United States Government Accountability Office

Report to Congressional Committees

April 2021

U.S. POSTAL SERVICE

Volume, Performance, and Financial Changes since the Onset of the COVID-19 Pandemic

A Century of Non-Partisan Fact-Based Work

GAO-21-261

GAO@100 Highlights

Highlights of GAO-21-261, a report to congressional committees

April 2021

U.S. POSTAL SERVICE

Volume, Performance, and Financial Changes since the Onset of the COVID-19 Pandemic

Why GAO Did This Study

USPS plays a critical role in the nation's communications and commerce. However, USPS's financial viability is not on a sustainable path and has been on GAO's High Risk List since 2009. The COVID-19 pandemic has highlighted the role of USPS in the nation's economy as well as USPS's financial difficulties. Responding to these concerns, the CARES Act, as amended in late 2020, provided USPS up to $10 billion in additional funding.

The CARES Act included a provision for GAO to report on its monitoring and oversight efforts related to the COVID-19 pandemic. This report examines changes in USPS's (1) mail volume, (2) on-time performance, and (3) revenue and expenses from January through December 2020.

GAO analyzed USPS mail volume, on-time performance, revenue, and expense data by month for 2020, and compared these data to similar data for 2019. GAO also reviewed its prior work, including its May 2020 report. That report had three matters for congressional consideration on: (1) determining the level of postal services, (2) the extent to which those services should be financially self-sustaining, and (3) the appropriate institutional structure of USPS. GAO also reviewed reports by USPS and the USPS Inspector General. Finally, GAO interviewed USPS officials, two package delivery companies that compete with USPS, and representatives from four mailing associations whose members send the types of mail with the highest volumes in 2020.

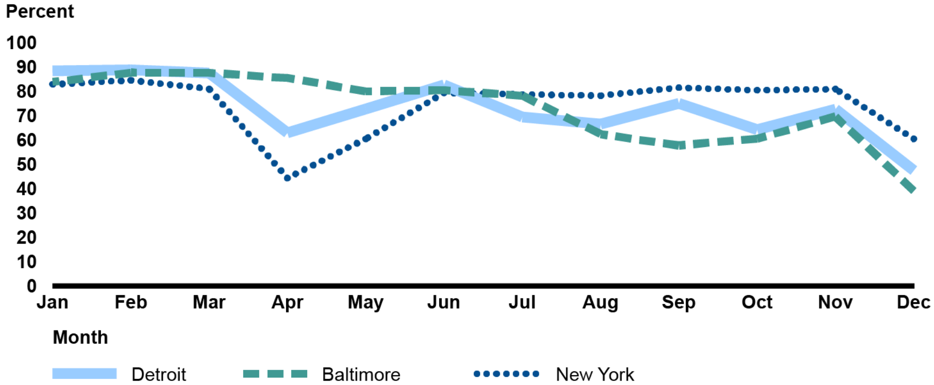
View GAO-21-261. For more information, contact Jill Naamane, 202-512-2834 or naamanej@gao.gov.

What GAO Found

In 2020, the majority of which was affected by the COVID-19 pandemic, the U.S. Postal Service (USPS) experienced a 9 percent drop in total mail volume when compared to 2019. The overall drop was primarily due to a 4 percent dip in First-Class Mail and a 14 percent decline in Marketing Mail (such as advertisements). Despite a drop in total volume, 2020 package volume rose by 32 percent. A surge of election-related mail caused a temporary spike in total mail volume in September and October 2020, before falling again by year end.

Overall, USPS's nationwide on-time performance fell in 2020. Average monthly on-time performance for First-Class Mail decreased from 92 percent in 2019 to 87 percent in 2020. However, decreases were more significant in certain USPS districts at different times, and nationally in December 2020. On-time performance was 48 percent in New York in April and 61 percent in Baltimore in September—both of which were nearly 90 percent prior to the pandemic (see figure). Further, national on-time performance dipped to 69 percent in December. In February 2021, the Postmaster General stated that on-time performance was affected by employees' decreased availability in COVID-19 hot spots and a surge in holiday package volume.

2020 Average Monthly On-Time Performance for First-Class Mail in Baltimore, Detroit, and New York Postal Districts



Source: GAO analysis of U.S. Postal Service (USPS) data. | GAO-21-261

USPS's revenue increased in 2020 but not enough to avoid a net loss of $8.1 billion. Rapid growth and price increases for packages, resulted in a net revenue increase of $4.3 billion. However, USPS's expenses grew by $4.4 billion, including COVID-19 related expenses, such as personal protective equipment. USPS took some cost-reduction actions in 2020 and released a new strategic plan in March 2021 that also has cost-reduction actions. In May 2020, GAO concluded that absent congressional action to transform USPS, USPS's financial problems would worsen, putting its mission and financial solvency in greater peril. The further deterioration of USPS's financial position since the start of the pandemic makes the need for congressional action even more urgent.

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Abbreviations

CARES	Coronavirus Aid, Relief, and Economic Security Act
COVID-19	Coronavirus Disease 2019
FFCRA	Families First Coronavirus Response Act
OIG	U.S. Postal Service's Office of the Inspector General
PRA	Postal Reorganization Act
UPS	United Parcel Service
USPS	U.S. Postal Service

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Congressional Committees

The U.S. Postal Service (USPS) plays a critical role in the nation's communication and commerce—collecting, transporting, and delivering billions of letters, bills, ballots, magazines, newspapers, packages, and other types of mail to about 161 million addresses nationwide. Coronavirus Disease 2019 (COVID-19) has had a profound effect on the economy and on USPS, which has continued to provide postal services nationwide since the pandemic was declared a national emergency in March 2020. Mailers have changed how they use USPS due to COVID-19's spread, affecting USPS's mail volume, revenues, and expenses. In response, the CARES Act, as amended in late 2020, provided USPS up to $10 billion in additional funding.[1] USPS has requested additional federal financial assistance, which would require further congressional action.

We and members of Congress continue to be concerned with USPS's financial condition. In 2009, we placed USPS on our High-Risk List and found that its financial condition needed attention by Congress and the executive branch to achieve broad-based restructuring.[2] Since then, USPS's finances have worsened and USPS's financial viability has remained on our 2021 update to our High Risk list.[3] In May 2020, we found that USPS's business model was unsustainable, due in part to

[1]The Consolidated Appropriations Act, 2021 amended CARES Act authority to borrow this amount by providing that USPS shall not be required to repay such amounts borrowed (Pub. L. No. 116-260, div, N, tit. VIII, § 801, 134 Stat. 1182, 2119 (2020)). As of March 2021, USPS accessed about $8.6 billion of this CARES Act funding. Funds available under the CARES Act (Pub. L. No. 116-136, div. A, tit. VI, § 6001, 134 Stat. 281, 504-05 (2020)), as amended, are in addition to USPS's borrowing authority under the Postal Reorganization Act (PRA) (Pub. L. No. 91-375, § 2, 84 Stat. 719, 740 (1970)) (codified as amended at 39 U.S.C. § 2005(a)). The PRA authorizes USPS to borrow up to $3 billion in any one fiscal year and not more than $15 billion in total. As of the end of fiscal year 2020, USPS had borrowed $14 billion of this $15 billion total.

[2]GAO, *High Risk Series: Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability,* GAO-09-937SP (Washington, D.C.: July 2009).

[3]GAO, *High Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas,* GAO-21-119SP (Washington, D.C.: Mar. 2, 2021).

declining mail volume and to expenses rising faster than revenue.[4] Congressional committees held hearings in August 2020 and February 2021 on USPS, and several bills have been introduced that are designed to affect USPS's financial viability.[5]

We conducted this engagement under the authority of the CARES Act, which includes a provision for us to conduct monitoring and oversight of the federal government's efforts to prepare for, respond to, and recover from the COVID-19 pandemic.[6] This report describes how USPS's (1) mail volume, (2) on-time service performance for mail delivery, and (3) revenues and expenses have changed since the COVID-19 pandemic.

This report covers January 1, 2020, through December 31, 2020. We used January 1, 2020 as the start date of our analysis because this date marks the beginning of the fiscal quarter in which the pandemic was declared. We used December 31, 2020, as the end date of our analysis as it is the most recent month for which data were available and because it allows us to include the 2020 general election and holiday periods where USPS experienced high mail volumes. Because nearly all of USPS's 2020 mail volume and revenue (about 99 percent and 97 percent, respectively) consists of domestic mail products such as domestic First-Class Mail, Marketing Mail and packages, we excluded USPS's international mail from our analysis.

To determine how USPS's mail volume changed during 2020, we reviewed USPS data on mail volumes by mail type and by month for 2020 and compared these 2020 data to 2019 data.[7] To describe how USPS's on-time service performance changed, we analyzed USPS national on-

[4]GAO, *U.S. Postal Service: Congressional Action Is Essential to Enable a Sustainable Business Model*, GAO-20-385 (Washington, D.C.: May 7, 2020).

[5]E.g., H.R. 695, 117th Cong. (2021); S. 145, 117th Cong. (2021).

[6]We regularly issue government-wide reports on the federal response to COVID-19. For the latest report, see GAO, *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year,* GAO-21-387 (Washington, D.C.: Mar. 31, 2021). Our next government-wide report will be issued in July 2021 and will be available on GAO's website at https://www.gao.gov/coronavirus.

[7]Specifically, we used publicly-available postal volume data from *USPS Preliminary Financial Information, Unaudited* reports that USPS submitted to the Postal Regulatory Commission. USPS officials told us that there is usually a relatively small but noticeable difference between the data in the monthly unaudited reports and their quarterly reports which include volume data that have been reconciled.

time performance data by month for 2020 and compared them to 2019. We also analyzed monthly on-time performance during 2020 for the Baltimore, Detroit, and New York postal districts.[8] We selected these districts because postal associations and package delivery companies we interviewed noted that these districts had experienced significant COVID-19 related service delays during the initial months of the pandemic. We also reviewed USPS's and USPS Office of the Inspector General's (OIG) reports regarding USPS's service performance for 2020. To determine how USPS's revenues and expenses changed and how USPS responded to these changes, we reviewed USPS data on revenues and expenses by month for 2019 and 2020.

For all of our objectives, we interviewed USPS officials, two major package delivery companies that directly compete with USPS in the products they offer, and four associations that represent companies that send the highest-volume categories of mail: First-Class Mail, Marketing Mail, and packages. We also interviewed relevant USPS officials about volume, on-time performance, and financial data that they either provided us directly or that we obtained from publicly available reports. They described where the data came from, how they were collected, and controls in place to provide assurance the data were complete and accurate. Based on these interviews and relevant USPS documents we reviewed, we determined all data used were sufficiently reliable for the purposes of reporting on USPS mail volumes, on-time performance levels, revenues, and expenses.

We conducted this performance audit from July 2020 to April 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

USPS's mission is to provide prompt, reliable, and efficient universal service to the public, while covering its expenses primarily through

[8]USPS divides the country into seven postal areas and 67 postal districts. A postal area is the administrative level directly below national headquarters. A postal district is the administrative level directly below a postal area.

revenues generated from the sale of its products and services.[9] USPS's two main types of mail products—market-dominant and competitive—vary in terms of volume, profitability, and pricing.

- Market-dominant products—which include products such as First-Class Mail, Marketing Mail, and Periodicals—account for over 90 percent of USPS's total mail volume and over half of USPS's revenue.[10] We found in May 2020 that First-Class Mail, Marketing Mail, and total mail volumes have experienced significant declines since their peaks in 2006. USPS is limited in its ability to set prices for market-dominant products.[11]
- Competitive products, which consist of mostly packages but also of other products such as express letters, are those for which USPS competes with other package delivery companies, such as United Parcel Service (UPS) and FedEx, on pricing and service.[12] USPS

[9]USPS's universal service obligation is governed by several statutory provisions, including the requirement to provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. See 39 U.S.C. §§ 101, 403(a), 3691. For more information, see GAO, *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, GAO-10-455 (Washington, D.C.: Apr. 12, 2010) and Postal Regulatory Commission, *Report on Universal Postal Service and Postal Monopoly* (Washington, D.C.: Dec. 19, 2008).

[10]USPS's market-dominant products are those for which it has a statutory monopoly or provides a large share of the product with limited competition. Such market dominance in an unregulated market would likely enable a firm to exercise market power through the setting of price above costs without the risk of losing a significant level of business to other firms offering similar products.

[11]Price increases for market-dominant products are generally subject to a price cap based on the Consumer Price Index for All Urban Consumers ("CPI-U"). USPS's Governors establish the prices for market-dominant services, subject to a review process by the Postal Regulatory Commission (PRC) for compliance with requirements such as the price cap. PRC issued an order adopting final rules in November 2020; the order, among other things, modifies USPS's price cap for market-dominant products, thereby providing USPS with additional rate adjustment authority. Postal Regulatory Commission, Order No. 5763 (Nov. 20, 2020). PRC is an independent establishment of the executive branch that has exercised regulatory oversight over USPS since PRC's creation (as the Postal Rate Commission) by the Postal Reorganization Act of 1970 (Pub. L. No. 91-375, § 2, 84 Stat. 719, 759 (1970)), with expanded responsibilities (and a re-designation as PRC) under the Postal Accountability and Enhancement Act of 2006 (Pub. L. No. 109-435, 120 Stat. 3198 (2006)).

[12]Competitive products—which include Priority Mail, Priority Mail Express, First-Class Package Service, Parcel Select and Parcel Return Service, and some types of international mail—have greater pricing flexibility than market-dominant products and are not limited by a price cap.

must price these products to at least cover their attributable costs.[13] As we found in May 2020, competitive products have become more important to USPS, as its competitive product volumes more than tripled between fiscal year 2007 and fiscal year 2019.[14] However, according to USPS officials, competitive products have lower profit margins than some market-dominant products, although profit margins for competitive products have increased in recent years.

USPS establishes public delivery service standards for most of its market-dominant mail products, which define the number of days USPS is to take to deliver the mail in a timely manner.[15] USPS measures its delivery performance as the percentage of mail pieces delivered within its service standards. To determine whether a piece of mail is delivered on time, USPS compares the mail's transit time—that is, the number of days it takes USPS to deliver the mail once it enters USPS's system—with its delivery service standards.[16] For the purposes of this report, we refer to this performance measurement as "on-time performance".

[13]Prices for competitive products are set by the USPS Board of Governors and reviewed by PRC for compliance with applicable requirements. By statute, prices for each competitive product must at least cover "attributable costs" (meaning USPS's direct and indirect costs attributable to the products through reliably identified causal relationships), and competitive products collectively must contribute an appropriate share to USPS's institutional costs, 9.1 percent for fiscal year 2021, as determined by PRC.

[14]GAO-20-385.

[15]The Postal Accountability and Enhancement Act of 2006 requires USPS to create service standards for market-dominant products. Pub. L. No. 109-435, § 301, 120 Stat. 3198, 3218 (2006)) (codified at 39 U.S.C. § 3691). These standards include measuring and reporting on delivery performance. USPS does not publicly report on the extent service performance meets the standards for its competitive products, as USPS considers this information proprietary.

[16]USPS's service standards for its market-dominant mail products define the number of days USPS is to take to deliver the mail in a timely manner. Its service standards are set forth in federal regulations (see 39 C.F.R. §§ 121.1 - 121.4) and differ depending on the type of mail, the time of day and location at which USPS receives the mail, and the mail's final destination. For example, USPS standards for delivery of 2-day single-piece First-Class Mail require the mail to be received by a specified cutoff time on the day it is accepted, which varies depending on geographic location and where the mail is deposited (e.g., in a collection box, at a post office, or at a mail-processing facility). This mail must then be delivered on the second regular delivery day (Monday to Saturday) to be considered "on time." USPS measures delivery performance against its delivery service standards to determine its on-time performance. In fiscal year 2020, the USPS annual target for on-time performance for single-piece, two-day First-Class Mail was 96.5 percent.

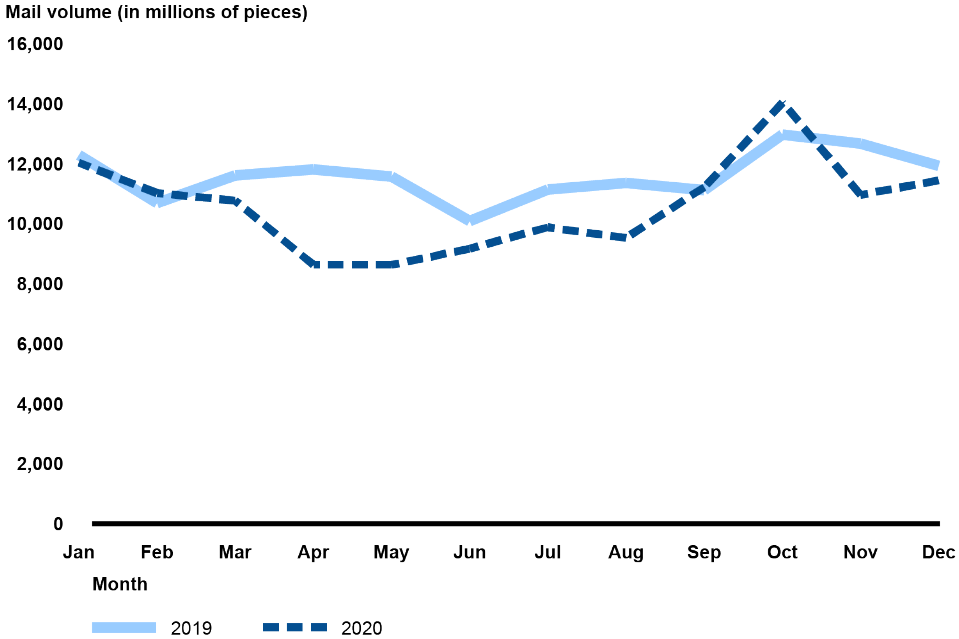
Total Mail Volume Decreased in 2020, Mostly Due to a Sharp Decline Early in the Year

Total Mail Volume Decreased in Early 2020, Spiked Prior to the 2020 General Election and Fell Back Below 2019 Levels by the End of 2020

During 2020, total USPS mail volume decreased by 8.6 percent (11.9 billion pieces) when compared to 2019.[17] Market-dominant mail made up 94 percent of total mail volume, and competitive mail made up the remaining 6 percent of total mail volume in 2020. While total mail monthly volume at the beginning of 2020 was similar to the total mail monthly volume during 2019, it dropped to significantly lower levels with the onset of the COVID-19 pandemic in March (see fig. 1). However, during September and October, total mail volumes briefly spiked. According to USPS officials, this increase was due in part to election mail sent prior to the 2020 general election. After the election in early November, November and December total mail volume again decreased to below 2019 levels.

[17]These figures do not include international mail.

Figure 1: Total 2020 Monthly USPS Mail Volume, as Compared to Same Month in 2019



Source: GAO analysis of U.S. Postal Service (USPS) data. | GAO-21-261

Note: Total mail volume consists of market-dominant (such as First-Class Mail and Marketing Mail) and competitive (mainly packages) mail volumes, which comprised 94 percent and 6 percent of total mail volume, respectively. International mail, which comprised approximately 0.5 percent of annual mail volume in 2020, is excluded from this figure.

Market-Dominant Mail Volume Drove Changes in Total Mail Volume

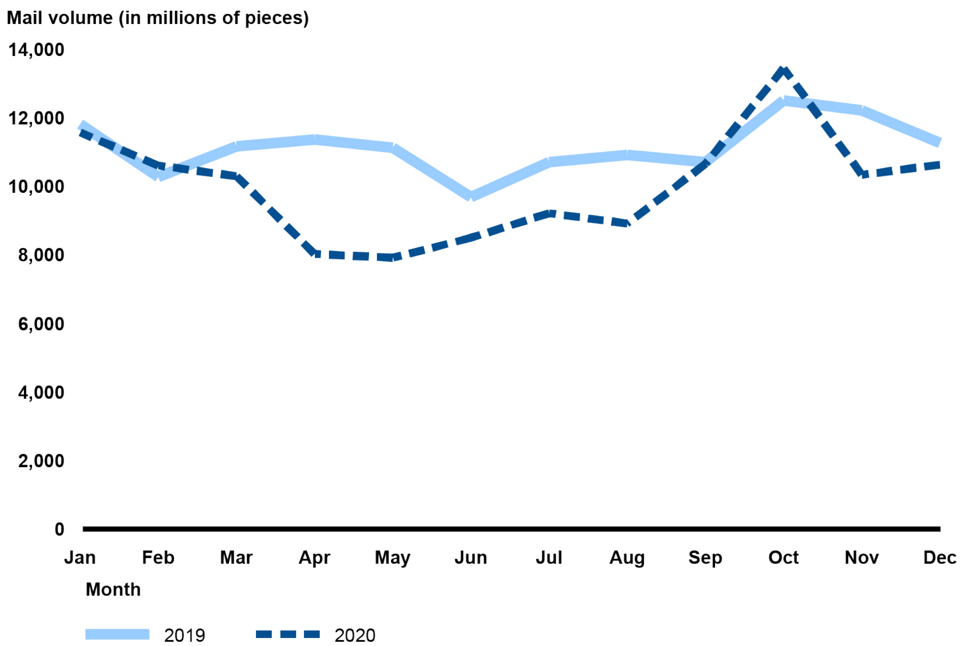
When compared to the 2019 levels, the drop, brief spike, and subsequent decline in total mail volume during 2020 was primarily due to changes in market-dominant mail volume. USPS's total mail volume has dropped every year but one since 2007. These year-over-year declines have been driven by declines in market-dominant products. We found in May 2020 that as online communication and payments have expanded, USPS continued to face decreases in mail volume. For example, we found that First-Class Mail volume declined 44 percent since fiscal year 2006 and that Marketing Mail declined 27 percent from fiscal year 2007 to fiscal year 2019.[18] The two types of market-dominant mail that account for the greatest share of USPS's mail volume—First-Class Mail and Marketing Mail— declined 4 percent and 14 percent, respectively, over the course of

[18] GAO-20-385.

2020 compared to 2019. However, both products experienced significant volume fluctuations during 2020.

As shown in figure 2, monthly market-dominant mail volume at the beginning of 2020 was similar to the same period in 2019. However, monthly market-dominant mail volume decreased significantly at the onset of the pandemic—by almost 30 percent in April 2020—and remained below prior-year levels through August 2020. For example, in April 2020, First-Class Mail declined by about 9 percent and Marketing Mail declined by about 45 percent compared to April 2019, and in August volumes were still 10 percent and 25 percent below 2019 levels, respectively. However, September and October volumes increased to or above previous-year levels. In September, both First-Class Mail and Marketing Mail were within less than 1 percent of prior year levels, and in October 2020 volumes exceeded 2019 volumes by 2 percent and 12 percent, respectively. According to USPS, this increase in volume was in part because of a surge of election-related mail.

Figure 2: 2020 Monthly Market-Dominant Mail Volume as Compared to the Same Month in 2019



Source: GAO analysis of U.S. Postal Service (USPS) data. | GAO-21-261

Note: Market-dominant mail includes products such as First-Class Mail, Marketing Mail, Periodicals, Package Services and Special Services.

USPS and a postal stakeholder identified key factors underlying these changes in volume during 2020. For example, USPS told us that the decline in First-Class Mail volume during 2020 would have been even greater if not for volume increases associated with the 2020 decennial U.S. Census and mailed recovery rebates (commonly referred to as stimulus checks).[19] Further, USPS and a mailing association told us that Marketing Mail declined after the start of the COVID-19 pandemic because businesses that use Marketing Mail—such as local businesses for instance—needed to preserve cash during the shutdown. Officials at the mailing association told us that some of this mail volume returned as some businesses began to re-open.

In November 2020, USPS projected that market-dominant mail volume would decrease in fiscal year 2021 due to several factors, including:

- the continuing long-term trend of migration from First-Class Mail to electronic media,
- the ongoing effects of the COVID-19 pandemic, and
- the lack of the bolstering effects that the 2020 Census and recovery rebates had on First-Class Mail volume in 2020 but that will not continue in 2021.[20]

Competitive Product Volume Grew Rapidly during 2020 but Remained a Small Percentage of Total Mail Volume

Competitive product volume was 32 percent greater in 2020 than 2019, with nearly all of the volume increase occurring in packages after the pandemic began in March 2020 (see fig. 3).[21] Competitive volumes in 2020 remained over 20 percent higher than 2019 volumes from April through December, with June 2020 volume peaking at over 71 percent higher than June 2019 volume. Additionally, USPS recorded its highest

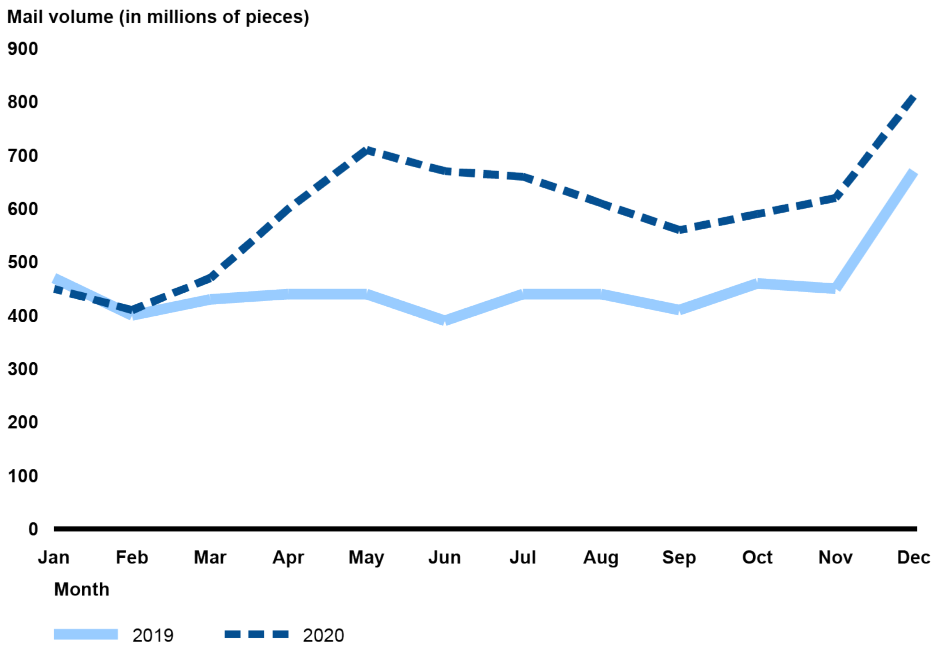
[19]The CARES Act included a credit for tax year 2020 of up to $1,200 per eligible individual or $2,400 for individuals filing a joint tax return, plus up to $500 per qualifying child (as defined in section 24(c) of the Internal Revenue Code). The act also provided for an advance refund of the credit. Pub. L. No. 116-136, div. A, tit. II, § 2201(a), 134 Stat. 281 335–40 (2020). The CARES Act refers to the credit and the advance payments as Recovery Rebates.

[20]USPS, *Fiscal Year 2021 Integrated Financial Plan*, (Washington, D.C.) Nov. 24, 2020. After the publication of this plan, a second round of recovery rebates was authorized by the Consolidated Appropriations Act, 2021 (Pub. L. No. 116-260, div. N, tit. II, § 272, 134 Stat. 1182, 1965 (2020)) and scheduled to be sent in 2021. A third round of recovery rebates was authorized by the American Rescue Plan Act of 2021, (Pub. L. No. 117-7, tit. IX, sub. tit. G, Part 1, § 9601, 135 Stat. 4, 138 (2021)) to be provided prior to December 31, 2021.

[21]We did not compare competitive product volumes to USPS projections, because USPS considers its projected competitive volumes to be business proprietary information.

competitive package volume ever in December 2020 with over 811 million packages processed, about 147 million more packages than in December 2019.

Figure 3: USPS 2020 Monthly Competitive Product Volume Compared to the Same Month in 2019



Source: GAO analysis of U.S. Postal Service (USPS) data. | GAO-21-261

Note: Competitive products consist of mostly packages, but also of other products such as express letters. We excluded international mail from our analysis.

Despite USPS experiencing record volume growth in competitive products, these products continue to be a small albeit growing contributor to total mail volume. We found in May 2020 that the volume of competitive products (most of which are packages) more than tripled from fiscal year 2007 through fiscal year 2019.[22] While competitive products significantly increased over 2019 levels in 2020, they constituted only 6 percent of USPS's total mail volume for 2020.

USPS officials, two major package delivery companies, and an association representing mailers told us that the growth in 2020 was due

[22] GAO-20-385.

in part to increased business-to-consumer shipping, as household purchasing moved online during the pandemic, including during the 2020 holiday season. In addition, USPS officials told us that other package delivery companies were also experiencing volume increases, which resulted in their sending additional package volume to USPS for "last mile" delivery.[23] For instance, one package delivery company told us that it had experienced volumes typical of its November-December holiday season since the pandemic began in March 2020 and that the volume growth it had anticipated over the next 3 to 5 years had manifested itself over just a few months. Another package delivery company told us it had increased its use of USPS' last-mile delivery service to manage its volume increases. In November 2020, USPS reported that it expects future package volume to decline from 2020's elevated levels.[24]

National On-Time Performance Declined through November and Significantly Declined in December, with Some Districts Experiencing Significant Declines throughout 2020

During 2020, USPS nationwide on-time performance for market-dominant mail fell when compared to 2019.[25] USPS stated that the average monthly on-time performance for First-Class Mail decreased from 92.0 percent in 2019 to 86.7 percent in 2020. Likewise, USPS stated that the average monthly on-time performance for Marketing Mail decreased from 90.1 percent in 2019 to 87.5 percent in 2020. While the average on-time performance declined by 5 percentage points over the course of 2020 for First-Class Mail, it declined more so in December 2020. Specifically, monthly on-time performance levels for First-Class Mail ranged from 84 percent to 93 percent from January through November 2020, and in December 2020 dipped to 69 percent. In February 2021, the Postmaster General testified that this significant decline in on-time performance during the 2020 holiday season was due to, among other things, COVID-related issues affecting employee availability, increased package volume, and access to transportation. In March 2021, the Postmaster General joined with union leadership and management associations to form a joint task force on service performance to improve service in certain facilities around the country.

[23]Package delivery companies, such as UPS, pay USPS to deliver packages that they enter into USPS's system at local post offices where carriers pick up their mail for "last mile" delivery.

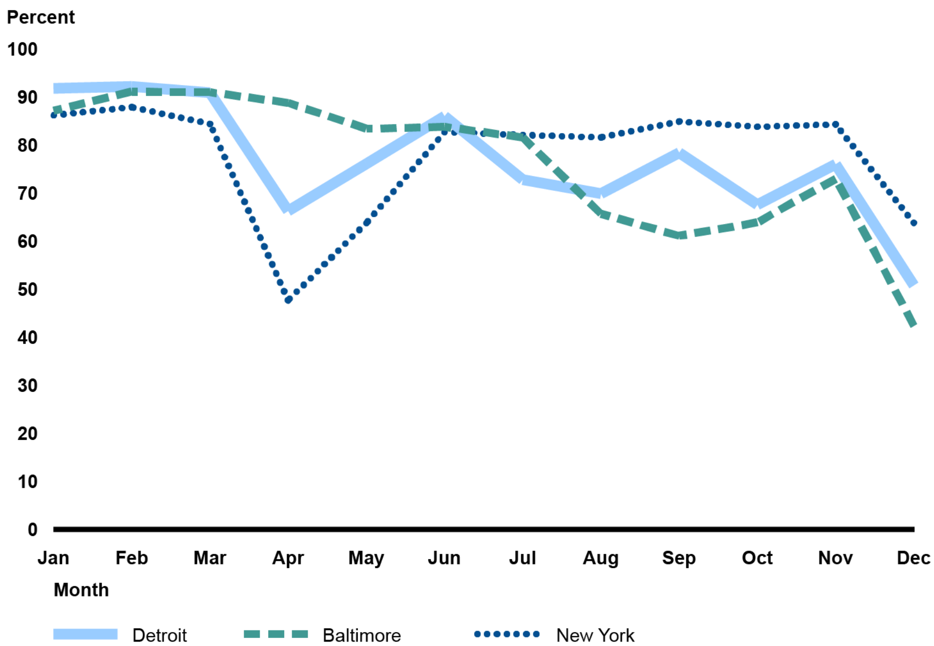
[24]USPS, *Fiscal Year 2021 Integrated Financial Plan.*

[25]USPS reports on-time performance for its First-Class Mail, Marketing Mail, Periodicals, Packages and Special Services. USPS does not report its on-time performance for its competitive products, as USPS regards that information as proprietary.

Representatives we spoke with from mailers associations and package delivery companies in September and October 2020 stated that while the effect of COVID-19 on national on-time performance has been relatively small, certain postal districts—such as New York, Detroit, and Baltimore—have experienced periods of significant declines during the pandemic. USPS data show that on-time performance for First-Class Mail in these districts were all nearly 90 percent and in close proximity to the national average prior to the COVID-19 pandemic but significantly declined for various periods after the pandemic was declared (see fig. 4). For example, USPS's New York district had an on-time performance rating of about 48 percent in April, and Baltimore's on-time performance dipped to about 61 percent in September. USPS officials stated that they took several actions to respond to these on-time performance declines, such as shifting mail volume within their mail-processing network, expediting the hiring of new employees, and adjusting delivery schedules.

While each of these districts may have experienced differing trends at different times, on-time performance for these districts in December 2020 was similar to national on-time performance in that they all experienced significant declines. Specifically, the December 2020 First-Class Mail on-time performance for the New York, Detroit, and Baltimore districts dipped to 64 percent, 51 percent, and 42 percent, respectively. In January 2021, officials from one mailing association told us that the poor on-time performance in December has renewed some of its members' efforts toward digital alternatives to mail, which could result in even greater reductions in First-Class Mail volumes over the next 12 to 18 months.

Figure 4: 2020 Average Monthly On-Time Performance for First-Class Mail in Baltimore, Detroit, and New York Postal Districts



Source: GAO analysis of U.S. Postal Service (USPS) data. | GAO-21-261

USPS and the USPS OIG identified several COVID-19-related factors related to the decline in on-time performance. Specifically, USPS officials attributed decreases in on-time performance to a combination of COVID-19-related factors, such as reduced employee and transportation availability, increased package volume, and the overall economic impacts.[26] The USPS OIG also reported that several factors associated with COVID-19 affected USPS's on-time performance, such as decreased employee availability and package volume increases.[27]

[26]USPS officials also stated that it is not possible to precisely quantify the direct effects of COVID-19 on on-time performance it is influenced by several other factors such as transportation availability, operational changes and USPS's focus on election mail in 2020.

[27]OIG, USPS, *Operational Changes to Mail Delivery*, Report Number 20-292-R21 (Arlington, VA: Oct. 19, 2020).

In addition to the factors associated with COVID-19, USPS took actions that may have also reduced its on-time performance. For example, in June 2020, the USPS OIG found that USPS spent $550 million in fiscal year 2019 for such things as overtime and charter air flights to mitigate delays in its mail transportation network.[28] In an August 2020 testimony, the Postmaster General stated that USPS attempted to cut this cost by reducing late and extra mail transportation trips between USPS's mail-processing plants and its post offices for final delivery among other actions that he said were designed to cut costs.[29] However, the Postmaster General also stated that to avoid the appearance of any potential effect on election mail, he suspended several of these actions until after the general election on November 3, 2020. There has also been a number of lawsuits in federal court challenging the implementation of this and other actions.[30] Many of these lawsuits resulted in preliminary

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[28]OIG, USPS, *Transportation Network Optimization and Service Performance,* Report Number 20-144-R20 (Arlington, VA: June 5, 2020).

[29]USPS, Statement of Postmaster General and Chief Executive Officer Louis DeJoy before the House Committee on Oversight and Reform, *Protecting the Timely Delivery of Mail, Medicine, and Mail-in Ballots.* Aug. 24, 2020.

[30]The plaintiffs consisted of both state governments and private parties, and their challenges included alleged procedural violations because USPS did not seek a statutorily required (39 U.S.C. § 3661) advisory opinion from the PRC prior to making changes that will affect service on a nationwide or substantially nationwide basis, and alleged constitutional violations because the changes affected people's ability to vote by mail. See, for example, *Washington v. Trump*, No. 20-cv-03127, 2020 WL 5568557 (E.D. Wash. 2020) (challenging the reduction of late and extra delivery trips, the reduction of overtime, the decommission of sorting machines, the removal of mailboxes, the reduction in operating hours, and the change in election-mail classification); *see also New York v. Trump*, No. 20-cv-2340, 2020 WL 5763775 (D. D.C. 2020) (challenging the reduction of late and extra delivery trips, the prohibition of mail carriers in certain cities spending time in the morning sorting mail, the removal of sorting machines, and the decision to no longer treat Election Mail on an expedited First-Class basis); *see also Vote Forward v. DeJoy*, No. 20-cv-2405, 2020 WL 5763869 (D. D.C. 2020) (challenging the reduction of late and extra trips and the alleged delay of election mail); *see also Bullock v. USPS*, No. 20-cv-00079 (D. Mont. 2020) (challenging the reduction of overtime, removal of mailboxes, decommission of sorting machines, and changes in the classification of Election Mail).

injunctions, temporarily prohibiting USPS from continuing to implement these actions, and full resolution in some of the cases is still pending.[31]

USPS's Revenue Increased but Did Not Offset Increased Expenses, Highlighting the Need for Transformation of USPS's Business Model

USPS Total 2020 Revenue Increased Due to Growth in Competitive Products' Volume and Prices

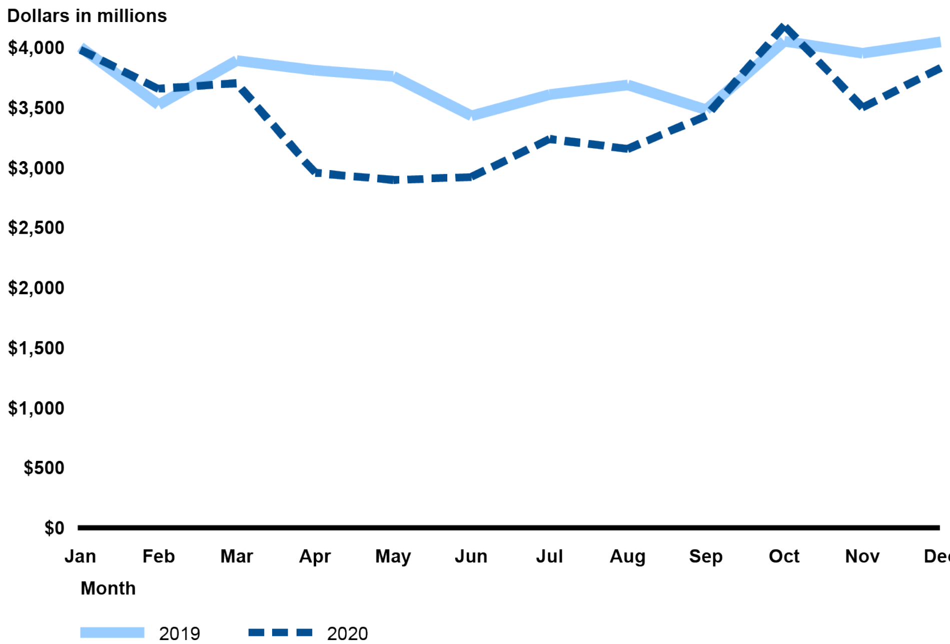
Decreasing revenue from market-dominant products was more than offset by increasing revenue from competitive products in 2020, resulting in a net revenue increase of 6.1 percent (about $4.3 billion).[32] Revenue from market-dominant products decreased overall by $3.8 billion from 2019 to 2020, with some significant monthly changes (see fig. 5). To some extent, this overall decline in market-dominant revenue reflects the long-term downward trend starting in fiscal year 2007. At the same time, USPS reported that the decline in market-dominant revenue during 2020 was a result of significantly lower mail volume for these products.[33]

[31]While preliminary injunctions often apply until the respective court reaches a final judgment, some of these injunctions appear to have been specifically limited to the November election. *See*, for example, *Jones v. USPS,* No. 20-cv-6516, 2020 WL 5627002, at *28 (S.D.N.Y. 2020) (referencing a November end-date for the injunctive order that USPS approve overtime). USPS settled one of the cases by agreeing to postpone operational changes until after the November election. Joint Stipulation to Stay Case in Light of Settlement Agreement, at *4, *Bullock v. USPS*, No. 20-cv-00079 (D. Mont. 2020) (referencing USPS Guidance "making clear that the operational changes . . . have been and will be resolved until after the 2020 November Election"). Plaintiffs voluntarily dismissed some of the other cases, such as *Washington v. Trump*, after the elections.

[32]As stated above, we did not include USPS's international mail products in our analysis. However, USPS's net loss figure includes revenue from international mail products and interest income. Revenue from international mail products and interest income accounted for about $2.4 billion and $60 million, respectively, in 2020.

[33]USPS, *2020 Report on Form 10-K* (Washington, D.C.: Nov. 13, 2020).

Figure 5: Total Market-Dominant Products' Revenue by Month, 2019 and 2020



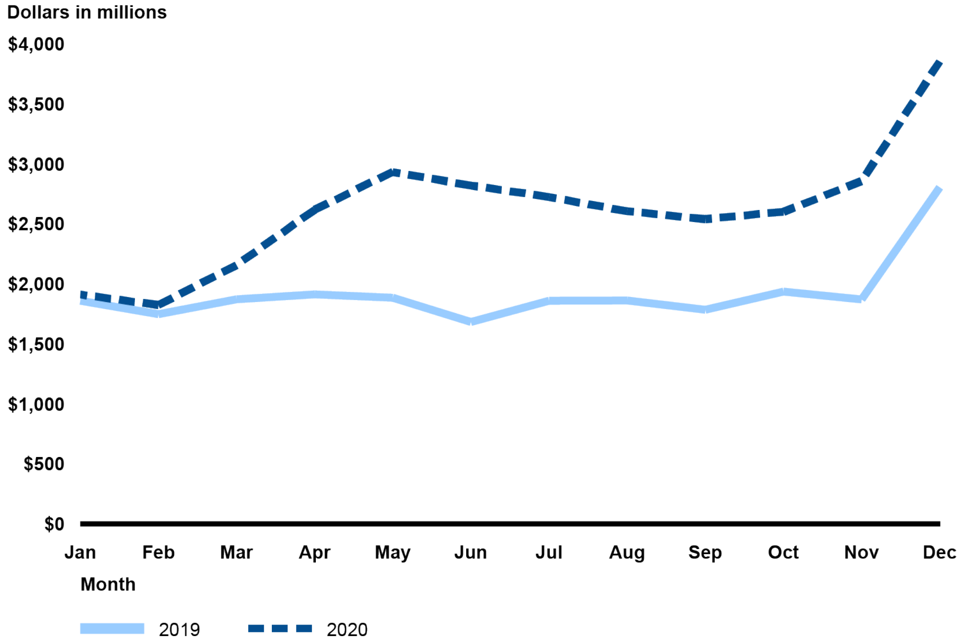
Source: GAO analysis of U.S. Postal Service (USPS) data. | GAO-21-261

Note: Market-dominant mail includes products such as First-Class Mail, Marketing Mail, Periodicals, Package Services and Special Services.

USPS's competitive product revenue increased by about $8.4 billion in 2020 compared to 2019 (see fig. 6). Even though competitive products are a much smaller percentage of USPS's total mail volume than its market-dominant products, this increase in revenue more than offset the decrease in revenue of its market-dominant products. USPS reported that higher competitive product revenue reflected more e-commerce packages sent during the pandemic, as well as USPS price increases implemented in January 2020 and a temporary price increase from October 18 to December 27, 2020 for certain competitive products. While competitive product revenue increased, as noted earlier, USPS also reported that costs to provide these products (e.g., packages) are greater as they are more labor-intensive. Therefore, according to USPS, competitive products are not as profitable as some market-dominant products (e.g., letters).[34]

[34]USPS, *2020 Report on Form 10-K*.

Figure 6: USPS's Total Revenue from Competitive Products by Month, 2019 and 2020



Source: GAO analysis of U.S. Postal Service (USPS) data. | GAO-21-261

Note: Competitive products consist of mostly packages, but also of other products such as express letters. We excluded international mail from our analysis.

USPS reported that in the long term, it does not expect that the growth in revenues associated with increases in competitive products' volume will continue to offset revenue losses in other mail services.[35] As discussed above, USPS has projected that market-dominant volume, which accounted for about 55 percent of USPS's total revenue in 2020, will continue to decline. USPS based its projection on the continuing migration from mail to electronic communication. This trend has been magnified by the effects of COVID-19 on mailer and consumer demand.

USPS's 2020 Expenses Increased More than Revenue

As we found in May 2020, USPS's poor financial condition is due to expenses increasing faster than revenue. Since fiscal year 2007, USPS has reported 14 straight fiscal years of net losses.[36] USPS's $4.3 billion

[35]USPS, *2020 Report on Form 10-K.*

[36]GAO-20-385. USPS's net loss for fiscal year in 2020 was $9.2 billion, bringing USPS's total net loss from fiscal year 2007 through fiscal year 2020 to $87 billion.

increase in revenue in 2020 was more than offset by its $4.4 billion increase in expenses—resulting in an increase of $100 million in USPS's net loss for 2020 ($8.1 billion) over 2019's net loss ($8 billion)(see table 1).

Table 1: USPS's Revenue, Expenses, and Net Loss, 2020 Compared to 2019

	2020 (dollars in billions)	2019	Difference between 2020 and 2019	Percentage change, 2020 and 2019
Revenue	75.3	71.0	+4.3	+6.1
Expenses	83.4	79.0	+4.4	+5.7
Net Income (Loss)	(8.1)	(8.0)	-0.1	+1.0

Source: GAO analysis of U.S. Postal Service (USPS) data. | GAO-21-261

Notes: Numbers may not equate due to rounding. These figures include international revenue and interest revenue and expenses. USPS's expenses include required payments for retiree health care and pensions that USPS did not make.

According to USPS, the increase in total expenses in 2020 was driven by a rise in certain operating expenses. For example, cost increases were greater than in 2019 for USPS's three largest expense categories: personnel compensation and benefits; transportation (i.e., the costs of contracts to move mail between USPS facilities); and supplies and services (see table 2).[37] USPS officials noted that some expenses decreased during 2020, such as for fuel and vehicle maintenance.

Table 2: Selected and Total USPS Expenses for 2020 and 2019

Expense Category	2020 (dollars in billions)	2019	Percentage Change, 2020 to 2019
Personnel Compensation and Benefits	64.1	60.6	+5.8
Transportation	9.0	8.2	+9.5
Supplies and Services	3.1	2.8	+10.6
All Other Expenses (including interest)	7.2	7.3	-1.8
Total Expenses	**83.4**	**79.0**	**+5.7**

Source: GAO analysis of U.S. Postal Service (USPS) data. | GAO-21-261

[37]USPS's total personnel compensation and benefits expenses represented about 77 percent, transportation about 10 percent, and supplies and services about 4 percent of USPS's total expenses in 2020. Personnel compensation and benefits consists of expenses such as compensation, current employee and retiree health benefits, retirement benefits, worker's compensation and other items.

Note: Numbers may not equate due to rounding. USPS's total personnel compensation and benefits expenses include required payments for retiree health care and pensions that USPS did not make.

According to USPS, some of its increase in expenses were also due to the COVID-19 pandemic. USPS stated that under the CARES Act as amended, it has received about $7.2 billion for operating expenses needed due to the COVID-19 emergency from March to December 2020. These expenses included categories such as overtime, hiring and training costs of new employees, absenteeism, and costs of sanitizing work areas. For example, USPS reported an estimated $763 million in expenses as a direct result of COVID-19 for certain expenses such as:

- COVID-19 Leave. By the end of December 2020, increased use of leave and the additional paid leave provided by the Families First Coronavirus Response Act (FFCRA) had cost USPS a total of about $433 million.[38]
- Supplies and Services. Supplies and services expenses increased by about $257 million largely due to personal protective equipment and cleaning supplies procured in response to the COVID-19 pandemic.
- Transportation. USPS officials stated that transportation costs had increased by about $73 million due to increased costs of air and highway mail transportation contract costs resulting from a reduction in commercial air service during the pandemic and the increase in package volume.

USPS Has Taken Some Steps to Address the Gap between Revenues and Expenses, but Congressional Action Remains Essential to Transforming USPS

As discussed above, USPS has taken actions that were intended to address the growing gap between revenues and expenses by reducing costs. USPS released a new strategic plan in March 2021 that includes

[38]The FFCRA was enacted in March 2020 (Pub. L. No. 116-127, 134 Stat. 178 (2020). FFCRA authorized new paid sick leave that may be used by an employee in COVID-19 situations for themselves, or to care for others such as sick family members, as well as Family and Medical Leave Act-protected unpaid and paid leave if a school/child care is closed.

more cost-reduction measures as well.[39] To increase revenue, USPS also imposed a time-limited price increase on some competitive products for its traditionally busy holiday period from October 18 through December 27, 2020.[40]

In addition to these changes, USPS continued to forego making certain required payments for retiree health care and pensions[41] and reported that it would continue to forego these payments, to ensure that it can maintain its normal operations to provide postal service.[42] As a result, despite USPS's net loss of $8.1 billion in 2020, USPS's cash balance increased from about $9 billion at the end of March 2020 to about $15.2 billion at the end of December 2020, in large part due to not making these required payments and by borrowing more from USPS's existing debt authority with the federal government.

Although USPS preserved enough cash and obtained increased loan capacity to continue to provide daily postal service during a time of significant change, the trends we previously identified in USPS's mail volume revenue and expenses that make USPS's business model unsustainable have continued. We found in May 2020 that the steps USPS had taken to date were not sufficient to restore its financial sustainability without congressional action. We concluded that without congressional action, USPS's financial problems would only worsen, putting its mission at greater risk and potentially limiting Congress's ability

[39]USPS, *Delivering For America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (Washington, D.C.: Mar. 23, 2021). USPS also continued to call for legislative and regulatory changes, such as eliminating the price cap for market-dominant products and integrating USPS's retiree health care benefits with Medicare. We reported in August 2018 that increased postal retiree participation in Medicare would decrease USPS's costs but increase Medicare's costs, according to analyses by the Congressional Budget Office. GAO, *Postal Retiree Health Benefits: Unsustainable Finances Need to Be Addressed,* GAO-18-602 (Washington, D.C.: Aug. 31, 2018).

[40]USPS stated that it earned $361.8 million from this limited price increase.

[41]USPS did not make about $7.8 billion in required payments for retiree health benefits and pensions in fiscal year 2020. USPS has not made its required prefunding payments for retiree health benefits since fiscal year 2012. USPS's total unpaid required payments for retiree health benefits and pensions for fiscal years 2012 through 2020 now total $63.3 billion. USPS, *FY2020 Report on Form 10-K*. The missed payments for fiscal years 2020 and 2019 are included in USPS's expenses in tables 1 and 2 above.

[42]USPS, *FY2020 Report on Form 10-K*.

to make the most appropriate or sustainable policy decisions. As a result, we urged Congress to consider determining:

- the level of universal postal service the nation requires;
- the extent to which USPS should be financially self-sustaining; and
- the most appropriate institutional structure for USPS.

The further deterioration of USPS's financial position since the start of the COVID-19 pandemic makes the need for congressional action to transform USPS's business model even more urgent.

Agency Comments

We provided a draft of this report to USPS for comment. USPS provided a written response, which is reproduced in appendix I. USPS found that the report correctly reflected its current financial and operational situation. USPS also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Postmaster General, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-2834 or naamanej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff making key contributions to this report are listed in appendix II.

Jill Naamane, Acting Director
Physical Infrastructure Issues

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Appendix I: Comments from the United States Postal Service

UNITED STATES POSTAL SERVICE

April 6, 2021

Ms. Jill Naamane
Director, Physical Infrastructure
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548-0001

Dear Ms. Naamane:

Thank you for allowing us the opportunity to respond to the draft report "U.S. Postal Service: Volume, Performance and Financial Changes since the Onset of the COVID-19 Pandemic (GAO-21-261)." In general, we find that the report correctly reflects the current financial and operational situation of the Postal Service and the challenges we face going forward.

The COVID-19 pandemic has highlighted how the Postal Service provides an essential service as part of the Nation's critical infrastructure: our employees worked tirelessly to meet our public service mission to the American people by continuing to deliver mail and packages to over 160 million addresses six or seven times a week. However, the pandemic has also exacerbated our long-standing financial, operational, and service performance problems

The Postal Service is an organization powered by people, and the pandemic has impacted our workforce in terms of reduced employee availability, which has resulted in reduced service performance. The report mentions that on-time service performance declined more precipitously in New York, Detroit, and Baltimore during parts of 2020 compared with the nation as a whole. This was due to the fact that these areas struggled with some of the largest decreases in employee availability related to COVID-19.

In addition, the pandemic has led to other operational impacts. The pandemic has disrupted our logistics network: the scarcity of airplane and truck capacity, and the industry competition for both of those transportation modes, impacted our ability to deliver throughout 2020 and especially during the peak holiday season. The pandemic also led to dramatic shifts in our mail mix. An existing trend in the decline in mail volume was forced into steeper decline by the pandemic, while package volumes increased substantially due to e-commerce and social distancing. For a logistics and delivery operation dependent on the correct complement of people, plants, volume-relevant machinery and transportation, this shift has further stressed an already misaligned and outdated mail network.

The strains of the COVID-19 pandemic and record volume of packages that resulted from it, particularly during our holiday season, would have been difficult for the Postal Service to absorb under the best of circumstances. But it is also fair to conclude that because our long-standing challenges – which have been the subject of prior GAO reports – were allowed to persist for entirely too long, the Postal Service's network was less resilient, and hence less capable of responding to the dramatic impacts of the pandemic than would otherwise have been the case. For example, our inability to sufficiently invest in package processing machines and updated delivery vehicles exacerbated the demands of the shift in mail mix.

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- 2 -

There is no realistic volume and revenue scenario under which we can become financially self-sustaining without significant structural changes. To address our projected net loss over the next 10 years of nearly $160 billion, while achieving service excellence, we have recently released our 10-year strategic business plan, "Delivering for America." This plan is built around sensible funding options for retiree benefits, judicious pricing initiatives to reflect current market trends and demands, and structural initiatives to reduce our costs while ensuring that we can provide consistent, reliable service across all of our product categories.

In our plan, we have identified key strategies and initiatives to achieve service excellence, realize cost savings and revenue growth, modernize postal infrastructure, and enhance our employees' wellbeing. These initiatives will allow for timely, reliable, and cost-efficient mail and package delivery to the American people 6 and 7 days a week. Our plan also recognizes that Congressional action remains essential to ensuring that the Postal Service can achieve financial stability, in the form of targeted changes to our retiree health benefits funding obligations.

Congress has provided additional funding to the Postal Service based on the COVID-19 pandemic, which we appreciate, but this funding is not designed to address the Postal Service's other financial challenges, such as our inability to make needed capital investments, or our massive projected losses over the next 10 years. Receipt of these funds therefore does not obviate the critical need to enact the elements of our strategic plan.

The Postal Service continues to track our COVID-19-Related Operating Expenses consistent with our memorandum of understanding with the Department of the Treasury, which incorporates additional expenses associated with the COVID-19 pandemic beyond those expenses highlighted within the report. As of March 31, 2021, we have been reimbursed for such expenses in the cumulative amount of $8.648B pursuant to the terms of the CARES Act, as amended by the Consolidated Appropriations Act, 2021.

Please find attached the GAO template for providing technical comments, where we note a few technical errors in the draft that was provided. We look forward to continuing to work with your office as we develop a sustainable path forward for the U.S. Postal Service.

Sincerely,

Isaac S. Cronkhite
Chief Logistics and Processing Operations Officer
and Executive Vice President

Luke T. Grossmann
Senior Vice President, Finance and Strategy

Attachment

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Jill Naamane, (202) 512-2834 or naamanej@gao.gov.

Staff Acknowledgments

In addition to the individual named above, Derrick Collins (Assistant Director); Greg Hanna (Analyst-in-Charge); Amy Abramowitz; Geoff Hamilton; Delwen Jones; Serena Lo; Steven Rabinowitz; Malika Rice; Mike Soressi; and Laurel Voloder made key contributions to this report.

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