



U.S. Postal Service: Background and Analysis of H.R. 2309 and S. 1789 in the 112th Congress

Kevin R. Kosar

Analyst in American National Government

July 9, 2012

Congressional Research Service

7-5700

www.crs.gov

R42590

CRS Report for Congress

Prepared for Members and Committees of Congress

Summary

Since FY2007, the U.S. Postal Service (USPS) has lost more than \$25 billion. Were it not for congressional action to reduce and defer statutorily required retiree health benefits, the USPS would have lost an additional \$9.5 billion. As the USPS's finances have deteriorated, its ability to absorb operating losses has been diminished. The USPS's current debt is \$13 billion, \$2 billion below its maximum statutory borrowing authority. The agency owes \$11.1 billion in payments to the Retiree Health Benefits Fund by September 20, 2012, and it currently has less than \$1 billion in cash. These deficits are particularly problematic since Congress designed the Postal Service to be self-supporting in 1970 and enacted significant postal reforms in 2006.

To help stem its losses, the USPS has taken a number of steps. Foremost, the Postal Service has downsized its workforce through attrition. Since FY2006, the number of career postal workers has shrunk 21.9%, to about 544,000 from 696,138. However, the USPS has said it is unable to return to solvency through its own actions, and it has asked Congress to enact major reforms.

Numerous postal reform bills have been introduced in the 112th Congress; House and Senate appropriators and President Barack H. Obama also have advanced postal proposals. Among postal authorizing legislation, H.R. 2309 and S. 1789 have progressed the furthest toward enactment. The Senate passed S. 1789, the 21st Century Postal Service Act, on April 27, 2012. The House Committee on Oversight and Government Reform reported H.R. 2309, the Postal Reform Act of 2011, on January 17, 2012, and the House Rules Committee reported H.R. 2309 on March 29, 2012. Both bills include major reforms, such as reductions in service, expansion of the USPS's authority to provide products and services, and alterations to the postal employees pension and healthcare plans.

At present, the USPS appears to be suffering from both a short-term liquidity crisis (i.e., dwindling cash and borrowing authority) and a long-term structural deficit (i.e., stagnating revenues and rising overhead costs). To address both of these financial challenges, the USPS would have to (1) improve its liquidity immediately; (2) fortify its long-term revenues; and (3) control the growth of its long-term costs, all while (4) continuing to provide universal postal service to the public.

Both H.R. 2309 and S. 1789 contain provisions to make progress toward achieving each of these goals, albeit in different ways and to different degrees. H.R. 2309 would aim to reduce the USPS's costs through reducing the number of delivery and postal facilities and enacting a variety of USPS compensation reforms. S. 1789 would largely preserve present-day postal services and enact a number of incremental cost-cutting policies, such as reducing the USPS workers' compensation outlays.

This report will be updated after any further legislative action.

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Background

President George W. Bush signed the Postal Accountability and Enhancement Act (PAEA; P.L. 109-435; 120 Stat. 3198) on December 20, 2006. The PAEA was the first broad revision of the 1970 statute that replaced the U.S. Post Office, a federal agency dependent upon appropriations, with the U.S. Postal Service (USPS), a self-supporting, independent agency of the executive branch.¹ The USPS is expected to operate like a business, but it must do so within various statutory confines and serve various public purposes.²

The 112th Congress is considering additional major postal reforms, including reductions in service, expansion of the USPS's authority to provide products and services, and alterations to the postal employees pension and healthcare plans. The proximate cause for the recent efforts at postal reform is the USPS's troubled financial condition.

The USPS's Financial Difficulties

After running modest profits from FY2004 through FY2006, the USPS lost \$25.4 billion between FY2007 and FY2011.³ Were it not for congressional action to reduce a statutorily required payment to the USPS's Retirees Health Benefits Fund (RHBF), the USPS would have lost an additional \$9.5 billion.⁴ The current year has brought further losses. In the first half of FY2012, the USPS had an operating loss of \$6.4 billion, which included a \$6.1 billion charge for payments due to the RHBF in FY2012.⁵

As the USPS's finances have deteriorated, its ability to absorb operating losses has been diminished. Since FY2005, the USPS's debt has risen to \$13 billion from \$0, \$2 billion below its maximum statutory borrowing authority (39 U.S.C. 2005(a)(2)(C)).⁶

¹ On the PAEA, see CRS Report R40983, *The Postal Accountability and Enhancement Act: Overview and Issues for Congress*, by Kevin R. Kosar.

² 39 U.S.C. 101(a) states: "The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities." The USPS's purposes, authorities, and limitations may be found in 39 U.S.C., at http://uscode.house.gov/download/title_39.shtml.

³ CRS Report R41024, *The U.S. Postal Service's Financial Condition: Overview and Issues for Congress*, by Kevin R. Kosar.

⁴ The PAEA established the RHBF, and it requires the USPS to pay approximately \$5 billion into it each year P.L. 109-435, Section 803; 120 Stat. 3251-3252; 5 U.S.C 8909(d)(3)(A)). For further information on the RHBF, see CRS Report R41024, *The U.S. Postal Service's Financial Condition: Overview and Issues for Congress*, by Kevin R. Kosar.

⁵ U.S. Postal Service, "Form 10-Q," May 10, 2012, pp. 2 and 15.

⁶ CRS Report R41024, *The U.S. Postal Service's Financial Condition: Overview and Issues for Congress*, by Kevin R. Kosar.

The USPS is due to pay \$11.1 billion to its RHBf before the end of FY2012.⁷ The agency does not have sufficient cash to make those payments. At the conclusion of the second quarter of FY2012, the USPS had \$818 million in cash, which is a low level for an agency with an average weekly operating expense of nearly \$1.4 billion.⁸ According to one media report, the USPS may exhaust its cash in October 2012.⁹ However, the USPS has not suggested that a short-term, zero-cash scenario would produce a suspension of operations this autumn.¹⁰ Postmaster General Patrick Donahoe stated in an interview that the USPS could preserve sufficient cash to maintain operations until “late next year,” although he did not clarify whether he was referring to calendar or fiscal year 2013.¹¹

The USPS’s recent deficits are the product of the significant decline in revenue, caused by declining mail volume, and rising costs. In the past five years, revenues have fallen 12.2%, to \$65.7 billion from \$74.8 billion. (See **Figure 1**.) This is the result of mail volume falling 20.9%, to 167.9 billion pieces (FY2011) from 212.2 billion pieces (FY2007). Concurrently, the USPS’s operating expenses have declined but nonetheless exceed the agency’s revenues. (See **Figure 2**.)

⁷ A payment of \$5.5 billion is due on August 1, 2012, and another \$5.6 billion payment is due on September 30, 2012. Using the Office of Personnel Management’s (OPM’s) valuation methodology, the USPS reported that the unfunded obligation was \$46.2 billion as of the end of FY2011. U.S. Postal Service, “2011 Report on Form 10-K,” p. 28.

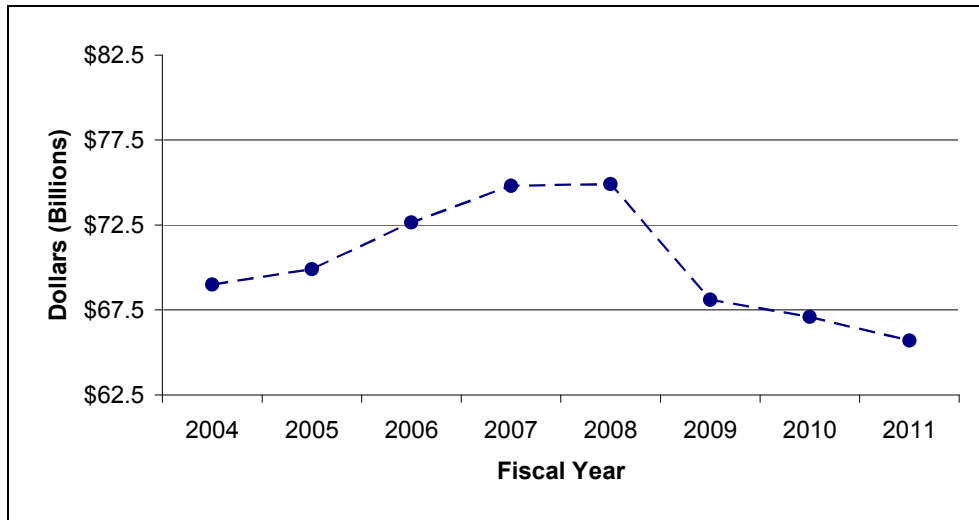
⁸ CRS Report R41024, *The U.S. Postal Service’s Financial Condition: Overview and Issues for Congress*, by Kevin R. Kosar. The USPS had an operating expense of \$70.6 billion during the 52 weeks of FY2011, an amount that equals nearly \$1.4 billion per week. The USPS’s operating expense would have been \$76.1 billion had Congress not deferred the due date of the agency’s FY2011 RHBf payment.

⁹ Angela Greiling Keane, “U.S. Postal Service Zero-Cash Forecast Adds Urgency for Changes,” Bgov.com, May 11, 2012, at http://www.bgov.com/news_item/xqyDbUKpDSvGS3lsHRmC7A.

¹⁰ Organizations reaching zero cash may be able to continue operations through a number of means—such as delaying the payment of obligations or selling assets—until sufficient revenues arrive. For the USPS, the quarter beginning in October tends to bring the most revenue per year.

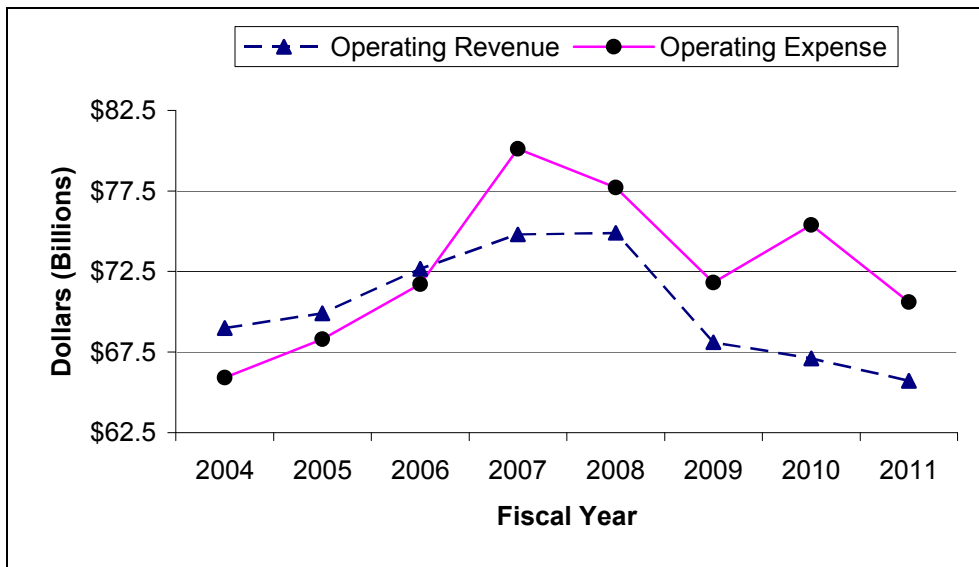
¹¹ U.S. Postal Service Postmaster General Patrick Donahoe, “Newsmakers,” CSPAN, interview, April 27, 2012, at 24 minutes, 24 seconds, at <http://www.c-spanvideo.org/program/Donaho>. The USPS’s “Plan to Profitability,” which was issued two months prior to the PMG’s television appearance, appears to show the USPS running out of cash shortly after July 2013. U.S. Postal Service, “Plan to Profitability: 5 Year Business Plan,” February 16, 2012, p. 11, at http://about.usps.com/news/national-releases/2012/pr12_0217profitability.pdf.

Figure 1. The USPS's Operating Revenues, FY2004-FY2011



Source: U.S. Postal Service, *Annual Reports 2004-2010*; and U.S. Postal Service, "2011 Report on Form 10-K."

Figure 2. The USPS's Operating Revenues, FY2004-FY2011



Source: U.S. Postal Service, *Annual Reports 2004-2010*; and U.S. Postal Service, "2011 Report on Form 10-K."

Notes: The USPS's operating expenses would have been \$4 billion and \$5.5 billion higher in FY2009 and FY2011 (respectively) had Congress not reduced and delayed the agency's required payment to its Retiree Health Benefits Fund.

These deficits are particularly problematic because Congress designed the USPS to be self-supporting (P.L. 91-375; 84 Stat. 725). Most federal agencies rely on annual appropriations; since 1971, the USPS has largely covered its expenses through the sales of postal services.¹² The USPS,

¹² In FY2011, for example, the agency earned \$65.7 billion for the delivery of \$32.2 billion in first-class mail, \$17.8 billion in standard (i.e., advertising) mail, \$1.8 billion in periodicals, and \$1.6 billion in packages. The USPS took in \$3.3 billion for the provision of other services, such as certified mail, post office boxes, etc. U.S. Postal Service, "2011 Report on Form 10-K," p. 19.

an “independent agency of the executive branch,” does go through the appropriations process each year. However, the approximately \$100 million it receives in annual appropriations is only to reimburse the USPS for the costs it bears to provide free mailing privileges to blind persons and overseas voters.¹³

The USPS’s Efforts to Improve Its Financial Condition

To help stem its losses, the USPS has taken a number of steps. Foremost, the Postal Service has downsized its workforce through attrition. Since FY2006, the number of career postal workers has shrunk 21.9%, to about 544,000 from 696,138.¹⁴ The agency also has increased its productivity and reduced its workhours (e.g., the hours employees spend on the job), even though the number of USPS delivery points has grown.¹⁵ (See **Table 1.**)

Table 1. U.S. Postal Service Workhours and Delivery Points, FY2007-FY2011

	FY2007	FY2008	FY2009	FY2010	FY2011
Workhours	1.42 billion	1.37 billion	1.26 billion	1.18 billion	1.15 billion
Delivery points	147.99 million	149.19 million	150.12 million	150.86 million	151.49 million

Source: U.S. Postal Service, “2011 Report on Form 10-K,” pp. 24 and 88.

The agency has moved, albeit haltingly, to close post offices and reduce their operating hours. It also may shutter 146 mail processing plants by early 2013.¹⁶ The Postal Service has proposed to further reduce its operating costs by eliminating “the expectation of overnight service for significant portions of First-Class Mail and Periodicals.”¹⁷ These proposals have been criticized and it is unclear whether they will proceed further.¹⁸

¹³ The USPS provides these privileges at congressional direction. On postal appropriations, see CRS Report R42008, *Financial Services and General Government: FY2012 Appropriations*, coordinated by Garrett Hatch. Congressional franking cost the USPS \$12 million in FY2011. CRS Report RL34188, *Congressional Official Mail Costs*, by Matthew Eric Glassman.

¹⁴ Career postal employees are those employees who are employed long-term (as opposed to temporarily or seasonally) and earn both wages and benefits. U.S. Postal Service, *Annual Report 2010*, p. 83; and U.S. Postal Service, “Form 10-Q,” May 2012, p. 32. See also CRS Report RS22864, *U.S. Postal Service Workforce Size and Employment Categories, FY1986-FY2011*, by Wendy Ginsberg and Jaelyn Petruzzelli.

¹⁵ U.S. Postal Service, “Plan to Profitability: 5 Year Business Plan;” and U.S. Postal Service, “2011 Report on Form 10-K,” p. 23. In FY2011, for example, the number of delivery points increased by 636,500.

¹⁶ CRS Report R41950, *The U.S. Postal Service: Common Questions About Post Office Closures*, and CRS Report R41024, *The U.S. Postal Service’s Financial Condition: Overview and Issues for Congress*, both by Kevin R. Kosar.

¹⁷ Postal Regulatory Commission, “PRC Receives USPS Proposal to Change Service Standards,” press release, December 5, 2011, at <http://prc.gov/prc-docs/home/whatsnew/N2012-1%20Press%20Release%2012%205%202011-2289.pdf>. By law, the USPS must seek an advisory opinion from the Postal Regulatory Commission when it seeks to make a change in service that has a nationwide effect (39 U.S.C. 3661(b)).

¹⁸ For example, late last year the USPS said it would delay some facility closures “in response to a request made by multiple U.S. Senators.” U.S. Postal Service, “Statement on Delay of Closing or Consolidation of Post Offices and Mail Processing Facilities,” December 13, 2011, at http://about.usps.com/news/national-releases/2011/pr11_1213closings.htm.

However, the USPS has stated that it cannot rectify its financial problems without congressional assistance. The agency has requested Congress to

- abolish the annual RHBF payment;
- permit the USPS to move its workforce off the Federal Employee Health Benefits Program (FEHB);
- recalculate the USPS's contributions to the Civil Service Retirement System (CSRS) and refund to the USPS \$75 billion;
- recalculate the USPS's contributions to the Federal Employees Retirement System (FERS) and refund to the USPS \$12 billion;
- authorize the USPS to override collective bargaining prohibitions on layoffs so as to enable the USPS to eliminate an additional 120,000 positions by FY2015;
- require arbitrators during collective bargaining between the USPS and postal unions to consider the financial condition of the USPS when rendering a decision;
- permit the USPS to reduce mail delivery to five days per week;
- increase the USPS's authority to raise its prices; and
- allow the USPS to offer a wider range of products and services.¹⁹

Postal Reform Legislation in the 112th Congress

Numerous postal reform bills have been introduced in the 112th Congress. Of these, H.R. 2309 and S. 1789 have progressed the furthest toward enactment.

Representative Darrell E. Issa, chair of the House Oversight and Government Reform Committee (H-OGR), introduced H.R. 2309, the Postal Reform Act of 2011, on June 23, 2011. H-OGR reported H.R. 2309 with amendments on January 17, 2012 (H.Rept. 112-363, Part 1). The House Rules Committee reported H.R. 2309 on March 29, 2012 (H.Rept. 112-363, Part 2). The full House may consider the bill in July or August of 2012.²⁰

Senator Joseph I. Lieberman, chair of the Senate Homeland Security and Governmental Affairs Committee, introduced S. 1789, the 21st Century Postal Service Act of 2012, on November 11, 2011. The Senate Homeland Security and Governmental Affairs Committee reported the bill with amendments on January 26, 2012 (S.Rept. 112-143). The Senate passed S. 1789 amended by a vote of 62-37 on April 25, 2012.

¹⁹ U.S. Postal Service, "Ensuring a Viable Postal Service for America: An Action Plan for the Future," March 2010, at <http://about.usps.com/future-postal-service/actionplanforthefuture-march2010.pdf>; U.S. Postal Service, "Health Benefits and Retirement Programs," white paper, August 2011, at http://about.usps.com/news/national-releases/2011/pr11_wp_hbretirees_0812.pdf; U.S. Postal Service, "Workforce Optimization," white paper, August 2011, at http://about.usps.com/news/national-releases/2011/pr11_wp_workforce_0812.pdf; and U.S. Postal Service, "Plan to Profitability: 5 Year Business Plan," February 16, 2012, at http://about.usps.com/news/national-releases/2012/pr12_0217profitability.pdf.

²⁰ Rep. Eric Cantor, House majority leader, "Summer Legislative Agenda," memorandum, May 25, 2012, p. 3.

H.R. 2309: Major Provisions

As reported from committee, H.R. 2309 would

- establish a base realignment-type commission (BRAC) that would be required to devise a plan to reduce USPS's annual facilities costs by \$3 billion. Savings of \$1 billion would be required to come from retail postal facilities and savings of \$2 billion would be required to come from mail processing plant closures. The five-member commission would be appointed by the President from persons recommended by the Comptroller General and congressional leadership. (Sections 101-109);
- authorize the USPS to declare 12 days per year as non-mail delivery days in any year for which six-day delivery is required;²¹ and it would permit the USPS to begin a process of moving to five-day mail delivery six months after enactment of H.R. 2309 (Section 111);
- establish a financial "authority" to oversee the USPS's operations in the event of a USPS default on an obligation to the U.S. Treasury. The five-member authority would be appointed by the President from persons recommended by the Comptroller General and congressional leadership. The authority would exist in an advisory capacity for two years. During this time, the USPS would be provided with \$10 billion in additional borrowing authority. If after two years the USPS continues to run annual deficits of \$2 billion or more, the authority would take control of the USPS's operations. The authority would be required to direct the USPS to convert 75% of deliveries made to the front doors of homes and businesses to be moved to curbs or centralized delivery boxes. The authority also would have to develop a budget for the USPS that would have it running annual surpluses within two years (Sections 201-232). The authority also could authorize the Postmaster General to consult with postal employee unions to revise its workers compensation program to move injured employees of retirement age onto retirement benefits (Section 311);
- immediately transfer to the USPS the \$11 billion FERS overpayment (Section 306);²²
- control the long-term growth of the USPS's employee compensation costs by (1) lowering the USPS's FEHB and Federal Employee Group Life Insurance (FEGLI) contributions and (2) changing collective bargaining by requiring arbitrators to consider the USPS's financial condition, defining USPS employee compensation to include all benefits, abolishing the requirement that USPS maintain employee fringe benefits not less than those provided in 1970, and requiring the USPS and unions to adopt reductions-in-force (RIF) procedures (Sections 301-305);
- gradually increase the postage rates for some mail classes that the USPS carries at a loss²³ (Sections 401-403);

²¹ Appropriations laws have required six-day delivery since 1982. See the section on FY2013 appropriations below.

²² H.R. 2309 calculates the refund slightly differently than the USPS advocates, with the result being approximately \$1 billion lower.

- end all annual appropriations to the USPS (Section 409); and
- reduce the USPS's FY2011 RHBF payment (due in August 2012) from \$5.5 billion to \$1.0 billion, and increase the USPS's FY2015 and FY2016 RHBF payments by \$2.25 billion each year (Section 410).

The Congressional Budget Office (CBO) estimates H.R. 2309 would produce “net savings to the unified budget ... [of] about \$20 billion over the 2012-2022 period.”²⁴ Much of the expected savings would result from the bill's allowance of five-day mail delivery, which the CBO suggests could save \$2 billion per year on average.²⁵

S. 1789: Major Provisions

As passed by the U.S. Senate, S. 1789 would

- transfer to the USPS the \$11 billion FERS overpayment and direct it to be spent on early retirement incentives for USPS employees, RHBF payments, and other employee compensation costs. Employees would be permitted to receive either a \$25,000 buyout or up to two years of additional service credits (Sections 101-102);
- reduce the USPS's RHBF costs over 10 years by replacing the current RHBF payment schedule with a 40-year amortization schedule requiring the USPS to fund 80% of its future retiree health benefits cost (Section 103);²⁶
- permit the USPS to negotiate with its employee unions to opt out of the FEHB and establish its own employee health plan (Section 104);
- require arbitrators to take into account the financial condition of the USPS (Section 106);
- forbid the USPS from revising service standards to slow the delivery of mail (to save costs) for three years (Section 201);
- reduce the USPS's authority to close mail processing facilities.²⁷ The USPS would be required to take additional steps before closing a facility, including (1) analyzing the possibility of reducing its workload rather than closing it; (2) publicly releasing said analysis; (3) assessing the effects of a closure on

(...continued)

²³ The Alliance of Nonprofit Mailers has claimed Section 403, which would gradually raise postage rates for not-for-profit mailers, would be removed from the legislation when the full House considers H.R. 2309. Alliance of Nonprofit Mailers, “House Postal Leadership Commits to Preserving Nonprofit Postal Rates,” press release, June 27, 2012.

²⁴ Congressional Budget Office, “H.R. 2309, Postal Reform Act of 2011,” cost estimate, March 29, 2012, at <http://www.cbo.gov/sites/default/files/cbofiles/attachments/hr2309.pdf>.

²⁵ Other studies have estimated that five-day delivery would save the USPS between \$1.7 and \$3.5 billion per year. CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: Issues for Congress*, by Wendy Ginsberg.

²⁶ Current law requires the USPS to make scheduled payments of \$5.6 billion (on average) through FY2016, followed by an amortization of any remaining obligation. Current law also requires the USPS to fund 100% of its future retiree health care costs.

²⁷ On the current statutory process, see CRS Report R40983, *The Postal Accountability and Enhancement Act: Overview and Issues for Congress*, by Kevin R. Kosar.

individuals' ability to vote by mail; (4) undertaking public outreach efforts concerning a possible closure to elicit public comment thereon; (5) considering in the course of rendering a closure decision various factors, including the views of interested persons, the effect of the closure on the "state, region, or locality," on local businesses, individuals' travel times to access mail services, and mail delivery speeds; and (6) publicly releasing a "justification statement" that responds to all public comments, speaks to the various factors involved in the decision-making process, and explains the actions the USPS will take to mitigate any negative effects (Section 202);

- require the USPS to develop retail service standards to "guarantee customers ... regular and effective access to retail postal services" (Section 203);
- further limit the USPS's authority to close post offices in rural areas.²⁸ A one-year moratorium on rural post office closures would ensue on enactment of S. 1789. The USPS also would be required to take additional steps before closing a post office, including (1) considering two options in addition to closure—reducing a rural post office's hours or providing retail services through a contract with a non-USPS provider; (2) surveying affected customers regarding their preferred retail service options; (3) undertaking assessments of the effects of a closure on the USPS's ability to meet the retail service standards, the extent to which the community has access to broadband and cellular phone service, and whether the USPS would reap "substantial economic savings" from the closure. Additionally, the USPS could not close a post office unless the USPS could ensure the community continued to receive "substantially similar access to essential items, such as prescription medicines and time sensitive communication." Nor could the USPS close a rural post office if local businesses might incur "substantial financial loss" or the community would suffer "any economic loss." Finally, the Postal Regulatory Commission (PRC) would be empowered to reverse a rural post office closure. (Section 205)²⁹
- forbid the USPS from moving to five-day mail delivery until two years after enactment of S. 1789. Thereafter the USPS could move to five-day mail delivery only after satisfying various "preconditions," including having GAO attest that the USPS cannot achieve long-term solvency without reducing mail delivery. Any reduction in mail delivery may not result in more than two consecutive days of nondelivery (holidays included) (Section 207);
- permit the USPS to offer additional nonpostal products and services that utilize the USPS's existing "processing, transportation, delivery, retail network, or technology." The USPS would be required to seek the approval of the PRC for a new product or service, which must find that said new nonpostal product or service does not "create unfair competition with the private sector." S. 1789 also would permit the USPS to contract with state and local agencies to provide "property, both real and personal, and personal and nonpersonal services," and to

²⁸ On the current statutory post office closure process, see CRS Report R41950, *The U.S. Postal Service: Common Questions About Post Office Closures*, by Kevin R. Kosar.

²⁹ Currently, the PRC, the USPS's regulator, may issue an advisory opinion on a post office closure, but it may take not action to prevent or reverse a closure (39 U.S.C. 404(d)(5)).

authorize the USPS to deliver beer, distilled spirits, and wine to customers (Sections 210, 404, and 405);

- change the Federal Employees Compensation Act (FECA) in various ways—including reducing FECA compensation for some recipients—to encourage injured federal employees of retirement age to retire (onto CSRS or FERS) or return to work rather than to continue to draw workers compensation (Sections 301-317);³⁰ and
- permit the USPS three years after the enactment of S. 1789 to raise the postage rates 2% per year for any mail class that is generating revenue that is less than 90% of the USPS's costs to deliver it (Section 402).

The CBO estimates that enactment of S. 1789 would produce \$11.7 billion in net costs to the unified budget between FY2012 and FY2022.³¹

FY2013 Appropriations

Frequently, the annual USPS appropriation carries policy mandates. Since 1982, Congress has forbidden the USPS from cutting the number of delivery days,³² and in more recent years appropriations reports have directed Government Accountability Office (GAO) to conduct studies before the USPS could close mail processing plants.³³

At the time of writing this report, both the House and Senate FY2013 Financial Services and General Government (FSGG) bills and reports contain postal policy provisions.

The Senate Appropriations Committee reported its FSGG bill on June 14, 2012 (S. 3301; S.Rept. 112-177). This legislation would require the USPS to continue to deliver mail six days per week in FY2013, and forbid it from closing certain mail processing facilities before FY2014 (October 1, 2013).³⁴

³⁰ This provision would apply to postal workers and all other federal workers. “Employees of the Postal Service represent a disproportionate number of FECA beneficiaries, and are responsible for a larger share of FECA benefits than are the employees of any federal department or agency. Specifically, approximately 40 percent of injuries, illnesses, and fatalities that resulted in FECA claims during fiscal year 2010 involved Postal Service employees.” S.Rept. 112-143, p. 17.

³¹ Congressional Budget Office, “CBO cost estimate for Amendment Number 2000, An amendment in the nature of a substitute to S. 1789, the 21st Century Postal Service Act of 2011,” April 17, 2012, at <http://www.cbo.gov/sites/default/files/cbofiles/attachments/s1789amendment2000.pdf>.

³² CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: Issues for Congress*, by Wendy Ginsberg.

³³ For example, the Senate report for the Financial Services and General Government Appropriations Bill, FY2010 states, “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.” S.Rept. 111-43, p. 131.

³⁴ U.S. Congress, Senate Committee on Appropriations, *Financial Services and General Government Appropriations Bill, FY2013*, 112th Cong., 2nd sess., June 14, 2012, S.Rept. 112-177, pp. 117-118.

The House Appropriations Committee approved its FSGG bill on June 20, 2012 (H.R. 6020; H.Rept. 112-550).³⁵ This legislation also would require the USPS to continue six-day delivery in FY2013, although the rule providing for the consideration of this legislation would permit a point of order to be raised (H.Res. 717, Section 2).³⁶

Additionally, President Barack H. Obama's FY2013 budget advocates changes to postal law, including

- returning the USPS's FERS overpayment in two installments in FY2012 and FY2013;
- restructuring the USPS's RHBF payments schedule by reducing the FY2012 and FY2013 payments, recalculating the USPS's unfunded obligation to reflect the USPS's smaller workforce; and permitting the USPS to immediately pay its share of current retirees' healthcare premiums from the RHBF;³⁷
- ending the six-day delivery mandate on December 31, 2012;
- allowing USPS to increase collaboration with state and local governments; and
- permitting the USPS to "better align the costs of postage with the costs of mail delivery while still operating within the current price cap" through a 1.8% price increase.

"All together," the *Budget* states, "these reforms would provide USPS with over \$25 billion in cash relief over the next two years and produce savings of \$25 billion over 11 years."³⁸

Analysis and Discussion

As noted earlier, the USPS's financial condition is troubled. The agency has asked Congress to enact a variety of reforms to improve the USPS's financial condition. **Table 2** shows that H.R. 2309 and S. 1789 incorporate some of the USPS's proposals.

³⁵ U.S. Congress, House Committee on Appropriations, *Financial Services and General Government Appropriations Bill, FY2013*, 112th Cong., 2nd sess., June 20, 2012, H.Rept. 112-550, p. 77.

³⁶ If a point of order is raised and sustained by the presiding officer, the provision would be stricken. CRS Report R42388, *The Congressional Appropriations Process: An Introduction*, by Jessica Tollestrup.

³⁷ Current law does not permit the USPS to do this until FY2017 (P.L. 109-435, Sec. 803; 120 Stat. 3251-3252; 5 U.S.C. 8909(d)(3)(A)).

³⁸ *Budget of the United States Government, Fiscal Year 2013*, Appendix, pp. 1388-1394. The Administration's RHBF proposal is detailed on pages 1256-1257.

Table 2. USPS Legislative Proposals Vis-a-Vis H.R. 2309 and S. 1789

USPS	H.R. 2309	S. 1789
Abolish the annual RHBF payment;	Revises the RHBF payment schedule	Revises the RHBF payment schedule
Permit the USPS to move its workforce off the FEHB	Reduces the USPS's FEHB and FEGLI payments	Similar provision to USPS request
Recalculate the USPS's CSRS contributions and issue a refund to the USPS	No similar provision	No similar provision
Recalculate the USPS's FERS contributions and issue a refund to the USPS	Yes	Yes
Authorize the USPS to override collective bargaining prohibitions on layoffs	No similar provision	No similar provision
Require arbitrators to consider the USPS financial condition	Similar provision to USPS request	Similar provision to USPS request
Authorize five-day mail delivery	Authorizes five-day delivery after six months; permits 12 nondelivery days if six-day mandate continues	Permits five-day delivery after two years if preconditions are met
Increase the USPS's authority to raise its prices	Similar provision to USPS request	Similar provision to USPS request
Allow the USPS to offer a wider range of products and services	Similar provision to USPS request	Similar provision to USPS request

Source: USPS, H.R. 2309, and S. 1789.

At present, the USPS appears to be suffering from both a short-term liquidity crisis (i.e., dwindling cash and borrowing authority) and a long-term structural deficit (i.e., stagnating revenues and rising overhead costs).

Assuming Congress wants to maintain the present USPS model³⁹—addressing these financial challenges will require (1) improving the USPS's liquidity immediately; (2) fortifying USPS's long-term revenues; and (3) controlling the growth of USPS's long-term costs, all while (4) having USPS continue to provide universal postal service to the public.⁴⁰ **Table 3** maps these four major objectives to the relevant major provisions of H.R. 2309 and S. 1789.

³⁹ Other options are available, such as privatizing the USPS or returning it to a appropriations-dependent government agency.

⁴⁰ The PRC has described universal postal service as encompassing a number of components, including nationwide reach and access to postal services. Postal Regulatory Commission, "Report on Universal Postal Service and the Postal Monopoly, December 19, 2008, pp. 18-33, at <http://www.prc.gov/Docs/61/61628/USO%20Report.pdf>.

Table 3. Addressing the USPS's Financial Challenges and H.R. 2309 and S. 1789

Objectives	H.R. 2309	S. 1789
Improve liquidity immediately	<p>Refunds \$11 billion in FERS funds immediately to provide cash</p> <p>Reduces the USPS's FY2011 RHBF payment by \$4.5 billion</p> <p>Provides additional borrowing authority if the USPS defaults</p>	<p>Refunds \$11 billion in FERS funds but requires funds to be used for buyouts and other purposes</p>
Fortify long-term revenues	<p>Gradually increases postage rates for some mail classes</p>	<p>Gradually increases postage rates for some mail classes</p> <p>Permits USPS to broaden nonpostal products and service offerings</p>
Control long-term cost growth	<p>Establishes a BRAC-type commission to reduce the USPS's facility costs</p> <p>Aims to reduce compensation cost growth by (1) lowering the USPS's FEHB and FEGLI contributions; and (2) changing collective bargaining by requiring arbitrators to consider the USPS's financial condition; defining USPS employee compensation to include all benefits; abolishing the requirement that USPS maintain employee fringe benefits not less than those provided in 1970; and requiring the USPS and unions to adopt RIF procedures.</p> <p>Reduces delivery by 12 days per year</p> <p>In the event of a USPS default, creates a cost-cutting authority with broad financial powers.</p>	<p>Refunds FERS overpayment and uses a portion to reduce the USPS's workforce size</p> <p>Aims to reduce compensation growth by requiring arbitrators to consider the USPS's financial condition</p> <p>Modifies FECA to reduce the USPS's workers' compensation costs</p> <p>Reduces the USPS's total RHBF outlays over a 10-year period</p> <p>Permits the USPS to move to five-day mail delivery after two years elapse and should certain preconditions be met</p>
Maintain universal postal service	<p>Reduces mail delivery by 12 days per year</p> <p>BRAC commission would reduce the number of post offices significantly</p> <p>In the event of a USPS default, the authority would move 75% of deliveries from the front door to the curb or centralized delivery boxes</p>	<p>Continues six-day mail delivery for at least two years</p> <p>Establishes a one-year moratorium on rural post office closures</p> <p>Restricts the USPS's authority to close post offices and mail processing plants</p> <p>Restricts the USPS's authority to slow the delivery of mail</p> <p>Requires the USPS to develop retail service standards to ensure adequate universal access to postal services, and curbs the USPS's authority to reduce mail delivery speeds</p>

Source: USPS, H.R. 2309, and S. 1789.

Notes: Not all of the two bills' major provisions map to the four broad objectives. For example, H.R. 2309's elimination of annual appropriations to the USPS would have a negligible effect on the USPS's liquidity. Additionally, the financial effects of some of the bills' provisions cannot be estimated at present. For example, S. 1789 would authorize the USPS to opt out of FEHB. Whether USPS actually would reduce its costs by doing this is unclear.

As **Table 3** indicates, both H.R. 2309 and S. 1789 contain provisions intended to make progress toward each of these four goals.

- **Liquidity:** H.R. 2309 would provide more immediate liquidity to the USPS than S. 1789, as S. 1789 would require the USPS to use some of the FERS refund for buyouts.
- **Long-term revenues:** S. 1789 advances two proposals to incrementally improve the USPS's long-term revenues while H.R. 2309 provides one.
- **Long-term costs:** H.R. 2309 would attempt to achieve major cost reductions by authorizing the USPS to cut 12 delivery days, mandating postal facility closures to save \$3 billion annually, and enacting changes to curb employee compensation growth. However, H.R. 2309 would not greatly alter the RHBF payment schedule, which the USPS has found onerous.⁴¹ S. 1789 would attempt to control long-term cost growth by reducing the USPS's annual RHBF outlays over a 10-year period, shrinking the USPS's employee cohort through buyouts, and cutting workers' compensation costs.
- **Universal service:** H.R. 2309 would allow USPS to deliver 12 fewer days per year and would close many post offices. S. 1789 would keep six-day delivery, forbid post office closures in the short-term, and prohibit the USPS from reducing mail delivery speeds.⁴²

In summation, both bills look to reduce the USPS's operating costs by reducing its employment costs. (Approximately 77% of the USPS's operating costs are employee compensation.)⁴³ And it would appear that H.R. 2309 would attempt to improve the USPS's short-term and long-term financial condition by enacting policies to more immediately reduce the USPS's major cost drivers (e.g., six-day mail and facilities), whereas S. 1789 proposes more incremental cost-cutting reforms as it preserves the present levels of postal services.

Author Contact Information

Kevin R. Kosar
Analyst in American National Government
kkosar@crs.loc.gov, 7-3968

⁴¹ The annual RHBF payments have played a significant role in the USPS's recent financial losses. See CRS Report R41024, *The U.S. Postal Service's Financial Condition: Overview and Issues for Congress*, by Kevin R. Kosar.

⁴² Maintaining the current speed of mail delivery (Section 207-208) would be achieved in part by reducing the USPS's authority to close mail processing facilities (Section 202).

⁴³ U.S. Postal Service, "2011 Report on Form 10-K," p. 21.