue financial stability through product development and innovation, pricing, improved operational efficiencies, and cost reductions. As noted above, there are many restrictions

[1] We define available liquidity as unrestricted cash, plus available borrowing capacity, divided by estimated average cash disbursements (including capital expenditures) per business day (usually 251 cash disbursement days per year).

on our ability to maximize revenues and manage expenses. The 2018 IFP demonstrates the Postal Service's commitment to a financially stable organization by balancing revenue growth initiatives, cost controls and investments in the future, within current legal and regulatory constraints.

ECONOMIC ASSUMPTIONS

At the time this plan was developed, the economy was projected to show continued modest improvement in 2018, driven by growth in real disposable income and employment, leading to more robust and stable Gross Domestic Product (GDP) growth, continued growth in housing, and higher investment boosted by the rebuilding efforts due to the hurricanes in August and September 2017. Growth in online shopping, emerging technologies, and improved consumer confidence could have further positive influence on economic growth in 2018. However, risks remain, as the diversion of First-Class Mail and USPS Marketing Mail may accelerate. The Postal Service's financial position and results of operations will also continue to be impacted by the state of the economy.

Economic Drivers

	FY2017 Forecast	FY2018 Forecast
Gross Domestic Product	2.0%	2.7%
eCommerce	13.6%	12.5%
Consumer Price Index for All Urban Consumers	2.0%	1.5%
Consumer Price Index for Wage and Clerical Workers	0.4%	2.1%
Employment Cost Index	2.2%	2.5%
Employment	1.7%	1.4%
Investment	3.5%	5.5%

In developing the IFP, we consider factors such as multi-year trends in our product sales (with greater weight on more recent trends), expected market growth, competitive market dynamics, changes in prices and marketing programs, the expected rate of migration of hard copy mail to digital media, and the expected state of the overall economy. For 2018, it is anticipated that the U.S. economy will remain stable, with the GDP growth rate increasing to 2.7 percent from 2.0 percent in 2017. Employment is expected to continue to increase, though at a slower rate, and investment is expected to be buoyed from the rebuilding efforts.

First-Class Mail and USPS Marketing Mail volume no longer appear to be tied strongly to growth in the economy, as diversion to electronic media offsets the positive influences of economic growth. In addition, the boost in USPS Marketing Mail in 2017 from the Presidential election will not be repeated in 2018.

2018 OPERATING PLAN – MAIL VOLUME AND REVENUE

A. Volume

Despite having seen fairly strong growth in the economy as a whole, volume in 2017 declined 4.9 billion pieces. First-Class Mail volume declined 2.5 billion pieces while USPS Marketing Mail declined 2.6 billion pieces, even with a billion pieces of additional political/election mail. However, package volume increased 0.6 billion pieces, driven by the double digit growth in eCommerce, and by our growth initiatives, marketing efforts, service, and competitive pricing.

Volume

Billion pieces	FY2017 Actual	FY2018 Plan
First-Class Mail	58.8	56.3
Marketing Mail	78.3	76.1
Shipping and Packages	5.7	6.1
International	1.0	1.0
Periodicals	5.3	5.0
Other	0.4	0.4
Total Volume	**149.5**	**144.9**

The 2018 IFP projects total mail volume of 144.9 billion pieces, a decline of 4.6 billion pieces, or 3.1 percent, from

2017. For First-Class Mail, the IFP projects a decline of approximately 2.5 billion pieces, or 4.2 percent, from 2017, reflecting the ongoing migration of communications and transactions out of First-Class Mail. It appears that the resilience of First-Class bill and statement presentment in the mail is waning, as customers are becoming more amenable to accepting bills and statements on their mobile devices, often in response to incentives by companies for making the switch. USPS Marketing Mail is expected to decline by 2.3 billion pieces or 2.9 percent, mainly due to the loss of election and political mail, as well as diversion to electronic media. Marketing mailers have become more sophisticated, leveraging technology to better target customers, thereby improving the return on investment for digital advertising. Periodicals volume is expected to continue to decline as readership continues to migrate to online media. This is expected to divert more advertising content to electronic media, leading publishers to reduce printed magazines, journals, and newspapers.

Shipping and Packages volume is expected to grow 7.2 percent to 6.1 billion pieces in 2018, led by the strong year-over-year growth in e-commerce, growth initiatives, marketing efforts, service and competitive pricing. First-Class Mail Parcels were reclassified from market dominant to First-Class Package Service – Retail, a sub product of the competitive First-Class Package Service on September 3, 2017. Priority Mail, Parcel Select, and First-Class Package Service, the three largest Shipping and Packages categories, are all expected to continue to show growth, driven by their consistent, reliable service, and price competitiveness.

Volume for the remaining products, including International Mail and Free Mail for the Blind and Handicapped is expected to remain close to 2017 levels.

B. Revenue

Revenue for 2017 increased by $0.3 billion compared to 2016 revenue, excluding the exigent surcharge collection and the impact of the 2016 change in accounting estimate. The slight increase in revenue was driven by the growth in packages. Despite the approximate 0.9 percent increase in Market-Dominant product prices in January 2017, revenue for Market-Dominant products fell by $2 billion in 2017, not including the lost revenue associated with the rollback of the exigent surcharge and the change in accounting estimate. This was due to the steep decline in First-Class Mail and USPS Marketing Mail volume, along with the decline in Periodicals. The growth in package volume, coupled with a price increase, led to 2017 packages revenue increasing by $2.1 billion.

Revenue

in Billions		FY2017 Actual		FY2018 Plan
First-Class Mail	$	25.6	$	24.8
Marketing Mail		16.6		16.2
Shipping and Packages		19.5		21.4
International		2.7		2.7
Periodicals		1.4		1.3
Other		3.9		3.8
Revenue	**$**	**69.7**	**$**	**70.2**

The prices of Market-Dominant products and services are set to increase approximately 1.9 percent and the prices of Competitive products and services are expected to increase approximately 4.1 percent in January 2018. The continuing decline in mail volume is expected to result in $1.3 billion less revenue from mail in 2018 compared to 2017, despite the price increase. The growth in package volume coupled with the price increase is expected to generate an additional $1.9 billion in revenue. International Mail, additional services, and non-postal product related revenues are expected to decline $0.6 billion in 2018 compared to 2017. Total revenue in 2018 is expected to increase $0.5 billion or 0.7 percent over 2017 revenues.

The accelerated diversion of First-Class Mail to electronic alternatives is expected to adversely affect volume. This will more than offset the benefit from the price increase, causing First-Class Mail revenue to decline by $0.8 billion, or 3.3 percent. As explained above, USPS Marketing Mail volume is expected to decline due to the reduction in political/election mail and the diversion to other advertising media. This loss in volume is expected to offset any gain from the price increase, leading to USPS Marketing Mail revenue declining by $0.4 billion.

The growth in eCommerce coupled with a 4.1 percent price increase is expected to generate an additional $1.9 billion in revenues from Shipping and Packages in 2018. Although Shipping and Packages revenue is expected to show healthy growth of just under 10 percent, the products within Shipping and Packages generally have lower contribution margins than First-Class Mail and are subject to intense competition.

2018 OPERATING PLAN – WORK HOURS & EXPENSES

The 2018 IFP projects total work hours of 1,141 million, a work hour reduction target of 23 million compared to 2017. The increase in package volumes and the increase of approximately 1.2 million delivery points expected in 2018, results in upward pressure on work hours. However, this growth is offset by declining letter and flat mail volumes, efficiency improvements, and the reduction of one delivery day in 2018, compared to 2017.

Expenses

in Billions	FY2017 Actual	FY2018 Plan
Compensation and Benefits	$ 50.5	$ 50.7
RHB Normal Cost [1]	2.8	3.5
Transportation	7.2	7.3
Depreciation	1.7	1.7
Supplies & Services	3.0	3.0
Rent / Utilities / Other	5.3	5.4
Controllable Expenses [1, 2]	**$ 70.5**	**$ 71.6**
RHB Normal Cost Actuarial Revaluation & Amortization [3]	1.5	1.2
Workers' Comp. Fair Value and Other Non-Cash Adj.	(2.2)	-
FERS Unfunded Liabilities Amortization [4]	0.9	0.9
CSRS Unfunded Liabilities Amortization	1.7	1.7
Total Expenses	**$ 72.4**	**$ 75.4**

1 - RHB normal cost for 2017 reflects OPM's October 2016 forecast, for 2018 reflects OPM's July 2017 forecast. Additional $0.5B calculated by OPM in July 2017 is included in non-controllable expenses.
2 - Before RHB amortization & actuarial revaluation, non-cash adjustments to workers' compensation liabilities and FERS and CSRS unfunded liabilities amortization, which are excluded from controllable expenses.
3 - Includes effect of 18% increase in RHB normal cost due to OPM changes to actuarial assumptions and lower discount rate ($0.5B) and amortization of RHB unfunded liability ($1.0B).
4 - FERS is an estimate and subject to change once we receive the bill.

The Postal Service has increased productivity and decreased work hour usage over the last decade. We continue to implement strategies to manage work hours, but as seen in 2017, the continued growth in the number of packages — which are more labor-intensive than letters — and the ever-growing number of delivery points, combined with a decade of efficiency improvements, make it increasingly difficult to further reduce work hours. We will continue to innovate to drive efficiency through focus on streamlining processes in delivery, collections, retail, and our mail processing network.

Controllable expenses, which exclude the amortization of the FERS, CSRS, and RHB unfunded liabilities, and non-cash adjustments to the workers' compensation liability are projected to increase by $1.1 billion, or 1.6 percent, in 2018. However, even this small increase is deceptive. The vast majority is due to an increase in the controllable portion of RHB normal costs. OPM increased its estimate of our normal costs for 2017 from $2.8 billion in December 2016 to $3.3 billion in July 2016. Accordingly, we only included the original $2.8 billion in our 2017 controllable expenses, as the additional $0.5 billion in 2017 was purely due to changes in actuarial estimates. OPM's estimate for 2018 RHB normal costs is $3.5 billion. Excluding the outsized impact of changes in the RHB normal costs, the remaining controllable expenses are planned to increase by only $0.4 billion (0.6 percent).

Compensation and benefits expense is expected to increase by $0.2 billion (0.4 percent) in 2018, driven primarily by scheduled general wage increases, averaging 1.3 percent, cost of living adjustments, and higher health benefits costs for active employees. Normal cost for RHB is estimated to increase by $0.7 billion in 2018. These upward cost pressures are partially offset by the 23 million work hour reduction described above, and continued workforce attrition trends.

Non-personnel expenses are expected to grow slightly, due to expenditures for information systems and support for our package growth initiatives, as well as replacing and upgrading obsolete letter automation equipment. Inflationary pressures and repairs to our aging vehicle fleet will also cause non-personnel costs to increase. Transportation costs are expected to grow slightly in 2018 as savings from our efficiency improvement initiatives are offset by projected increases in fuel prices and contractual cost increases.

2018 CAPITAL PLAN

A. Capital Commitments

The 2018 capital plan calls for capital commitments of $2.1 billion across four categories. Capital commitments provide a view of future capital obligations that ultimately lead to cash outlays, sometimes over a period of years.

Capital Commitments

In Billions	5 - Year Avg. ('12-'16)	FY2016 Actual	FY2017 Plan	FY2017 Actual	FY2018 IFP
Facilities	$0.4	$0.5	$0.5	$0.5	$0.6
Mail Processing Equipment	$0.3	$0.3	$0.5	$0.4	$0.4
Vehicles	$0.1	$0.2	$0.3	$0.3	$0.5
IT & Other	$0.2	$0.2	$0.6	$0.1	$0.6
Total	**$1.0**	**$1.2**	**$1.9**	**$1.3**	**$2.1**

Facilities

The 2018 capital commitment plan for facilities is $0.6 billion and represents approximately 28.6 percent of the total capital commitment plan. These investments are primarily for building improvements which include repairs and alterations to aging buildings, and facility modifications that are necessary to accommodate current and future operational needs. In addition, a small portion is for construction and building purchases.

Mail Processing Equipment

The 2018 capital commitment plan for mail processing equipment is $0.4 billion and represents approximately 19.0 percent of the total capital commitment plan. These investments are focused on improving existing equipment, increasing productivity and reducing operating costs, or making necessary upgrades due to obsolescence of components. These investments will also support the projected increase in volume for shipping and package services estimated for 2018 and beyond.

Vehicles

The 2018 capital commitment plan for vehicles is $0.5 billion or 23.8 percent of the total commitment plan. These vehicle investments will replace existing vehicles that are well past their expected useful lives or where replacement is deemed necessary due to high maintenance costs. The new vehicles, which will consist of commercial off-the-shelf delivery vehicles and tractor trailers, will have better fuel efficiency and lower maintenance costs than those that are being replaced, which will result in cost savings.

Information Technology and Other

The 2018 capital commitment plan for the information technology (IT) and other category is $0.6 billion, or approximately 28.6 percent of the total plan. Investments in this category include Cybersecurity-related investments, enhancements to mail scanning and tracking systems, systems updates, as well as upgrades and enhancements to computer hardware, servers, and storage systems.

B. Capital Cash Outlays

Capital cash outlays are expected to increase over 2017 due both to payments on commitments made in 2018 and prior years. Cash outlays for 2018 are for similar items as described on the prior page for capital commitments.

Capital Cash Outlays					
In Billions	5 - Year Avg. ('12-'16)	FY2016 Actual	FY2017 Plan	FY2017 Actual	FY2018 IFP
Facilities	$0.4	$0.4	$0.6	$0.5	$0.5
Mail Processing Equipment	$0.3	$0.4	$0.4	$0.3	$0.4
Vehicles	$0.2	$0.4	$0.3	$0.3	$0.5
IT & Other	$0.1	$0.2	$0.5	$0.2	$0.4
Total	**$1.0**	**$1.4**	**$1.8**	**$1.3**	**$1.8**

2018 LIQUIDITY AND FINANCING PLAN

For 2018, the projected net loss of $5.2 billion includes amortization of unfunded liabilities of $0.9 billion for FERS, $1.7 billion for CSRS, $1.0 billion for RHB, and $3.5 billion for RHB normal costs.

We ended 2017 with $10.5 billion of unrestricted cash and no remaining borrowing capacity, after defaulting on retiree health benefits pre-funding payments totaling $33.9 billion for the years 2012 through 2016, as well as $6.9 billion of lump sum payments due on September 30, 2017. Our liquidity position improved by $2.4 billion in 2017 because we did not make any of the scheduled fiscal year-end payments, but is projected to decrease significantly in 2018, assuming all revenue, expense, and capital spending targets are met and the current fiscal year-end payments are made. Whether or not to make the year-end payments at the end of 2018 will be a decision of the Board of Governors/Temporary Emergency Committee (TEC), based on the facts and circumstances at that time.

If all scheduled payments due at September 30, 2018 are made, and we are able to achieve all elements of our operating and capital investment plans, it would likely result in a critically low level of liquidity. If all legally-mandated payments are made, and all other financial results conform to plan, our year-end 2018 unrestricted liquidity would be roughly $4.8 billion, which is clearly insufficient for an organization with over $70 billion in annual controllable expenses. Such a low level of liquidity would place the Postal Service at inordinate risk of being unable to fund ongoing operations from existing liquidity in the event of an economic downturn or other adverse event. Although we ended 2017 with approximately $10.5 billion of unrestricted cash, the projected reduction in liquidity that would occur if all 2018 obligations are paid illustrates the tenuousness of our financial position.

Unless there is a fundamental change in our financial condition, we will not have sufficient liquidity to pay down debt, and we will have no ability to borrow additional funds. These conditions will likely continue to exist unless Congress takes action on the comprehensive legislative reforms that we have requested, and we are granted additional pricing flexibility by the PRC.

We will continue to pursue legislative and regulatory changes, cost reductions, other aggressive management actions, and additional ways to generate revenues in 2018. Many of the structural reforms needed to ensure long-term viability, such as full integration of retiree health benefits with Medicare, can only be achieved with legislative change to our unsustainable business model and a successful outcome from the PRC 10-year pricing system review.

CONCLUSION

The 2018 IFP reflects the Postal Service's continued efforts to achieve financial health and stability, within the limits of current laws and regulations. The IFP projects only a slight $0.5 billion growth in revenues. Commensurate with this revenue growth, the Postal Service continues to experience a rapidly changing mailing environment, which requires the Postal Service to balance cost management with increasing volumes of labor-intensive packages, as we also serve a growing delivery network.

Despite modest revenue growth and aggressive cost-containment initiatives, the Postal Service continues to have insufficient liquidity to fully fund all legally-required obligations, maintain a margin of safety in the event of an economic downturn to deal with contingencies, and make necessary capital investments. Our controllable loss, as shown on page three, is estimated to be $1.4 billion and our consolidated balance sheet reflects liabilities that exceed assets by approximately $122 billion. There are significant risks such as negative economic developments, accelerated declines in volumes, inflation in fuel or wages, etc. that could worsen the controllable loss.

We continue to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues we face and the legislative and regulatory changes that would help provide financial stability. Given the vital role the Postal Service plays in the U.S. economy, a financially healthy and stable Postal Service should continue to be a top priority for all stakeholders from legislative and regulatory bodies to management, employees, and customers. Our financial situation is serious, but solvable.