The U.S. Postal Service's Finances and Financial Condition

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Summary

The U.S. Postal Service (USPS) is experiencing significant financial challenges. It lost $5.3 billion in FY2007, $2.8 billion in FY2008, and $4.9 billion in the first three quarters of FY2009. The USPS has said that it will have a cash shortage at the end of September 2009.

This report provides answers to some frequently asked questions about the USPS's finances and its financial condition. It also describes congressional action and current legislation—H.R. 22, S. 1507, and S.Rept. 111-43 (S. 1432)—and other proposals to address the USPS's financial condition.

This report will be updated to reflect significant developments.

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Background on the USPS's Finances

How Long Has the USPS Been Self-Supporting?

The USPS has been a self-supporting, wholly governmental entity since 1971. From 1792 to 1970, the federal government provided postal services via the U.S. Post Office Department (USPOD), a government agency that received annual appropriations from Congress. Members were involved in many aspects of the USPOD's operations, including the selection of managers (e.g., postmasters) and the pricing of postal services. The Postal Reorganization Act (PRA; P.L. 91-375; 84 Stat. 725) replaced USPOD with the USPS, an "independent establishment of the executive branch" (39 U.S.C. 201). The USPS is a marketized government agency that was designed to cover its operating costs with revenues generated through the sales of postage and related products and services.[1]

Does the USPS Receive Appropriations?

Yes. However the USPS does not rely on appropriations for its operating revenue. Congress provides the USPS with an appropriation to compensate it for the revenue it forgoes in providing, at congressional direction, free mailing privileges to blind persons and overseas voters. This appropriation is about $100 million per year, about 0.13% of the USPS's $75 billion operating budget.

Can the USPS Borrow Money?

Yes. The USPS can and does borrow money from the U.S. Treasury via the Federal Financing Bank. Federal statute limits the USPS's annual debt increases to $3 billion, and the USPS's total debt to $15 billion (39 U.S.C. 2005(a)).

Is the USPS Off-Budget?

The Postal Service Fund, which the USPS uses for most of its financial transactions, is off-budget, and therefore not subject to the congressional controls of the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344; 88 Stat. 297; 2 U.S.C. 621).[2] It is not included in the totals of the President's budget; nor is it included in the congressional budget resolution.

The Postal Service Retiree Health Benefits Fund, which was established by the Postal Accountability and Enhancement Act of 2006 (PAEA; P.L. 109-435, Sec. 803; 120 Stat. 3251), is

[1] The term "marketized" refers to a government agency structured to provide goods and services in the manner of a private firm. On marketization as an alternative to privatization, see CRS Report RL33777, *Privatization and the Federal Government: An Introduction*, by Kevin R. Kosar, pp. 23-29.

[2] For further background on the USPS's budget status, see CRS Report RS20350, *Off-Budget Status of Federal Entities: Background and Current Proposals*, by Bill Heniff Jr.; and Office of Management and Budget, Budget of the U.S. Government Fiscal Year 2010: Appendix (Washington: GPO, 2009), pp. 1274-1276, at http://www.whitehouse.gov/omb/budget/fy2010/assets/appendix.pdf.

on-budget. The PAEA established this fund in an attempt to ensure that the USPS would not default on its obligations to future USPS retirees. This policy is in keeping with the design of the USPS as an independent, marketized governmental entity.

The USPS's Current Financial Condition

What is the USPS's Financial Condition?

After running modest profits in FY2004 through FY2006, the USPS lost $5.3 billion in FY2007 and $2.8 billion in FY2008. Between FY2006 and FY2008, the USPS's debt rose from $0 to $7.2 billion.[3]

In FY2009, the USPS has lost $4.9 billion in the first three quarters.[4] Hence, were the USPS to break even in the final quarter of FY2009 (a highly unlikely scenario, according to the USPS), it would end the year with a debt of $12.1 billion, and the USPS predicts it will lack sufficient cash to cover all its operating costs at the end of September 2009.[5] On July 28, 2009, the Government Accountability Office (GAO) added the USPS's "financial condition to the list of high-risk areas needing attention by the Congress and the executive branch."[6]

Why is the USPS Losing Money?

The USPS's financial losses in FY2007 and FY2008 were largely the result of significantly increased operating costs. USPS's FY2009 losses may be largely the result of plunging revenues.

Many media headlines have characterized the USPS's deficits as the result of a drop in mail volume and revenue.[7] This is not entirely accurate. Mail volume rose from 204.5 billion mail pieces in FY2004 to 211.5 billion mail pieces in FY2006. Volume then decreased to 210.6 billion in FY2007 and 201.1 billion in FY2008 (**Figure 1**). This slide has not abated. The USPS reports that mail volume "has fallen by nearly 20 billion pieces in 2009 compared to the first three quarters of last year."[8] The Postmaster General, John Potter, recently testified that USPS predicts that it will take in only 176 billion mail pieces in FY2009, 13% fewer than in FY2008.[9]

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[3] U.S. Postal Service, *Annual Report 2008* (Washington: USPS, 2008), p. 3.

[4] U.S. Postal Service, "Postal Service Ends Third Quarter with $2.4 Billion Loss," press release, August 5, 2009, at http://www.usps.com/communications/newsroom/2009/pr09_066.htm.

[5] U.S. Postal Service, "Postal Service Ends Second Quarter with $1.9 Billion Loss," press release, May 6, 2009.

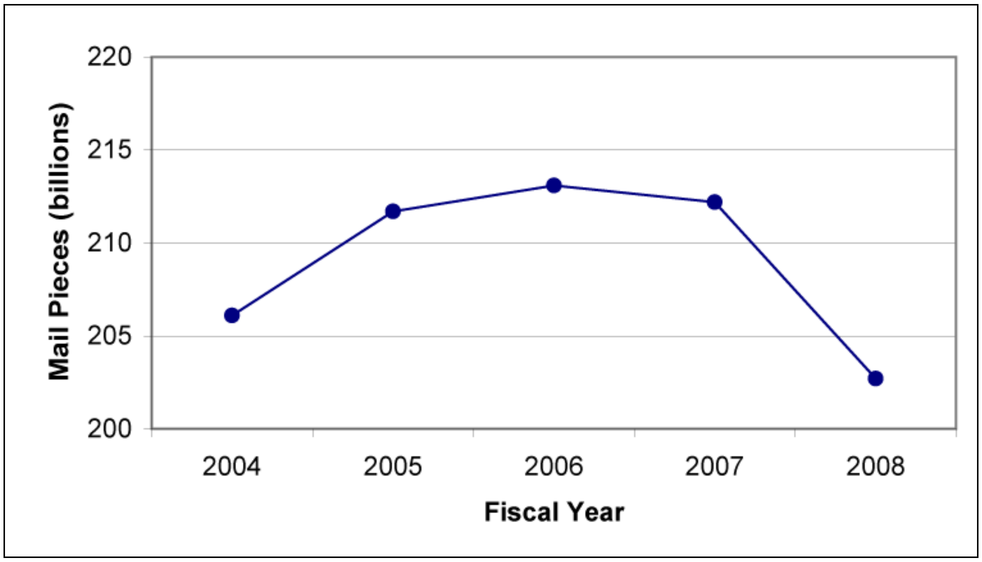
[6] Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-937SP (Washington: GAO, July 28, 2009), p. 1, at http://www.gao.gov/new.items/d09937sp.pdf.

[7] For example, see Associated Press, "Less Snail Mail, More Red Ink at the Post Office," *New York Times*, August 5, 2009, at http://www.nytimes.com/aponline/2009/08/05/us/politics/AP-US-Postal-Problems.html; and Ben Rooney, "Postal Service Blames Mail Decline for Loss," *CNNMoney.com*, August 5, 2009, at http://money.cnn.com/2009/08/05/news/companies/US_postal_service/.

[8] U.S. Postal Service, "Postal Service Ends Third Quarter with $2.4 Billion Loss."

[9] Statement of John Potter, Postmaster General, U.S. Postal Service, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, hearing, 111th Congress, 1st sess., August 6, 2009, p. 3, at http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=e4c1bd6c-.

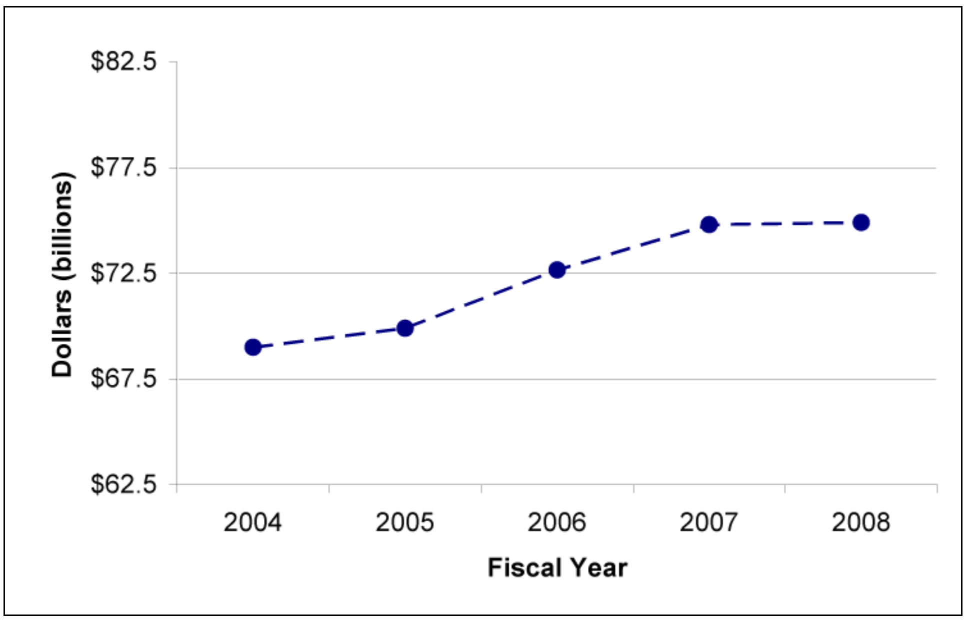
Figure 1. Mail Volume, FY2004-FY2008



Source: U.S. Postal Service, *Annual Reports 2004-2008*.

Despite the FY2007 and FY2008 slide in mail volume, the USPS's revenues held steady, largely due to increases in the price of postage (**Figure 2**).

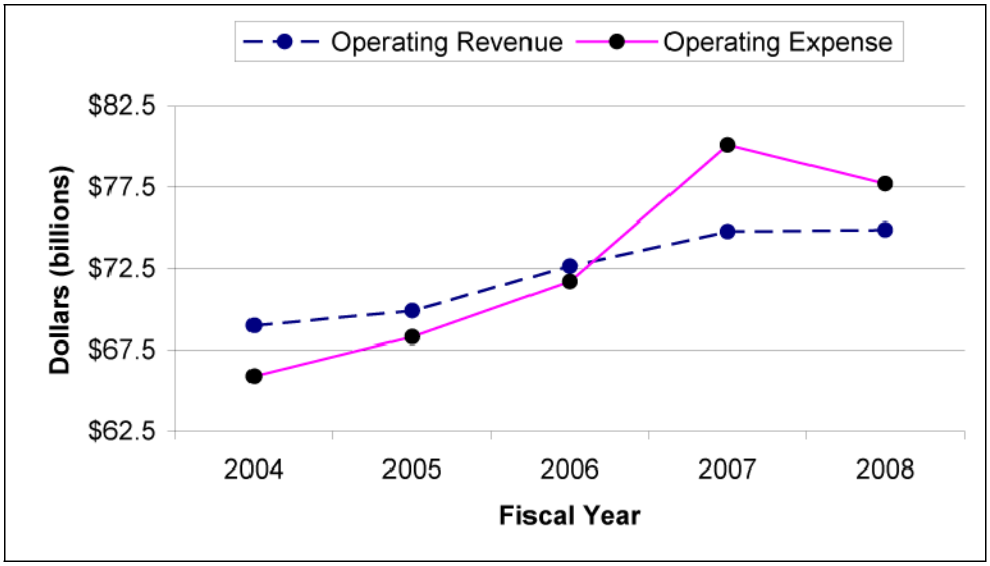
Figure 2. USPS's Operating Revenues, FY2004-FY2009



Source: U.S. Postal Service, *Annual Reports 2004-2008*.

The problem for the USPS is that its operating revenues have been exceeded by its operating costs since FY2007 (**Figure 3**).

Figure 3. USPS's Operating Revenues and Expenses, FY2004-FY2008



Source: U.S. Postal Service, *Annual Reports 2004-2008*.

Notably, FY2007 was the first year that the PAEA required the USPS to make a payment toward prefunding its future retiree health benefits (**Table 1**).[10]

Table 1. Postal Service Retiree Health Benefits Fund Payments Under PAEA

Fiscal Year	Payment (billions)
2007	$5.4
2008	$5.6
2009	$5.4
2010	$5.5
2011	$5.5
2012	$5.6
2013	$5.6
2014	$5.7
2015	$5.7
2016	$5.8

Source: Postal Accountability and Enhancement Act (P.L. 109-435, Sec. 803; 120 Stat. 3251-3252.)

If the USPS did not have to pay any funds into its future retiree health benefits payments in the past two years, it would have made profits of $0.1 billion (FY2007) and $2.8 billion (FY2008).[11]

[10] P.L. 109-435, Sec. 803; 120 Stat. 3251-3252.

[11] Analyst's calculation based upon USPS's *Annual Reports 2007 and 2008* and PAEA payments at P.L. 109-435, Sec. 803; 120 Stat. 3251-3252.

That said, even before PAEA's enactment in early FY2007, the rate of growth of the USPS's operating expenses exceeded that of its operating revenues. Between FY1999 and FY2006 USPS's operating expenses grew 19.3%, from $60.1 billion to $71.7 billion, and its operating revenues increased 15.9%, from $62.7 billion to $72.7 billion. Much of this increase in the USPS's operating expenses was compensation and benefits expenses, which rose 19.4%, from $47.3 billion to $56.5 billion.[12]

Will the USPS Run Out of Cash in September 2009?

Postmaster General John Potter recently estimated that after borrowing $3 billion this year, the maximum permitted by law, the USPS may end FY2009 with a cash shortage of "up to $700 million."[13] This means that the USPS would not have enough money to cover all its financial obligations as of September 30, 2009. This does not, though, mean that the USPS will have no money.

If this cash shortage occurs, the Postmaster General has said the USPS will use its available cash to pay its employees and continue its operations, although he did not make clear how long the USPS could continue to do this. The USPS would not, however, make the full $5.4 billion payment to the Postal Service Retiree Health Benefits Fund that is due on September 30.[14] Failure to make the payment would place the USPS in violation of federal law. The ramifications of this violation are unclear. (The law is silent on this matter.)

Action in the 111th Congress

Has the 111th Congress Held Hearings That Address the USPS's Financial Condition?

Yes, the 111th Congress has held four hearings in which the USPS's financial health was discussed:

1. U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The Impact of Economic Crisis on the U.S. Postal Service*, hearing, 111th Congress, 1st sess., January 28, 2009.[15]
2. U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of

[12] Figures not adjusted for inflation.

[13] Statement of John E. Potter, Postmaster General, U.S. Postal Service, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, p. 3.

[14] Ibid.

[15] See http://hsgac.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_id=638f623c-c4c7-41fc-8626-3d804812fa56.

Columbia, *Restoring the Financial Stability of the U.S. Postal Service: What Needs to be Done?* hearing, 111th Congress, 1st sess., March 23, 2009.[16]

3. U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, *Nip and Tuck: The Impact of Current Cost Cutting Efforts on Postal Service Operations and Network*, hearing, 111th Congress, 1st sess., May 20, 2009.[17]
4. U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, hearing, 111th Congress, 1st sess., August 6, 2009.[18]

What Legislation Would Address the USPS's Financial Condition?

Three bills have been introduced in the 111th Congress to address the USPS's financial condition—H.R. 22, S. 1507, and S.Rept. 111-43 (S. 1432). All three pieces of legislation would improve the USPS's financial condition by reducing its operating costs. They would do this by lowering the USPS's out-of-pocket payments for retiree health benefits.

At present, the law requires the USPS to pay between $7.4 billion to $10 billion in health benefits costs each year (FY2009 to FY2016) for current and future USPS retirees.[19] It expends from the Postal Fund (out-of-pocket)

- $2 billion to $4.2 billion to the Office of Personnel Management (OPM) for current USPS retirees' health benefits premiums; and
- $5.4 billion to $5.8 billion to the Postal Service Retiree Health Benefits Fund for USPS future retirees' health benefits premiums.

As mentioned above, the PAEA established this latter requirement. From FY2007 to FY2016, the PAEA requires the USPS to make large payments into the Postal Service Retiree Health Benefits Fund. In FY2017, any remaining obligation is to be amortized over a 40-year period. The USPS then would make only one annual, out-of-pocket payment to the Postal Service Retiree Health Benefits Fund. The USPS would cease paying OPM from the Postal Service Fund, and instead pay it from the Retiree Health Benefits Fund.

H.R. 22

Representative John McHugh introduced H.R. 22 on January 6, 2009. The bill was referred to the Committee on Oversight and Government Reform and the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia. As introduced, H.R. 22 would have permitted the

[16] See http://federalworkforce.oversight.house.gov/story.asp?ID=2355.

[17] See http://federalworkforce.oversight.house.gov/story.asp?ID=2444.

[18] See http://hsgac.senate.gov/public/index.cfm?FuseAction=Hearings.Hearing&Hearing_ID=deeb3cbd-c284-4321-bf5a-64c0b21cf38a.

[19] Statement of Phillip Herr, Director, Physical Infrastructure, Government Accountability Office, *U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs*, p. 7.

USPS to pay its share of its current retirees' health premiums out of the USPS's Retiree Health Benefits Fund for eight years, from FY2009 to FY2016.

On January 28, GAO testified that enacting H.R. 22 as introduced would increase the USPS's unfunded health benefits obligation from $43 billion to $75 billion in 2017.[20]

> In the long term, the large impact this unfunded obligation would have on the Fund would create the risk that USPS would have difficulty making future payments, particularly considering mail volume trends and the impact of payments on postal rates if mail volume declines continue. USPS's proposal would also shift responsibility for paying the benefits of postal employees from current rate payers to future rate payers.[21]

GAO advocated reducing H.R. 22's eight years of relief to two years.

On June 24, 2009, the subcommittee marked up the bill to lower the relief from eight years to three years and reported it. The full committee reported the bill without amendment on July 10 (H.Rept. 111-216). As of August 11, 2009, H.R. 22 had 339 co-sponsors, all but two of which had signed on to it prior to the subcommittee's action.

On July 20, 2009, the Congressional Budget Office (CBO) released its cost estimate of H.R. 22 as amended. Although the bill would not appropriate any funds to the USPS, the CBO said H.R. 22 would add $2.5 billion in costs to the unified budget for the period of FY2010 to FY2019.[22] CBO explained that this cost would come as the result of H.R. 22 encouraging less aggressive cost-cutting by the USPS. "We expect that lowering the health care expenses of the Postal Service Fund by $2 billion or more annually would cause the [USPS] to modify its efforts to reduce other spending near the end of fiscal year 2009 and in future years."[23]

On September 15, 2009, the House voted 388 to 32 to pass a substitute amendment to H.R. 22. This bill would amend the PAEA to reduce the USPS's FY2009 payment to the Retiree Health Benefits Fund from $5.4 billion to $1.4 billion. The $4 billion difference would be added to the amount which is to be amortized in 2017. According to a "Dear Colleague" letter circulated the day before H.R. 22 was brought up under suspension of rules, "The Congressional Budget Office has confirmed that [the substitute amendment to H.R. 22] will not violate the pay-go rule."[24]

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[20] Under PAEA, the USPS makes large annual payments for 10 years, and then would amortize the remaining obligation over 40 years. See Statement of Phillip Herr, Director, Physical Infrastructure, Government Accountability Office, U.S. Postal Service: *Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs*, p. 7.

[21] Ibid.

[22] Congressional Budget Office, "Cost Estimate: H.R. 22, United States Postal Service Financial Relief Act of 2009," p. 1, at http://www.cbo.gov/ftpdocs/104xx/doc10465/hr22.pdf.

[23] Ibid., p. 2.

[24] Dear colleague letter from Edolphus Towns, Chairman, Committee on Oversight and Government Reform, and Stephen F. Lynch, Chairman, Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia, "Facts Regarding H.R. 22," September 14, 2009, p. 1.

S. 1507

Senator Thomas Carper introduced S. 1507 on July 23, 2009. The bill aims to reduce the USPS's out of pocket costs for health care by allowing the USPS to pay its current retiree health benefits from the Retiree Health Benefits Fund and by amending the PAEA-enacted payment schedule to extend its length by three years and lower some of the annual payments.[25] S. 1507 also would increase the USPS's annual borrowing authority from $3 billion to $5 billion in FY2009 and FY2010. Any amounts borrowed under this short-term authority would not count toward the USPS's statutory debt ceiling of $15 billion, and would have to be repaid by the conclusion of FY2019.

On July 30, 2009, the Senate Committee on Homeland Security and Governmental Affairs amended and reported the bill. The amendments would

- alter PAEA (P.L. 109-435, Sec. 710(a); 120 Stat. 3247) to require GAO to prepare and submit to the President and Congress a report that evaluates the options and strategies for the long-term structural and operational reforms of the USPS necessary to achieve financial stability and long-term fiscal viability (the report would be due March 31, 2010);
- affirm the current statutory USPS debt cap (39 U.S.C. 2005(a)) by striking the provision exempting the short-term borrowing authority from the cap;
- change current law (39 U.S.C. 3686) to prohibit the USPS from paying its executives bonuses for years that the USPS runs losses; and
- alter current law (39 U.S.C. 1207(c)) to require arbitrators in rendering collective bargaining decisions to "consider the financial condition of the Postal Service.''

At least two postal employee unions have condemned the amendment to alter collective bargaining.[26]

According to a CBO cost estimate published on September 14, 2009, S. 1507 would have a net cost to the unified budget of $2.8 billion over the 2010 to 2019 period.[27] CBO attributes these unified budget costs to the USPS making reduced payments to the retiree health benefits fund (which creates on-budget effects), and a resultant reduction in financial pressures to cut its operating expenses (which creates off-budget effects).[28]

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[25] S. 1507 also would require the USPS to make additional annual payments to the fund in FY2009 to FY2019 to cover the "net present value" of providing health care benefits to future retirees.

[26] For example, see Statement of William Burrus, President, American Postal Workers Union, AFL-CIO, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, hearing, 111th Congress, 1st sess., August 6, 2009, at http://hsgac.senate.gov/public/index.cfm?FuseAction= Files.View&FileStore_id=9bf217c7-f416-4ace-a8b2-949272e41613.

[27] Congressional Budget Office, "S. 1507 Postal Service Retiree Health Benefits Funding Reform Act of 2009," September 14, 2009, p. 1.

[28] Ibid., p. 6.

S.Rept. 111-43 (S. 1432)

As introduced on July 9, 2009, S. 1432, the Financial Services and General Government Appropriations Act, 2010, did not address the USPS's financial condition. When the Senate Appropriations Committee reported the bill that same day, S.Rept. 111-43 included a section on the USPS's financial challenges.[29] The committee stated that it

> remains concerned about the fiscal health of the Postal Service.... The Postal Service has made efforts to reduce costs, primarily by cutting work hours and capturing processing efficiencies. Through May 2009, the Postal Service had cut roughly $3,600,000,000 in expenses compared to the same period last year. In June 2009, the Postal Service indicated that cost savings could reach as much as $6,100,000,000 in fiscal year 2009, exceeding expectations by $200,000,000. Despite its efforts to cut costs, the Postal Service fiscal prospects are still dire.[30]

The committee reported that it had considered an alternative to H.R. 22 that was based on a U.S. Postal Service Inspectors General (USPOIG) report that faulted the actuarial assumptions of PAEA and OPM. The USPOIG report argued that the USPS was overfunding its Retiree Health Benefits Fund and that its payments to it should be significantly less.[31]

But the committee said that OPM and "other critics" raised questions about the assumptions in the USPOIG's report, so it directed the

> Postal Service, in coordination with OPM and OMB, to develop a fiscally responsible legislative proposal to grant a limited measure of relief from the PAEA requirements to pre-fund retiree health benefits. These proposals should consider: (1) whether the PAEA-mandated stream of future payments overfunds through fiscal year 2016 the anticipated liability of the Postal Service for future retiree health benefits, (2) whether modifications to the mandated payments could meet the unliquidated liability goals contained in the PAEA, and (3) whether a decrease in mandated payments will reduce the incentive of the Postal Service to continue to cut additional costs, including the labor costs that account for the most significant portion of annual total costs. Additionally, these proposals should take into account the result of the PRC's study of the PAEA payments.[32]

By "PRC" the committee was referring to the Postal Regulatory Commission, the federal regulatory body that oversees the USPS. The PRC produced its own study on the question of the USPS's health care obligations.[33]

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[29] S.Rept. 111-43, the Financial Services and General Government Appropriations Bill, 2010, pp. 129-131, at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_reports&docid=f:sr043.111.pdf.

[30] Ibid., pp. 129-130.

[31] U.S. Postal Service Inspector General, *Final Management Advisory Report–Estimates of Postal Service Liability for Retiree Health Care Benefits*, Report Number ESS-MA-09-001(R) (Washington: USPOIG, July 22, 2009), at http://www.uspsoig.gov/foia_files/ESS-MA-09-001R.pdf. Apparently, the committee received a copy of this report before it was published.

[32] S.Rept. 111-43, p. 131.

[33] Postal Regulatory Commission, Postal Regulatory Commission Review of Retiree Health Benefit Fund Liability as Calculated by Office of Personnel Management and U.S. Postal Service Office of Inspector General (Washington: PRC, July 30, 2009), at http://www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study_109.pdf.

The USPS's Health Benefits Obligation: USPOIG vs. OPM vs. the PRC

The USPOIG, OPM, and the PRC disagree on the size of the USPS's future retiree health benefits obligation. Therefore, they have come to different conclusions as to the amount the USPS should pay to adequately fund this obligation.

The USPOIG believes the USPS needs to have $90.2 billion in the Retiree Health Benefits Fund by the end of FY2016. It argues that following the current PAEA-mandated payment schedule would lead to the USPS overfunding its obligation by $13.2 billion in 2016. It advocates that the USPS instead should pay $1.6 billion per year through 2016 to fund its obligations.[34]

OPM holds that the USPS should have $147.9 billion in the fund by the end of FY2016. It argues that the USPS should put $5.5 billion in the fund per year, but it has said that it "has no objections to legislative changes that provide for a solution in a manner that does not jeopardize the funding for [postal] employee and retiree benefits. S. 1507 meets that requirement."[35]

The PRC reviewed both the USPOIG's and OPM's assessments, and found merit in both approaches. The PRC suggests that the USPOIG understates the USPS's liability because it underestimates the inflation rate for healthcare. The PRC argues that OPM significantly overstates the USPS's liability because it overestimates both the inflation rate for health care and the future USPS workforce size. The PRC estimates that the USPS needs to have $113.2 billion in its Retiree Health Benefits Fund by the close of FY2016. It suggests the USPS could pay $3.4 billion per year to achieve this goal.[36]

What Might Congress Do to Improve the USPS's Financial Condition?

Actions that may improve the USPS's financial condition fall into two categories—those that would resolve the FY2009 cash shortage, and those designed to improve the USPS's long-term financial health.

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[34] U.S. Postal Service Inspector General, *Final Management Advisory Report–Estimates of Postal Service Liability for Retiree Health Care Benefits*; and Statement of David C. Williams, Inspector General, U.S. Postal Service Office of Inspector General, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, at http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=2a59e5fb-4d67-41b1-906e-96cc1ec790a0.

[35] Statement of Nancy H. Kichak, Associate Director for Strategic Resources Policy, U.S. Office of Personnel Management, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, at http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=12f59d0e-c668-49ec-8541-eb0566140f4e.

[36] Postal Regulatory Commission, Postal Regulatory Commission Review of Retiree Health Benefit Fund Liability as Calculated by Office of Personnel Management and U.S. Postal Service Office of Inspector General; and Statement of Ruth Y. Goldway, Commissioner, Postal Regulatory Commission, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, The U.S. Postal Service in Crisis, at http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=441a28b0-e650-4b0b-8f3c-7a8be41326a4.

The FY2009 Cash Shortage

FY2009 ends soon—September 30, 2009. With so little time, it is difficult to conceive a means through which Congress could increase the USPS's revenues sufficiently to cover the possible $700 million shortfall. For example, a quickly implemented rate increase would have a very short time to increase revenues, and it might further depress the demand for postage.

This leaves at least three options:

1. Provide the USPS with an emergency appropriation to cover the projected shortfall.
2. Amend 39 U.S.C. 2005(a) to permit the USPS to borrow more than $3 billion in FY2009.
3. Immediately reduce the USPS's costs.

Obviously, providing the USPS with an appropriation to help cover its operating costs would be a significant departure from recent postal policy. That said, in light of the recent federal rescues of banks and other private businesses, it might be argued that it is appropriate for the federal government to assist a financially distressed federal agency.[37]

S. 1057 proposes amending current law to permit the USPS to borrow $5 billion this fiscal year and next. There may be risk in encouraging an in-debt organization to borrow more money, especially if the organization faces a declining market.[38] However, this proposed policy has its advantages. It could avert the financial shortfall, and it would keep pressure on the USPS to continue to find ways to reduce its costs.

The USPS's recent efforts to cut costs by reducing the number of its employees and facilities has drawn much congressional and media attention.[39] So too has its proposal to reduce mail delivery from six to five days per week.[40] Although the reduction of employees, facilities, and days of delivery will reduce the USPS's costs over time, it seems highly improbable that any of these reductions can take place quickly enough to address the USPS's FY2009 cash shortage. All of these actions are time-intensive and involve collective bargaining agreements, public rights vis-a-vis the USPS, and logistical challenges.

At present, the only readily apparent means for lowering the USPS's operating costs sufficiently is to reduce its out-of-pocket FY2009 retirement benefits payment. Both H.R. 22 and S. 1507 would do this, and the Senate Appropriations Committee has advocated this approach (S.Rept. 111-43).

[37] For example, see CRS Report RL34730, *Troubled Asset Relief Program: Legislation and Treasury Implementation*, by Baird Webel and Edward V. Murphy.

[38] Editorial, "Too Big to Mail," *Washington Post*, June 22, 2009.

[39] CRS Report RS22864, *U.S. Postal Service Workforce Size and Employment Categories, 1988-2008*, by Wendy R. Ginsberg; and CRS Report R40719, *Post Office and Retail Postal Facility Closures: Overview and Issues for Congress*, by Kevin R. Kosar.

[40] CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: Issues for Congress*, by Wendy R. Ginsberg.

The USPS's Long-Term Financial Health

The USPS's current financial condition raises difficult questions: Is the USPS simply suffering from a temporary "perfect storm" of high retiree health benefits payments and declining revenue? Or is the USPS, as currently constituted, incapable of responding to a shifting market for its products and services?

Answering these questions goes beyond the scope of this report. Nevertheless, a number of ideas have been put forth that would improve the USPS's financial condition while preserving it as an independent establishment of the executive branch.

Increasing Revenues

1. The PRC has found that the USPS carries some types of mail at postage rates that are below their costs.[41] Currently, federal law permits the USPS to increase postage annually at a rate no higher than the Consumer Price Index (39 U.S.C. 3622(d)(1)(A)). Congress may wish to further examine these apparent disparities and provide the USPS with additional pricing flexibilities that would enable it to recover more revenue.

2. Federal law limits the USPS to selling postage stamps, stamped paper, cards, envelopes, philatelic services, and ancillary items (39 U.S.C. 102(5); 39 U.S.C. 404(a)(4-5)). The USPS has said that it would like to increase its revenues by offering a broader range of products and services, although it has not specified which ones.[42] Congress may wish to consider whether the USPS ought to enter into nonpostal business lines.

Reducing Costs

1. In his initial FY2010 budget, President Barack Obama proposed requiring USPS employees to pay the same percentage towards their health premiums and life insurance as other federal workers.[43] (Currently, USPS employees pay 17% of their health care premium costs and 0% of their life insurance premiums, while other federal employees pay 27% and 67% respectively.)[44] The administration estimated this would save the USPS $752 million in FY2010 and $9.5 billion in the period of FY2010 to FY2019.[45]

[41] Postal Regulatory Commission, *Annual Compliance Determination* (Washington: PRC, March 30, 2009), pp. 5-6, at http://www.prc.gov/Docs/62/62784/ACD Report_2008_FINAL.pdf; see also CRS Report R40162, *Postage Subsidies for Periodicals: History and Recent Developments*, by Kevin R. Kosar.

[42] Statement of John E. Potter, Postmaster General, U.S. Postal Service, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, p. 15.

[43] Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2010: Summary Tables*, March 2009, Table S-6, p. 126, at http://www.whitehouse.gov/omb/assets/documents/S-6.pdf.

[44] Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, p. 2.

[45] Reportedly, the proposal was dropped because of concerns that it would violate collective bargaining. Darrell A. Hughes, "Obama Admin Halts Plans To Alter US Postal Workers' Benefits," *Wall Street Journal* (online), May 11, 2009, at http://online.wsj.com/article/BT-CO-20090511-719565.html.

2. GAO has testified repeatedly that the USPS has not reduced its number of retail postal facilities and mail processing plants sufficiently:

> Rightsizing [the] USPS's retail and mail processing networks is needed to eliminate excess capacity, improve efficiency that is critical to maintaining affordable postal rates, and facilitate streamlining [the] USPS's workforce, which generates close to 80 percent of its costs. Excess capacity has grown with unprecedented declines of mail volume, which are projected to continue through fiscal year 2010.... [A]s its mail volumes decline, [the] USPS does not have sufficient revenues to cover the growing costs of providing service to new residences and businesses while also maintaining its large network of retail and processing facilities.[46]

Congress may wish to consider providing the USPS with additional authority to reduce its facilities. Or, Congress may wish to consider legislation similar to that introduced by Senator Thomas Carper in 2003. S. 1285 (108th Congress) proposed establishing a Postal Network Optimization Commission to reduce the number of postal facilities in a manner similar to that used to close military bases in the 1990s.

As a related matter, both houses of Congress also may wish to consider enacting rules to prevent appropriations committees from intervening in proposed mail facility closures.[47] Alternatively, Congress might enact a law to authorize appropriations to reimburse the USPS for cost-savings lost due to congressionally imposed delays in facilities closures.

3. GAO has suggested that Congress should consider permitting the USPS to reduce its delivery schedule from six to five days.[48] To date, the estimates of possible savings from a reduction in delivery days ranges from $1.9 billion to $3.5 billion.[49] The USPS is conducting a study to determine the costs savings of a switch to five-day delivery, which it will release in September 2009.

4. Critics have long argued that the USPS is required to be self-supporting but that federal law provides it with very few authorities to control its employment costs—which make up approximately 80% of its total operating costs.[50] For example, in 2003 the President's Commission on the United States Postal Service noted that "postal workers enjoy special status within the federal workforce. They are granted the right to negotiate wages, hours, and workplace conditions through collective bargaining."[51] By law the USPS is required to "maintain

[46] Ibid., pp. 3-4.

[47] For example, see S.Rept. 111-43, p. 131. "The Committee is aware that the Quincy, Illinois AMP [Area Mail Processing plant] is among the facilities for which a possible realignment feasibility study has been announced. The Committee is concerned about the impact on the community and postal customers of eliminating jobs or transferring functions. The Committee directs the Postal Service to provide the Committee with a detailed explanation of the criteria used to select the Quincy AMP for a study no later than 30 days after enactment. The Committee further directs the Postal Service to not proceed with the Quincy AMP study or any other related actions to implement that study during fiscal year 2010."

[48] Statement of Phillip Herr, Director, Physical Infrastructure, Government Accountability Office, *U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs*, p. 11.

[49] CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: Issues for Congress*, by Wendy R. Ginsberg.

[50] Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, p. 2.

[51] For example, see President's Commission on the United States Postal Service, Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service: Report of the President's Commission on the United States Postal Service (Washington: GPO, July 31, 2003), p. 108, at http://www.ustreas.gov/offices/domestic-finance/usps/pdf/ (continued...)

compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector" (39 U.S.C. 1003(a)). The commission further argued that the current statutory process for resolving disputes between management and labor frequently result in arbitrators being empowered to make binding decisions that favor employees (e.g., postal workers pay lower premiums for their health insurance, and are protected from layoffs [52]).

Congress may wish to consider measures that would provide the USPS with increased means to control its long-term labor costs. The President's Commission on the United States Postal Service suggested a number of policies to this end,[53] and S. 1507 would amend 39 U.S.C. 1207(c) to require arbitrators in rendering collective bargaining decisions to "consider the financial condition of the Postal Service.''

Additionally, the USPS has relied upon attrition to manage its workforce from 826,955 to 765,088 between FY2003 and FY2008.[54] According to GAO, 300,000 USPS employees will be eligible for retirement in the next four years. When the USPS offered 150,000 of its workers early retirement this past year, 3% of eligible employees accepted. Congress may wish to examine whether the USPS should be provided additional statutory authorities to offer employees stronger incentives to retire.

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[52] For example, see *Collective Bargaining Agreement Between American Postal Workers Union, AFL-CIO and U.S. Postal Service*, November 21, 2006-November 20, 2010 (Washington: APWU, 2006), pp. 9-18, at http://www.apwu.org/dept/ind-rel/sc/APWU%20Contract%202006-2010.pdf.

[53] President's Commission on the United States Postal Service, *Embracing the Future*, pp. 138-140.

[54] CRS Report RS22864, *U.S. Postal Service Workforce Size and Employment Categories, 1988-2008*, by Wendy R. Ginsberg, p. 3.