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Reforming the U.S. Postal Service: Background and Issues for Congress

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Summary

This report provides background information on the responsibilities, financial challenges and workforce issues facing the U.S. Postal Service (USPS). Additionally, it covers the current strategies and initiatives under development by the USPS and discusses further options for postal reforms.

In FY2015, the USPS marked its ninth consecutive year of financial losses with a net loss of $5.1 billion. In addition, the USPS has reached its statutory debt limit of $15 billion. In recent years, the USPS has experienced growth in the package and shipping part of its business (known as Competitive Products). The USPS, however, has experienced sharp declines in both volume and revenue of its Market Dominant Products (e.g., First Class single-piece mail).

The USPS has struggled in recent years to fulfill its statutory obligation to prefund its health benefits liability for future postal retiree. Under a prefunding schedule established by the Postal Accountability and Enhancement Act, the USPS has made $20.9 billion in contributions since FY2007 but defaulted on its remaining $28.1 billion in payments. In its most recent financial statement, the USPS requested reforms that would integrate postal employee healthcare options with Medicare, thereby reducing costs and making the prefunding liability expense more manageable. Such reforms would require statutory authorization from Congress.

This report also covers several issues facing the USPS workforce. In recent years, initiatives designed to restructure the USPS retail and mail processing networks allowed the USPS to implement several workforce reduction strategies that helped cut costs. In FY2015, however, workforce costs increased. According to the USPS, this reversal was due to contract obligations and work hours associated with the growth in its labor-intensive package and shipping business.

Additional postal initiatives and reform options discussed in this report include (1) changes to postal delivery standards, (2) consolidation of mail processing facilities, (3) closure of retail post offices, (4) five-day delivery, (5) updates to the postal fleet, (6) nonpostal products and services; and (7) postal banking.

Appendix B of this report includes a table of House and Senate postal reform legislation introduced in the 113th and 114th Congresses, such as S. 2051, *Improving Postal Operations, Service, and Transparency Act of 2015* (iPOST Act) and H.R. 5714, *Postal Service Reform Act of 2016*.

For each bill, the table in **Appendix B** provides the bill number, title, sponsor, the committee(s) to which the bill was referred, a list of selected issues the bill covers, and the last major action (e.g., referral to committee, mark-up held).

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Overview

Prior to enactment of the Postal Reorganization Act of 1970 (PRA),[1] mail delivery in the United States was the responsibility of the U.S. Post Office Department, a Cabinet-level department in the executive branch.[2] PRA reform efforts were driven largely by the view that the Post Office Department was ill equipped to meet the demands of the growing U.S. population and the changing economy.[3] Mail volume had risen sharply and the Post Office Department lacked the institutional flexibility to quickly respond to market changes.[4]

Today, the U.S. Postal Service (USPS or Postal Service) faces similar challenges but for different reasons. Between 2006 and 2015, total mail volume dropped sharply.[5] Market changes and global economic conditions contributed to the Postal Service's financial challenges and affected its efforts to control expenses and expand revenue.[6] Statutory mandates, such as the requirements to maintain six-day delivery and prefund health benefits for future retirees, may limit the actions USPS might take to mitigate these challenges. According to the Postal Service, "many of the structural reforms needed to ensure long-term financial viability, such as the resolution of our unsupportable [retiree health benefit] liability, can only be achieved with comprehensive legislation."[7]

Financial Challenges Facing the U.S. Postal Service[8]

This section of the report covers the current financial responsibilities, challenges, and limitations facing USPS. These issues are the result of a confluence of factors including (1) the USPS's statutorily designed organizational and financial structure, (2) U.S. and global economic conditions over the past decade, and (3) the impact that technological innovations have had on the demand for postal products and services.

On the one hand, the USPS must sell enough postal products to maintain self-sufficiency and meet other statutory requirements, such as the retiree health benefit prefunding obligation. On the other hand, the USPS generally cannot expand its operations beyond the scope of postal products and services and other limited nonpostal products authorized by statute.[9] Statute also limits the

[1] P.L. 91-375.

[2] Post Office Act of 1872 (17 Stat. 283).

[3] U.S. Postal Service, *The United States Postal Service: An American History 1775-2006*, November 2012, pp. 38-39, at http://about.usps.com/publications/pub100.pdf.

[4] Ibid.

[5] Change in total mail volume (in pieces) from 2006 to 2015 was 213.1 billion to 154.2 billion, or a drop of 58.9 billion pieces. U.S. Postal Service "Decade of Facts and Figures," at http://about.usps.com/who-we-are/postal-facts/decade-of-facts-and-figures.htm.

[6] See "Impact of the Great Recession on the Postal Service," within U.S. Postal Regulatory Commission, *Rate Adjustment Due to Extraordinary or Exceptional Circumstances: Order Granting Exigent Price Increase*, Docket R2013-11, December 24, 2013, pp. 39-45, at http://www.prc.gov/docs/88/88645/Order_1926.pdf.

[7] U.S. Postal Service, *FY2016 Integrated Financial Plan*, November 20, 2015, p. 2, at http://about.usps.com/who-we-are/financials/integrated-financial-plans/fy2016.pdf.

[8] This section authored by Michelle D. Christensen, Analyst in Government Organization and Management (7-0764).

[9] Under §102 of the Postal Accountability and Enhancement Act of 2006 (PAEA,), the USPS is prohibited from offering most nonpostal products and services. The PAEA allowed the USPS to continue offering 11 groups of "grandfathered" nonpostal products that had been offered prior to enactment of the PAEA. See section of this report titled "Nonpostal Products and Services" for additional information.

USPS's ability to raise rates on certain postal products. These facts underlie many of the challenges facing the USPS and are also at the core of many of the reform efforts undertaken by the USPS and considered by Congress.

Financial Structure of the U.S. Postal Service

The current financial structure of the USPS was largely established by two statutes: the PRA and the Postal Accountability and Enhancement Act of 2006 (PAEA).[10] The PRA created the USPS, which replaced the U.S. Post Office Department, as an independent agency of the executive branch, responsible for generating enough revenue to finance its own operations. Prior to the PRA, the U.S. Post Office Department was a Cabinet-level agency and was not financially self-sustaining.

Since the passage of the PRA, the USPS has generated nearly all of its funding—about $69 billion in FY2015 according to the USPS's most recent financial report—by charging users of the mail for the costs of the services it provides.[11] Congress, however, does provide an annual appropriation—about $55 million in FY2016—to compensate the USPS for revenue it forgoes in providing free mailing privileges to the blind and certain overseas voters.[12] In addition, the annual appropriation compensates the USPS for debt it accumulated in the 1990s while providing postal services at below-cost rates to non-profit organizations.[13] Funds appropriated to the USPS for the annual reimbursement and revenue forgone are deposited in the Postal Service Fund, a revolving fund in the Treasury that consists largely of revenues generated from the sale of postal products and services.[14] The revenue in the Postal Service Fund is used to fund the operations of (1) the Postal Service, which includes the U.S. Postal Inspection Service (USPIS); (2) the U.S. Postal Service Office of Inspector General (USPSOIG); and (3) the Postal Regulatory Commission (PRC).[15]

Financial Condition of the U.S. Postal Service

The USPS's end-of-year financial results for FY2015 marked the ninth consecutive year of losses for the agency. In the years immediately prior to FY2007, the USPS ran modest profits. Between FY2007 and FY2015, the USPS accumulated $56.8 billion in financial losses, including a net loss of $5.1 billion in FY2015.[16] This trend was reversed in the first quarter of FY2016, which showed a net income of $300 million, compared to a net loss of $800 million at the same point in FY2015. The first quarter of FY2016 includes the holiday shipping season, which is one of the busiest times for USPS. The improvement in USPS's first quarter financial results are due in part

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[10] .

[11] U.S. Postal Service, *FY2015 Report on Form 10-K*, Washington, DC, 2015, p. 12, at http://about.usps.com/who-we-are/financials/10k-reports/fy2015.pdf (hereafter, *FY2015 Report on Form 10-K).*

[12]. Additionally, an advance appropriation of $41 million provided in the FY2015 FSGG Appropriations Act became available for obligation and expenditure at the start of FY2016. For this reason, the total payment to the Postal Service Fund for FY2016 is $96.075 million ($41 million + $55.075 million). See Division E of.

[13] Revenue Forgone Reform Act of 1993 (RFRA, , Title VII). For additional information, see CRS Report RS21025, *The Postal Revenue Forgone Appropriation: Overview and Current Issues*, by Kevin R. Kosar. This author has left CRS. For questions about the Revenue Forgone Reform Act, please contact Michelle D. Christensen (7-0764).

[14] 39 U.S.C. §2003.

[15] Ibid.

[16] U.S. Postal Service, *FY2015 Report on Form 10-K*, pp. 31-32.

to an increase in shipping and package volume and revenue as compared to the first quarter of FY2015. Additional factors, such as a temporary increase in select postal rates, known as a "temporary exigent surcharge" or "exigent increase," will be discussed in greater detail later in this section.

What Happens When USPS Ends the Year with a Net Loss?

Constituents may ask if the USPS receives appropriations, subsidies, or a "bailout" when it ends the fiscal year with a net financial loss. The USPS does not receive additional appropriations when it ends a fiscal year with a financial loss. The USPS does, however, benefit from access to debt instruments from the U.S. Treasury.

The USPS has statutory authority to borrow a maximum of $3 billion per fiscal year and hold a maximum total debt of $15 billion.[17] At the end of FY2012, the USPS reached its statutory debt limit. Further, USPS's total debt obligations have remained at $15 billion since FY2012.[18] As the USPS pays down its existing debt, it accumulates new debt up to its statutory maximum.[19] For example, on October 1, 2015, the USPS repaid $4 billion of its debt. It is expected, however, to borrow up to its statutory ceiling amount by the end of FY2016.[20]

USPS's $15 billion in debt is issued through a variety of loan instruments, which includes fixed and floating rate loans, an overnight credit line of $600 million, and a short-term credit line that allows the USPS to borrow up to $3.4 billion with two days prior notice.[21] The USPS's credit lines were fully drawn at the end of FY2015.[22]

Additionally, financial losses have caused the USPS to default on certain statutorily required payments, such as the retiree health benefit prefunding obligations.[23] Since FY2012, the USPS has defaulted on over $28 billion in statutorily required retiree health benefit prefunding obligations.[24] Use of debt instruments and default on certain retiree health prefunding payments has likely allowed the USPS to maintain cash-on-hand sufficient to cover its operational expenses throughout each fiscal year. As **Table 1** shows, the USPS has ended each fiscal year since FY2007 with at least $889 million cash-on-hand.

As shown in **Table 1** and **Figure 1**, in FY2015, the USPS had, on average, about 24 days[25] of operating cash-on-hand, sufficient to pay its day-to-day operating expenses, despite ending the

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[17] 39 U.S.C. §2005(a). Currently, all of USPS's debt is issued by the Federal Financing Bank, a government corporation under the general supervision of the Secretary of the Treasury that was created by Congress in 1973 ().

[18] U.S. Postal Service, *FY2015 Report on Form 10-K*, p. 10.

[19] Federal Financing Bank, U.S. Department of the Treasury, *Financial Statements, September 30, 2015 and 2014 (With Independent Auditors' Reports Thereon),* November 10, 2015, pp. 2-3, at https://www.treasury.gov/ffb/financial-statements/Federal%20Financing%20Bank_Financial_Statements_FY2015_and_FY2014.pdf.

[20] Ibid.

[21] U.S. Postal Service, *FY2015 Report on Form 10-K*, pp. 49-50. Also see Federal Financing Bank, U.S. Department of the Treasury, *2015 Annual Report*, November 13, 2015, p. 4, at https://www.treasury.gov/ffb/FFB%202015%20Annual%20Report.pdf#page=4.

[22] Ibid., p. 49.

[23] These prefunding obligations will be discussed in greater detail in the section of this report titled "Prefunding Requirement for Retiree Health Benefits ."

[24] U.S. Postal Service, *FY2015 Report on Form 10-K*, p. 5.

[25] This average is based on estimates from the PRC and the USPS. According to the PRC's calculation, the USPS had 24 days of operating cash in FY2015. See U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2015,* March 29, 2016, p. 33, at http://www.prc.gov/ (continued...)

year with $15 billion total debt outstanding. As of the end of FY2015, when all assets and liabilities are considered (including retirement accounts, health fund balances, cash and other assets), the USPS's total liabilities exceeded its assets by about $101 billion.[26]

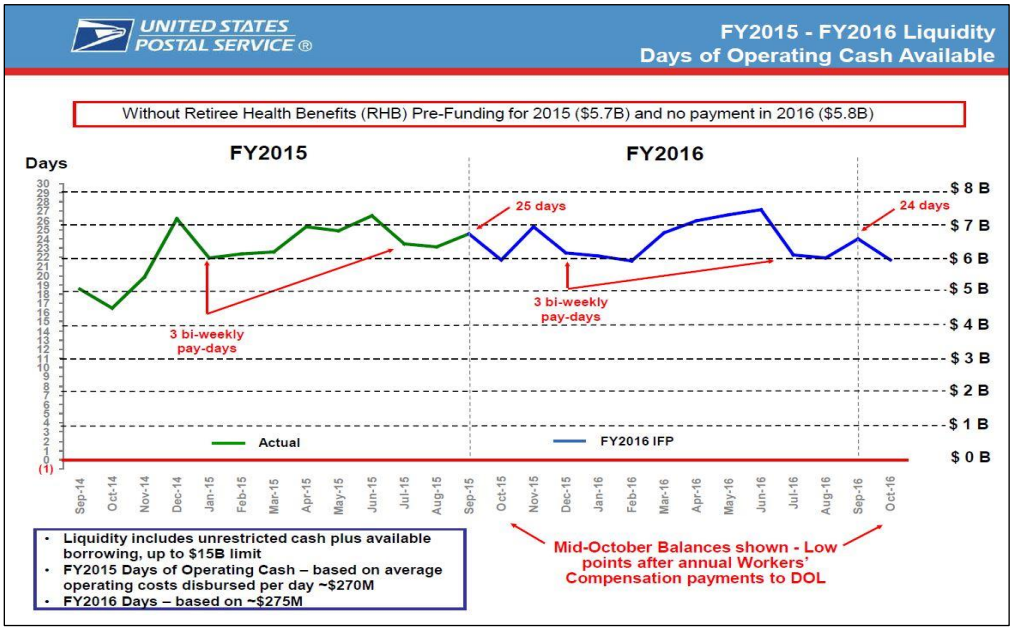
Table 1. USPS Cash on Hand and Total Debt, FY2007-FY2015

(in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Cash Start FY	$997	$889	$1,432	$4,089	$966	$1,283	$2,086	$2,326	$4,906
Cash End FY	$889	$1,432	$4,089	$966	$1,283	$2,086	$2,326	$4,906	$6,634
Total Debt	$4,200	$7,200	$10,200	$12,000	$13,000	$15,000	$15,000	$15,000	$15,000

Source: U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2015,* March 29, 2016, p. 33 (Table II-20), at http://www.prc.gov/sites/default/files/reports/FY%202015%20Financial%20Analysis%20Report.pdf.

Figure 1. USPS Days of Operating Cash, FY2015-FY2016



Source: Figure excerpted from U.S. Postal Service Board of Governors, *November 2015 Open Session Presentation*, p. 21.

(...continued)

sites/default/files/reports/FY%202015%20Financial%20Analysis%20Report.pdf. The USPS estimate, however, is 25 days, which is based on a slightly lower average operating cost per day ($270 million) than that used by the PRC ($275 million).

[26] At the end of FY2015, the USPS had total assets of $361.1 billion and total liabilities of $462.4 billion. U.S. Postal Service Board of Governors, *November 2015 Open Session Presentation*, p. 13, at http://about.usps.com/news/electronic-press-kits/bog/open-session-151111.pdf.

Notes: *DOL* refers to the U.S. Department of Labor. FY2016 days of operating cash available estimates based on the U.S. Postal Service, *FY2016 Integrated Financial Plan (IFP)*, at http://about.usps.com/who-we-are/financials/integrated-financial-plans/fy2016.pdf.

Postal Services, Revenue, and Expenses

The PAEA, for the first time, provided a definition of the term *postal service*. Under the PAEA, postal service is defined as "the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto."[27] This definition is significant because it prevents the Postal Service from developing new nonpostal products (e.g., expanded banking and financial services) that could compete with private industry.[28]

The PAEA also changed how postal rates are established and divided postal products into two distinct groups: market dominant products and competitive products.[29]

Market Dominant and Competitive Products

Market dominant products are those in which the USPS is considered to have a monopoly over the service, such as first-class mail or standard mail (i.e., advertising mail). Competitive products, such as shipping and packages services, are those in which the USPS competes with the other companies in the private market (e.g., Fed Ex, UPS).

Market Dominant Products include:	Competitive Products include:
First-Class Mail	Priority Mail®
Standard Mail	Priority Mail Express®
Periodicals	Parcel Select®
Post Office Box Services	International Priority Airmail®

Prior to the passage of the PAEA, there was concern that the USPS was using its revenue from market dominant products to subsidize the costs of competitive products. Cross-subsidization could, potentially, provide an advantage for the USPS in the competitive market by creating artificially low prices that did not include all the costs attributable to those products. The PAEA addressed this issue by forbidding the subsidization of competitive products with market dominant revenue and establishing the Competitive Products Fund (CPF), which receives deposits from the Postal Service Fund for revenues derived from the sale of competitive products.[30]

Postal Revenue

In FY2015, overall revenue from postal products and services was $68.951 billion, which was an increase of $1.097 billion (or 1.6%) from FY2014. The increase was due in large part to revenue from competitive products, which offset decreased revenue from market dominant products.

[27], Title I, §101, 120 Stat. 3199.

[28] See sections of this report titled "Nonpostal Products and Services" and "Postal Banking."

[29]. For the full list of current market-dominant and competitive products, see U.S. Postal Regulatory Commission, *Mail Classification Schedule* (with revisions through April 10, 2016), *January 15, 2016*, at http://www.prc.gov/mail-classification-schedule.

[30] Ibid. Title IV, §401, 120 Stat. 3221. Title IV of the PAEA also mandates that competitive products not only cover the costs that are directly attributable to those products, but also cover a portion of the USPS's institutional costs, which are not attributable to any specific product.

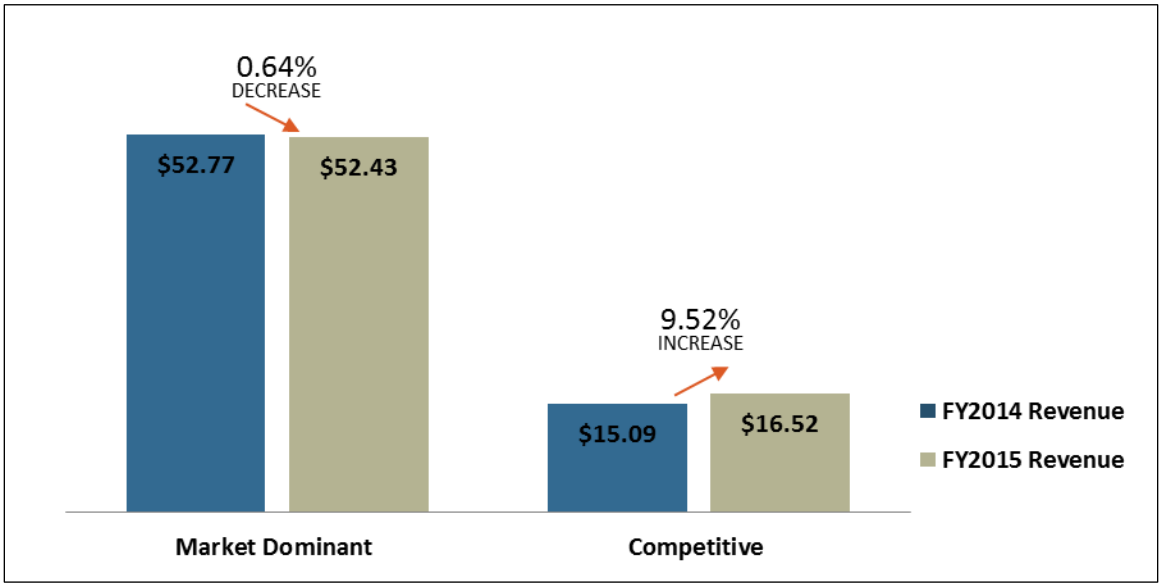
Nevertheless, revenue generated from the sale of market dominant products accounts for approximately 74% of USPS's annual operating revenue.[31]

As shown in **Figure 2**, total revenue from market dominant products was $52.426 billion in FY2015, a decrease of approximately $340 million (or 0.64%) from FY2014. Total revenue from competitive products, however, was approximately $16.52 billion in FY2015, an increase of $1.437 billion (or 9.52%) from FY2014.

Within the market dominant category, standard mail (i.e., advertising mail) remained one of the few profitable products. Revenue from standard mail increased approximately $217 million (or 1.24%) from FY2014 to FY2015.[32]

Figure 2. USPS Revenue, by Mail Category

FY2014 and FY2015, in billions



Source: U.S. Postal Service, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2015*, October 2015, at http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2015-q4.csv.

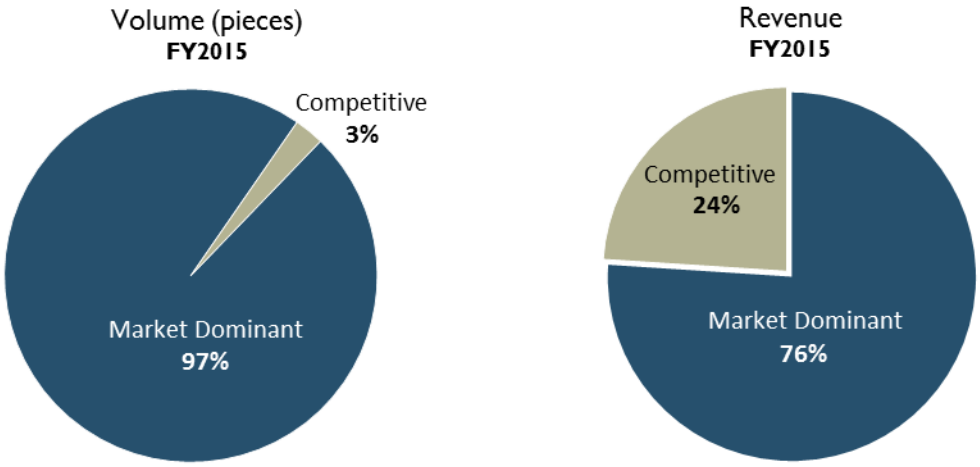
Historically, competitive products have constituted a much smaller share of USPS revenue than market dominant products. Competitive products account for a larger proportion of USPS revenue than they do of USPS volume. For example, in FY2015, competitive products represented approximately 3% of mail volume, but they accounted for approximately 24% of USPS revenue. See **Figure 3** below.

[31] U.S. Postal Service, *FY2015 Report on Form 10-K*, p. 2. See **Table A-1** in **Appendix A** for additional data on USPS revenue and mail volume for FY2014 and FY2015.

[32] U.S. Postal Service, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2015*, October 2015, at http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2015-q4.csv.

Figure 3. USPS Products' Contribution to Volume and Revenue

Market Dominant and Competitive



Source: U.S. Postal Service, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2015*, October 2015, at http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2015-q4.csv.

While market dominant products made up 97% of USPS's FY2015 volume, they generated less revenue per piece ($0.35) than competitive products ($4.17).[33]

As explained by the USPS, since competitive products are a relatively small percentage of total mail volume, future growth in shipping and packages might not offset future decline in market dominant products:

> Because Shipping and Packages represents only 20.3% of our 2014 operating revenue, compared to First-Class and Standard Mail, which represents 67.5% of operating revenue, revenue growth in Shipping and Packages, by itself, cannot fully offset the declines in First-Class Mail. Furthermore, the profit margins on both First-Class Mail and Standard Mail are greater than that of Shipping and Packages. As a result, revenue from Shipping and Packages would have to grow at a substantially higher rate than the decline in First-Class Mail revenue in order to replace the lost profit contribution of First-Class Mail.[34]

Furthermore, the processing and delivery costs for competitive products, such as First-Class Package Service or Priority Mail, are greater than those of most market dominant products. For this reason, USPS's competitive products might be sold at a lower margin than their market dominant counterparts, meaning that a lower percentage of competitive product revenue is retained as profits for the USPS.[35]

[33] Average revenue per piece calculated using data from U.S. Postal Service, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2015*, October 2015, at http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2015-q4.csv.

[34] U.S. Postal Service, *FY2014 Report on Form 10-K*, Washington, DC, 2014, p. 15, at http://about.usps.com/who-we-are/financials/10k-reports/fy2014.pdf (hereafter, *FY2014 Report on Form 10-K*).

[35] U.S. Postal Service, *FY2014 Report on Form 10-K*, p. 15.

Mail Volume

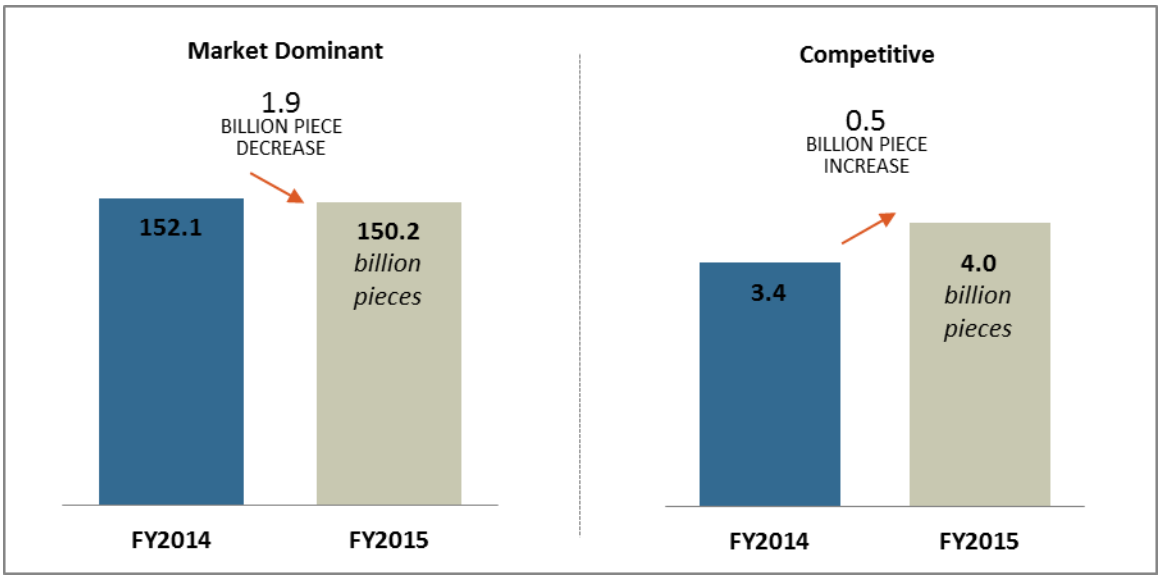
In FY2015, mail volume for market dominant products dropped by 1.9 billion pieces, which is approximately 1.3% below FY2014. The decline for certain market dominant products was more pronounced than others. For example, in FY2015, first-class single-piece mail, a market dominant product that has historically been the largest source of revenue for the USPS, saw volume drop by nearly 1.4 billion pieces, or 2.1%.

In contrast, competitive mail volume, which is primarily shipping and package services, increased by more than 556 million pieces. This increase represents growth of 16.4% from FY2014.

Figure 4 shows the mail volume for market dominant and competitive products for FY2014 and FY2015. Detailed information on USPS's revenue and volume for FY2014 and FY2015 is provided in **Appendix A**.

Figure 4. Market Dominant and Competitive Mail Volume, FY2014-FY2015

In billions



Source: U.S. Postal Service, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2015*, October 2015, at http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2015-q4.csv.

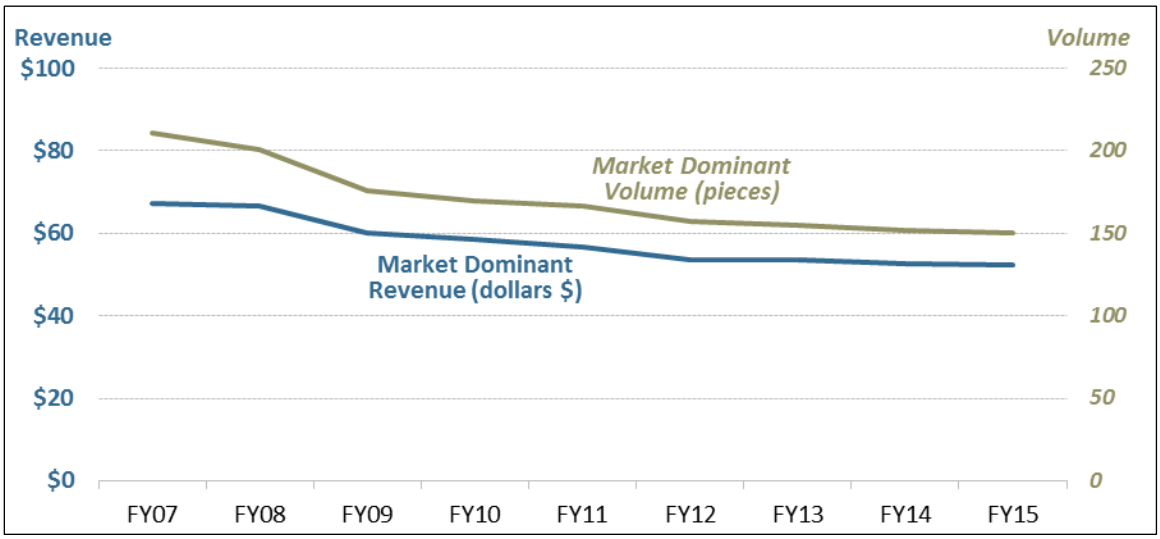
Long-Term Trends

Total mail volume and revenue have been consistent or in decline for the past 10 years. Periods of decline have been driven largely by reductions in market dominant mail volume and revenue, which have dropped sharply since FY2009.[36] The decline in market dominant volume has been driven by a variety of economic factors and long-term market trends, such as transition to electronic mail, that have altered the public's use of the postal service for more than a decade.

[36] Prior to implementation of the PAEA, the USPS did not report mail volume and revenue using the categories "competitive" and "market dominant." The FY2008 USPS financial reports were the first to utilize PAEA categories. In many instances, the FY2008 financial reports provided volume and revenue data for FY2007.

Figure 5. Market Dominant Revenue and Volume, FY2007-FY2015

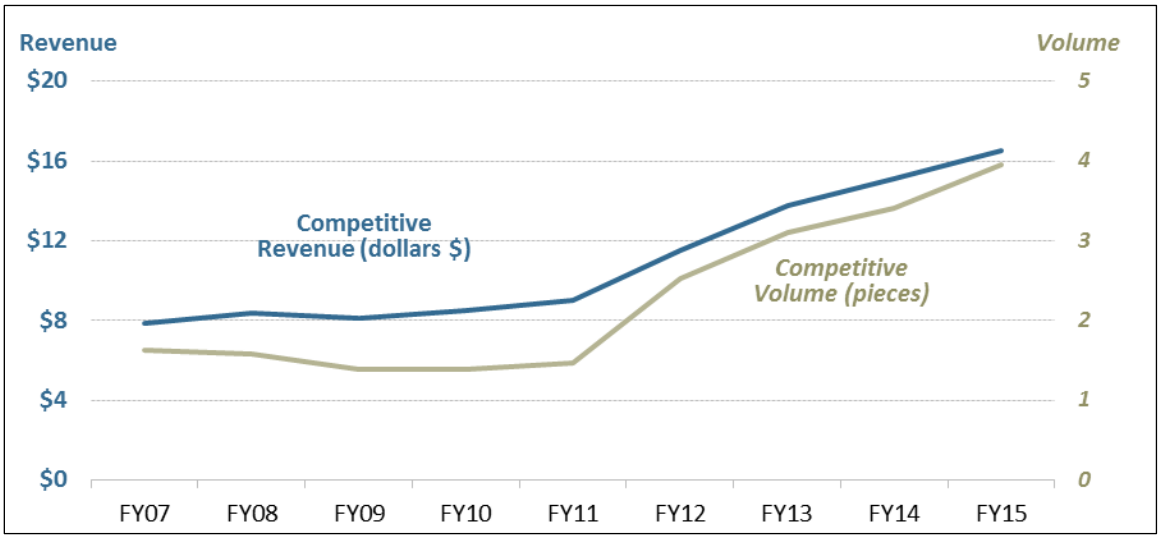
In billions



Sources: U.S. Postal Service, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2015*, October 2015, at http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2015-q4.csv. Figure created by CRS using data from U.S. Postal Service "Decade of Facts and Figures," at http://about.usps.com/who-we-are/postal-facts/decade-of-facts-and-figures.htm.

Figure 6. Competitive Revenue and Volume, FY2007-FY2015

In billions

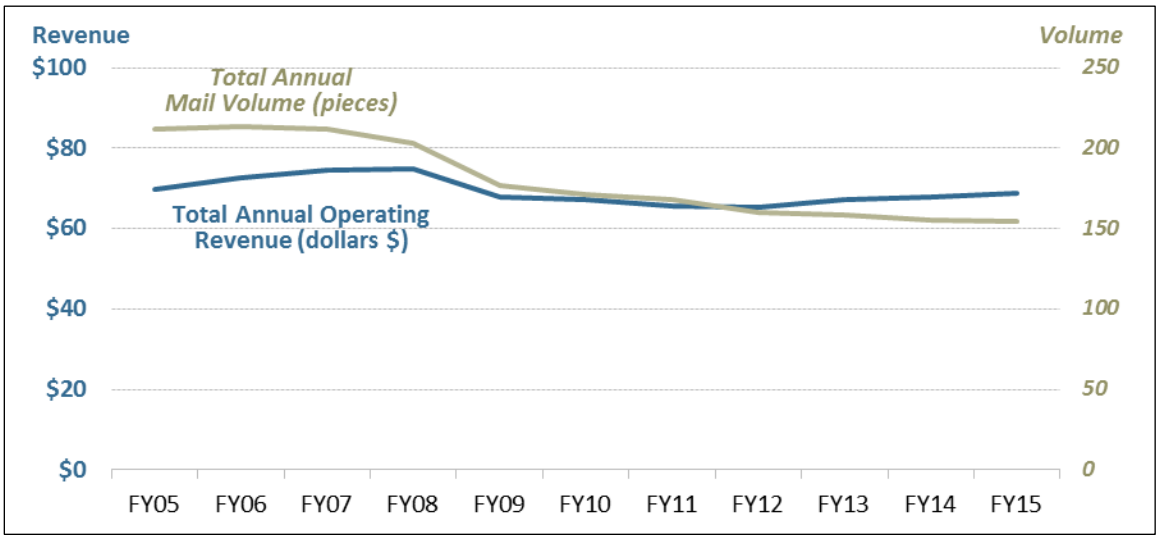


Sources: See **Figure 5**.

As shown in **Figure 6**, growth in both competitive product volume and revenue has likely offset some of the revenue lost from the continued decline in market dominant products. **Figure 7** below shows USPS's total annual mail volume and operating revenue for FY2005 through FY2015.

Figure 7. Total USPS Mail Volume and Revenue, FY2005-FY2015

In billions



Sources: U.S. Postal Service, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2015*, October 2015, at http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2015-q4.csv. Figure created by CRS using data from U.S. Postal Service "Decade of Facts and Figures," at http://about.usps.com/who-we-are/postal-facts/decade-of-facts-and-figures.htm.

From FY2005 to FY2015, total annual mail volume dropped 57.5 billion pieces. The drop was largely due to volume lost in market dominant products. Total annual operating revenue, however, has remained relatively flat over the past decade. The figure shows the sharp declines in revenue and volume, which were likely due to the economic recession. While total annual volume remained in decline after FY2012, total annual revenue began to recover. By FY2015, total annual revenue was $68.9 billion, or $1 billion below what it had been in FY2005. Additionally, in FY2014 and FY2015, total annual revenue included a temporary increase in market dominant prices.[37]

Exigent Price Increase

Under the PAEA, price increases for market dominant products are limited to a formula based on annual, unadjusted changes in the Consumer Price Index for Urban Customers (CPI-U).[38] During "extraordinary or exceptional" circumstances (a term not defined in statute or regulation),[39] the PAEA allows the USPS to petition the PRC for an expedited postal rate adjustment. This exigent

[37] The USPS's temporary price increase is discussed in greater detail in the section of this report titled "Exigent Price Increase".

[38] 39 U.S.C. §3622(d)(1)(E). The USPS has additional flexibility in establishing prices for competitive products. Their pricing decisions, however, are bound by market forces. For example, if the USPS decides to increase rates by more than the market will bear, other firms may increase their market share relative to the USPS. Additionally, USPS must adhere to ratemaking procedures established by the PRC pursuant to the PAEA, such as publication of proposed rate changes in the *Federal Register*. 39 C.F.R. §3015.

[39] When formulating regulations pursuant to the PAEA, the PRC considered and rejected defining *triggering events* or other circumstances that might qualify or disqualify as "extraordinary or exceptional". See U.S. Postal Regulatory Commission, *Regulations Establishing a System of Ratemaking: Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products*, Docket No. RM2007-1, October 29, 2007, p. 65, at https://www.prc.gov/docs/58/58026/FinalRuleswithTOC.pdf.

surcharge is a rate increase above what USPS would otherwise receive based on the CPI-U formula.

In July 2010, the USPS made its first request to the PRC for an exigent surcharge.[40] In its 2010 exigent request, the USPS sought to increase rates on its market dominant products by approximately 5.6% due to poor economic conditions and decreased mail volume. The "extraordinary or exceptional" circumstance, according to USPS's request, was the "unprecedented drop in mail volume," which they argue was caused by the recession.[41] The PRC denied USPS's request, in part because PRC found that multiple factors contributed to reduced mail volume, not all of which were due to the recession.[42]

In 2013, the USPS filed and the PRC approved a rate increase of 4.3% on market dominant products.[43] Pursuant to the PRC's order, the increase went into effect on January 26, 2014.[44] Originally, the increase was only to be in effect until the USPS recovered an additional $2.8 billion in lost revenue, which was the amount the PRC determined to be attributable to the recession.[45] At the time, the temporary increase was expected to be in place for less than two years.[46]

The exigent price increase has allowed the USPS to hold revenue for market dominant products steady, despite continued losses in volume. The USPS challenged the PRC methodology in court, arguing that the increase should be permitted to continue indefinitely. On June 5, 2015, the DC Circuit Court delivered an opinion upholding the temporary nature of the increase. This opinion, however, stated that the one aspect of the PRC methodology for calculating the cumulative losses attributable to the recession was "arbitrary and capricious" and must be revisited to resolve disagreement with the methodology proposed by the USPS.[47] Following the ruling of the DC Circuit Court, the PRC increased the amount that the USPS could collect in exigent price revenue by an additional $1.4 billion.[48]

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[40] U.S. Postal Regulatory Commission, *Exigent Request of the United States Postal Service*, Docket No. R2010-4, July 6, 2010, at https://www.prc.gov/docs/68/68792/Request.Final.pdf.

[41] Ibid., pp. 1-8.

[42] U.S. Postal Regulatory Commission, *Order Denying Request for Exigent Price Adjustments*, Docket No. R2010-4, September 30, 2010, at https://www.prc.gov/Docs/70/70341/Order_547.pdf.

[43] U.S. Postal Regulatory Commission, *Order Granting Exigent Price Increase*, Docket No. R2013-11, December 24, 2013, at https://www.prc.gov/docs/88/88645/Order_1926.pdf.

[44] Ibid., p. 193.

[45] Ibid.

[46] Ibid., p. 3.

[47] Specifically, the USPS disagreed with (and the Court found "arbitrary and capricious") the PRC's "Count Once" rule. Under this rule, the PRC counted lost revenue from decreased mail volume for a maximum of 12 months, even in instances where the USPS argued it was likely that the volume loss exceeded 12 months.

> For example, a worker laid off during the recession might cancel her cable subscription, and no longer pay her monthly bill by mail. The [PRC] would count that change as a loss of no more than twelve pieces of mail; the Postal Service would count it as lost volume for as long as the recession stands between that worker and her cable subscription. If it takes her four years to find a new job and resubscribe, the Postal Service would count forty-eight lost pieces of mail.

Alliance of Nonprofit Mailers, et al., v. Postal Regulatory Commission, (DC Cir. 2015). This opinion, found at http://www.cadc.uscourts.gov/internet/opinions.nsf/485AE8FFF47BB70C85257E5B004F532A/$file/14-1009-1555927.pdf, also provides a thorough review of the multi-step process that led to the PRC's approval of the exigent price increase and the subsequent legal challenges.

[48] United States Postal Service, *FY2015 Report on Form 10-K*, pp. 2, 45.

On February 25, 2016, the PRC issued a "Notice of the Removal of the Exigent Surcharge," which announced the Postal Service's plan to remove the surcharge on April 10, 2016.[49] As of April 10, rates on many market dominant products and services have dropped to the price they were prior to the exigent surcharge.[50] For example, the price of a First-Class Forever stamp dropped from $0.49 to $0.47, and the price of an International Forever stamp dropped from $1.20 to $1.15.[51] Rates for select products and services used largely by bulk mailers (e.g., discounted rates for presorted mail) were adjusted using additional criteria.[52]

The exigent surcharge had been in place since January 26, 2014. **Table 2** shows the estimated revenue from the exigent surcharge for FY2014 and FY2015.

Table 2. Estimated USPS Revenue from Exigent Surcharge, FY2014-FY2015

(in billions)

	FY2014	FY2015
Revenue (excluding exigent surcharge)	$66.4	$66.8
Revenue from exigent surcharge	**$1.4**	**$2.1**
Total Revenue	$67.8	$68.9
Operating Expenses	$66.4	$67.7
Income/Profit (with exigent surcharge)	$1.4	$1.2
Income/Profit/Loss (excluding exigent surcharge)	**$0.0**	**-$0.9**

Sources: U.S. Postal Service, *2015 Report on Form 10-K*, pp. 13-16; also see U.S. Postal Service Board of Governors, *November 2015 Open Session Presentation*.

Note: *Operating Expenses* excludes certain retiree and workers' compensation costs.

In FY2014 and FY2015, the estimated revenue from the temporary exigent surcharge was $1.4 billion and $2.1 billion, respectively. Total revenue (excluding the surcharge) was $66.4 billion in FY2014 and $66.8 billion in FY2015. In the two full years that the exigent surcharge has been in place, it has contributed an estimated 2.1% and 3.2% to the total revenue of the USPS (or an estimated 2.7% and 4.0% to the total market dominant revenue, respectively).

[49] Ibid. U.S. Postal Regulatory Commission, *Notice of the United States Postal Service of Removal of the Exigent Surcharge*, Docket No. R2013-11, February 26, 2016, at http://www.prc.gov/docs/95/95102/2016-02-25%20Exigent%20Removal%20Notice.pdf. Also see the USPS Webinar on the exigent surcharge, at https://ribbs.usps.gov/mtac/documents/tech_guides/webinararchives/2016Webinars/ExigentRollbackPriceChangeWebinar.pdf.

[50] Ibid.

[51] Ibid.

[52] U.S. Postal Regulatory Commission, Order on Revised Price Adjustments for Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, Docket No. R2015-4, May 7, 2015, at http://www.prc.gov/docs/92/92217/Order%20No.%202472.pdf.

Expenses from Operations

To address its financial challenges, the USPS has made several operational adjustments intended to align its revenue, mail volume, and operating expenses,[53] including

- changes to its workforce (e.g., increased use of non-career employees);
- consolidation of delivery routes and reductions in number of delivery facilities;
- reductions to retail office hours; and
- realignment of its mail processing and distribution network.[54]

For FY2015, USPS's operating expenses were about $67.7 billion. **Table 3** provides a further breakdown of expenses for FY2014 and FY2015.

Table 3. USPS Operating Expenses, FY2014-FY2015

(in billions)

	FY2014	FY2015	Change	Chg (%)
Salaries/Compensation	$35.113	$35.931	$0.818	2.330%
Health benefits – current employees	$4.804	$4.774	-$0.030	-0.624%
Workers' compensation	$1.372	$1.452	$0.080	5.831%
Retirement	$5.758	$6.239	$0.481	8.354%
Retiree health benefits – current year premiums (not prefunding payments)	$2.985	$3.111	$0.126	4.221%
Other personnel related expenses	$0.326	$0.334	$0.008	2.454%
Total Personnel-Related Operating Expenses	**$50.358**	**$51.841**	**$1.483**	**2.945%**
Transportation (e.g., air and highway transportation contracts)	$6.600	$6.600	$0.000	0.000%
Depreciation costs	$1.800	$1.800	$0.000	0.000%
Supplies and services	$2.600	$2.700	$0.100	3.846%
Rent, utilities, and other expenses	$5.000	$4.800	-$0.200	-4.000%
Total Operating Expenses	**$66.358**	**$67.741**	**$1.383**	**2.084%**

Sources: U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2015,* March 29, 2016, pp. 11-12; U.S. Postal Service Board of Governors, *November 2015 Open Session Presentation*.

Each fiscal year, roughly two-thirds of the USPS's operating expenses are attributable to personnel costs, through salaries, compensation benefits, workers' compensation and retiree

[53] Within this report, *operating expenses* excludes (1) the statutorily required payments to prefund health benefits for future retirees, which are discussed in the "Prefunding Requirement for Retiree Health Benefits section of this report; (2) workers' compensation non-cash adjustments; and (3) supplemental payments to the Federal Employees' Retirement System (FERS) required due to a revaluation of USPS's retiree liability. In FY2015, these expenses were about $6.2 billion. U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2015,* March 29, 2016, pp. 10-12, at http://www.prc.gov/sites/default/files/reports/FY%202015%20Financial%20Analysis%20Report.pdf; U.S. Postal Service, *FY2015 Report on Form 10-K*, p. 22.

[54] U.S. Postal Service, *FY2015 Report on Form 10-K*, pp. 14-19.

benefits—excluding the retiree health prefunding payments.[55] For FY2015, personnel-related expenses were $51.8 billion, an increase of $1.5 billion (or 2.9%) from FY2014.[56] The largest line-item for personnel costs is salaries.[57] From FY2010 to FY2014 the costs for salaries and other compensation decreased steadily. USPS spent $35.1 billion on these costs in FY2014 and $37.5 billion in FY2010, with expenditures dropping an average of $600 million each year.[58] These reductions have been driven by a number of USPS management decisions, including the use of voluntary separation incentives and the increased reliance on non-career employees. The current labor and employment challenges of the USPS are discussed in greater detail in the "Current Issues Facing the USPS Workforce" section of this report.

This trend, however, reversed in FY2015 when USPS's salaries and compensation costs increased by 2.3% to $35.9 billion. The USPS attributes the increased costs to "contractually obligated salary escalations and additional work hours associated in part with the growth in the more labor-intensive Shipping and Packages business."[59]

The USPS has not seen significant reductions in non-personnel costs in recent years. For the period from FY2010-FY2015, total non-personnel related expenses have been about $15 to $16 billion annually.[60] The largest non-personnel expenses are transportation costs. The USPS spent $6.6 billion for transportation in FY2015, largely on contracts for air, ground, and water transportation of the U.S. mail.[61] Fuel expenses are also included under *transportation,* but they contribute a relatively small portion of costs. The other non-personnel expenses for FY2015 include supplies and services ($2.7 billion), rent and utilities ($4.8 billion), and depreciation of USPS assets ($1.8 billion).

While the USPS has control over the majority of its expenses, there are expenses mandated by law, including the RHBF prefunding requirement. Additionally, the USPS reached its statutory debt limit of $15 billion[62] in FY2012 and as a result the USPS has no remaining flexibility to finance operations or respond to market changes through borrowing without further action from Congress.[63]

[55] U.S. Postal Service, *FY2015 Report on Form 10-K*, p. 19.

[56] U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2015*, March 29, 2016, pp. 11-12.

[57] *Salaries* includes full-time and part-time employees and other costs, such as performance awards.

[58] U.S. Postal Service, *Reports on Form 10-K (2012-2015)*, Washington, DC, 2015, available at http://about.usps.com/who-we-are/financials/welcome.htm.

[59] U.S. Postal Service, *FY2015 Report on Form 10-K*, p. 19.

[60] U.S. Postal Service, *Reports on Form 10-K (2012-2015)*, Washington, DC, 2015, available at http://about.usps.com/who-we-are/financials/welcome.htm.

[61] U.S. Postal Service, Office of the Inspector General, *Peeling the Onion: The Real Cost of Mail,* April 18, 2016, RARC-WP-16-009, pp. 13-14, at https://www.uspsoig.gov/sites/default/files/document-library-files/2016/RARC-WP-16-009.pdf. For information on transportation contracts, see U.S. Postal Service, *Procurement Manual*, Chapter 12 "Mail Transportation," July 12, 1995, at http://about.usps.com/publications/pub41/pub41c12.pdf.

[62] 39 U.S.C. §2005(a)(2)(C).

[63] U.S. Postal Service, *FY2015 Report on Form 10-K*, p. 10.

Prefunding Requirement for Retiree Health Benefits [64]

The PAEA requires the USPS to prefund its retiree health benefits.[65] To accomplish this task, the PAEA established a prefunding schedule beginning in FY2007. For the first 10 years (FY2007-FY2016), the USPS is to make statutorily prescribed prefunding payments into the Postal Service Retiree Health Benefits Fund (RHBF). The RHBF was created under the PAEA as an on-budget account in the U.S. Treasury. The statutorily prescribed prefunding payments range from $5.4 billion to $5.8 billion annually.

The statutorily prescribed payments conclude in FY2016. Beginning in FY2017, the USPS is to continue to make annual payments to the RHBF in amounts determined by OPM. Per the PAEA, OPM is to, on an annual basis, compute the difference between the size of current employees' future retiree healthcare benefit liability and the current RHBF balance, and then determine a schedule of annual payments to liquidate any outstanding liability by September 30, 2056.

Pursuant to the PAEA, the USPS payments to the RHBF are to be derived from operating revenue held in the Postal Service Fund. Beginning in FY2017, the USPS may begin accessing funds from the RHBF to pay for its current retirees' health benefits.

Since the prefunding payment schedule began in FY2007, the USPS has made three of its annual payments in full—FY2007, FY2008, and FY2010. Congress reduced the FY2009 payment owed from $5.4 billion to $1.4 billion, which the USPS paid. The USPS defaulted on each of its annual payments for FY2011 through FY2015.[66] The FY2016 payment is due September 30, 2016.[67] In total, through FY2015 the USPS has contributed $20.9 billion to the RHBF and has defaulted on payments totaling $28.1 billion.[68]

The prefunding policy has been a contentious issue. Arguments advanced in favor of the policy center on the policy protecting future customers of the USPS and taxpayers by ensuring that they will not need to finance retirement benefits currently incurred by the USPS. However, according to the USPS, the prefunding requirement has contributed "significantly" to its financial losses.[69] In its most recent financial statement, the USPS reiterated its pursuit of legislation that would allow the USPS to change how it offers health insurance to its employees and retirees. The USPS argues that such changes would "eliminate any necessity for the [RHBF] prefunding requirement...."[70] The changes would require statutory authorization from Congress.

Current Issues Facing the USPS Workforce[71]

USPS's challenging financial circumstances have prompted the agency to implement several cost-cutting strategies, one of which has been to reduce the size and cost of the USPS workforce. The

[64] For questions about the prefunding requirement, contact Annie L. Mach, Specialist in Health Care Financing (7-7825).

[65] For additional details on the prefunding requirement and issues related to USPS pension funding, see CRS Report R43349, *U.S. Postal Service Retiree Health Benefits and Pension Funding Issues*, by Katelin P. Isaacs and Annie L. Mach.

[66] Congress deferred the FY2011 payment until FY2012 ().

[67] In its *FY2015 Report on Form 10-K*, the USPS indicates that it will likely default on the FY2016 payment.

[68] U.S. Postal Service, *FY2015 Report on Form 10-K*, p. 32.

[69] U.S. Postal Service, *FY2015 Report on Form 10-K*, p. 5.

[70] U.S. Postal Service, *FY2015 Report on Form 10-K*, p. 32.

[71] This section authored by Kathryn A. Francis, Analyst in Government Organization and Management (7-2351).

sections below discuss three USPS initiatives to reduce its workforce size and cost: (1) attrition and separation incentives, (2) increased use of non-career employees, and (3) non-personnel initiatives that could impact workforce size and cost. The sections focus on implementation of these three initiatives since FY2007, at which time the USPS began to experience substantial revenue losses.

Size and Cost of the USPS Workforce

The USPS has reduced its workforce size through voluntary attrition and separation incentives.[72] The total number of USPS employees declined 21% (168,052 employees) between FY2007 and FY2014, from 785,929 to 617,877.[73] To increase the voluntary attrition rate, the USPS has offered certain employees separation incentives to resign or retire early, which have ranged from $10,000 to $20,000 per person.[74] Between FY2007 and FY2014, 55,473 employees accepted a separation incentive (**Table 4**). Many of the separation incentives offered between FY2012 and FY2014 were associated with various postal facility closure initiatives, which are discussed later in this report.[75]

The USPS has utilized separation incentives to avoid reductions in force (RIFs), which involve involuntary employee layoffs upon the abolishment of agency positions.[76] On January 9, 2015, however, the USPS implemented a RIF for 249 postmasters who did not accept a separation incentive offered in FY2014.[77] Of the 249 postmasters subject to the RIF, 169 opted for a Discontinued Service Retirement (DSR), and the remaining 80 who were not eligible for DSR received severance pay based on their age and years of service. According to the USPS, all postmasters affected by the RIF were offered part-time career positions at the USPS.[78]

[72] U.S. Postal Service, *FY2014 Report on the Form 10-K*, p. 20.

[73] CRS analysis of U.S. Postal Service *FY2014 Report on the Form 10-K*, and U.S. Postal Service, *2014 Annual Report to Congress*, December 31, 2014, p. 68, at https://about.usps.com/publications/annual-report-comprehensive-statement-2014/welcome-landing.htm.

[74] USPS has utilized the Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Program (VSIP). For more information on the VERA, see 5 U.S.C. §8336(d)(2)(D), 5 U.S.C. §8414(b)(1)(B), 5 C.F.R. §831.114, 5 C.F.R. §842.213, and OPM, *Guide To Voluntary Early Retirement Regulations*, August 2006, at https://www.opm.gov/policy-data-oversight/workforce-restructuring/voluntary-early-retirement-authority/vera_guide.pdf. For more information on the VSIP, see 5 U.S.C. §3521, 5 C.F.R. part 576, and OPM, *Guide to Voluntary Separation Incentive Payments*, August 2006, at https://www.opm.gov/policy-data-oversight/workforce-restructuring/voluntary-separation-incentive-payments/guide.pdf.

[75] See sections titled "Restructuring the Processing and Delivery Network" and "Retail Post Office Closures"; U.S. Postal Service Office of the Inspector General (hereafter USPS OIG), *Management Advisory Report, Lessons Learned from Mail Processing Network Rationalization Initiatives*, March 27, 2013, p. 4, at https://www.uspsoig.gov/sites/default/files/document-library-files/2013/no-ma-13-004.pdf; U.S. Postal Service, "POStPlan Org Change/RIF Timeline," at http://www.postmasters.org/News/PostPlan/POStPLAN%20RIF%20Timeline.pdf.

[76] For more information on reductions-in-force, see 5 U.S.C. §3501-3503, and 5 C.F.R. Part 351.

[77] Electronic correspondence with USPS staff on June 8, 2015. For more information on Discontinued Service Retirement, see 5 U.S.C. §8336(d) and 5 C.F.R. §831.503.

[78] Electronic correspondence with USPS staff on June 8, 2015.

Table 4. Total Number of Separated USPS Career Employees, FY2007-FY2014

Fiscal year	Total number of separations	Total number of employees separated *without* an incentive	Total number of employees separated *with* an incentive	Incentive amount (per person)	Target employee category	Total cost of incentive (millions)
2007	7,437	7,437	0	0	N/A	0
2008	33,685	33,685	0	0	N/A	0
2009	42,235	42,235	0	0	N/A	0
2010	40,873	20,073	20,800	$15,000	APWU employees; mail handlers	$312.0
2011	30,302	28,058	2,244	$20,000	Administrative employees	$44.9
2012	33,137	25,920	4,192	$20,000	Postmasters	$129.2
			3,025	$15,000	Mail handlers	
2013	41,823	17,991	22,609	$15,000	APWU employees	$339.1
			1,223	0	Managers, supervisors, postmasters	
2014	28,900	27,520	1,380	$10,000	Postmasters	$13.8
Total	**258,392**	**202,919**	**55,473**	N/A	N/A	**$839.0**

Source: Adapted from Table 1 found at GAO, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13, 2014, p. 12, at http://www.gao.gov/assets/670/666884.pdf; CRS analysis of data from "Form 10-Ks"; data provided by USPS staff on June 8, 2015.

Notes: FY2007 data may be incomplete, as USPS only had partial access to data due to the agency's migration from its legacy human resources system to its current system during that year. The total number of separated employees is not equal to the total reduction in the number of employees between FY2007 and FY2014. The difference might be due to additional hiring for existing or newly created positions that occurred over that time period.

Increased Use of Non-Career Employees

The USPS categorizes its workforce into two employee types: career and non-career. Career employees serve in permanent positions and are typically provided full federal benefits.[79] Non-career employees, in contrast, serve in time-limited or otherwise temporary positions. In many cases, non-career employees earn lower wages and are not provided benefits that are provided to career employees. For example, non-career employees are not eligible for federal life insurance and are not covered under the Federal Employees Retirement System (FERS).[80]

The USPS has increased its use of non-career employees in an effort to contain costs. The number of non-career employees grew by 28% between FY2007 and FY2014, from 101,167 to 129,577.

[79] For a list of benefits provided to USPS career employees, see U.S. Postal Service, "Compensation & Benefits," at https://about.usps.com/careers/working-usps/benefits.htm.

[80] U.S. Postal Service, *Employee and Labor Relations Manual*, ELM 36, September 2013, p. 572, at http://about.usps.com/manuals/elm/elmc5.pdf.

The number of career employees, in contrast, decreased by 28% over the same time period, from 684,762 to 488,300. The largest increase in the number of non-career employees occurred between FY2011 and FY2014, rising by 46.1% (40,878 employees).[81] The influx of non-career employees during that period was primarily attributable to the establishment of three new non-career positions: Postal Support Employees (PSEs), City Carrier Assistants (CCAs), and Mail Handler Assistants (MHAs).[82] Employees in these three positions constituted 51% of the USPS non-career workforce in FY2014.[83]

According to the USPS, non-career employees can reduce the overall costs of certain agency functions.[84] Non-career employees can often perform the full range of duties undertaken by their career counterparts at lower wage rates. For instance, non-career CCAs can perform the duties of career city letter carriers at a starting rate of $15.00 per hour versus $16.71 per hour.[85] The wage difference between CCAs and city letter carriers is greater after accounting for benefits and overtime ($19.35 per hour versus $46.11 per hour, respectively), according to a 2014 Government Accountability Office (GAO) report. In addition, the USPS OIG reported that non-career employees could be used in place of career employees earning overtime and thus could reduce compensation costs.[86]

Impact of USPS Workforce Initiatives on Costs

The USPS's initiatives to reduce the size and cost of its workforce have reportedly contributed to lowered compensation expenses in recent years. The USPS's total compensation costs decreased $526 million from FY2013 to FY2014, and the PRC found that 36.1% of the decreased amount ($190 million) resulted from increased use of non-career employees and a decrease in employee work hours.[87] For instance, the PRC reported that increased use of CCAs and MHAs, combined with the reduction in their career counterparts, reduced the productive hourly wage rate for the mailhandling and city carrier functions by 3.5% and 5.4%, respectively, from FY2013 to FY2014.[88] The remaining 63.9% of the reduced amount ($336 million) reflected a one-time cost

[81] CRS analysis of U.S. Postal Service *Reports on the Form 10-K*, and U.S. Postal Service, *Annual Reports to Congress*.

[82] CRS analysis of U.S. Postal Service, *Annual Reports to Congress*. For more detailed information on trends in USPS career and non-career employees, see CRS Report RS22864, *U.S. Postal Service Workforce Size and Employment Categories, FY1995-FY2014*, by Kathryn A. Francis.

[83] CRS analysis of U.S. Postal Service *Reports on the Form 10-K*.

[84] For an example of the intended goals of Mail Handler Assistants, see National Postal Mail Handlers Union, and U.S. Postal Service, *Board of Interest Arbitration Award*, February 15, 2013, pp. 12, at http://www.npmhu.org/resources/document/20130215-Final-NPMHU_USPS-Interest-Arbitration-Award.pdf.

[85] National Association of Letter Carriers (hereafter NALC) and USPS, *2011-2016 National Agreement*, p. 28, at http://www.nalc.org/member-benefits/body/na2011.pdf. See GAO, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13 2014, p. 18, at http://www.gao.gov/assets/670/666884.pdf.

[86] USPS OIG, *Use of Non-Traditional Full-Time and Postal Support Employee Positions in Processing Operations*, Report Number NO-AR-13-003, May 17, 2013, p. 5, at https://www.uspsoig.gov/sites/default/files/document-library-files/2013/no-ar-13-003.pdf.

[87] U.S. Postal Service, *FY2014 Report on the Form 10-K*, p. 20; U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2014*, April 1, 2015, p. 12. Total compensation does not include retirement, health benefits, workers' compensation, or RHBF payments.

[88] U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2014*, April 1, 2015, pp. 13-14. For a definition of productive hourly wage rate, see U.S. Postal Regulatory Commission, "Notice of the USPS and Further Revised Response of Witness Colvin to Greeting Card Association Interrogatory GSA/USPS-T7-1," July 19, 2010, p. 3, at http://www.prc.gov/docs/69/69174/REVISED.GCA.1.Jul.19.pdf.

of separation incentives that were paid in FY2013, according to a 2015 PRC report.[89] Similarly, a 2016 USPS OIG report asserted that the decline in work hours over time—a 2.8% average decline per year between 2006 and 2015—has translated into cost savings.[90]

A 2014 GAO report on the USPS workforce, however, found that the USPS's *overall* expenses did not decrease amid the agency's efforts to reduce workforce size and work hours.[91] According to the report, USPS's total expenses did not decline alongside reduced workforce size and work hours from FY2006 to FY2014 and instead fluctuated over the eight-year period.[92] The report attributed the fluctuation to required annual RHBF payments, which varied by year.[93] The USPS's overall expenses still declined at a slower rate compared to employee work hours (7.1% versus 24%, respectively) when excluding RHBF payments, according to the report. In response to the GAO report, the USPS attributed the slower rate of decline in overall expenses to increased hourly wage and benefit costs, increased non-personnel expenses, and other fixed costs that do not decline with decreases in mail volume.[94]

U.S. Postal Service's Current Strategies and Initiatives

This section provides information on the U.S. Postal Service's current five-year business plan and several ongoing USPS reform initiatives. The reform initiatives discussed in this section cover a wide range of issues and various aspects of postal operations. In many instances, these initiatives are underway, pursuant to the USPS's current legal authorities. Continuation of these initiatives does not require legislative action by Congress. In some cases, however, Congress has proposed legislation that would halt or amend actions that the USPS has already initiated.

U.S. Postal Service's Five-Year Business Plan[95]

The USPS's *Five-Year Business Plan* (hereinafter, USPS *Business Plan*) provides detailed analyses of the short- and long-term financial situation of the USPS and includes several reform proposals that the Postal Service argues would help it progress toward financial stability and long-term sustainability.[96] Many of the proposed initiatives involve further adjustments to postal delivery networks. In its *Business Plan*, the USPS argues the adjustments—which include the closure and consolidation of selected mail processing facilities—are necessary to improve efficiency and address recent changes to mail volume (i.e., decreases in first-class mail volume

[89] U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2014*, April 1, 2015, p. 12.

[90] U.S. Postal Service, Office of the Inspector General, *Peeling the Onion: The Real Cost of Mail*, April 18, 2016, RARC-WP-16-009, pp. 10-11, at https://www.uspsoig.gov/sites/default/files/document-library-files/2016/RARC-WP-16-009.pdf.

[91] Government Accountability Office, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13 2014. The GAO report includes initiatives that are not discussed in this report.

[92] Ibid., pp. 9-10.

[93] Ibid., pp. 10-11.

[94] Ibid., p. 11.

[95] This section authored by Michelle D. Christensen (7-0764).

[96] U.S. Postal Service, *Five-Year Business Plan*, April 16, 2013, at http://about.usps.com/strategic-planning/fiveyearplan-04162013-final.pdf.

and increases in package volume).[97] Below is a selected list of the proposals contained in the USPS *Business Plan*:

- continued consolidation of mail processing facilities (known as the Network Rationalization Initiative);
- full implementation of revised postal service delivery standards;
- adjustments to staffing and the means of providing products and services at retail locations, including increases in "self-service" kiosks and reduced hours at selected retail locations;
- a shift to centralized and curbside mail delivery for both business and residential customers, where appropriate;
- an expanded scope of products and services offered at retail locations; and
- a move to five-day delivery of mail while maintaining six-day delivery of packages.[98]

Of the initiatives in the bulleted list above, the first two items are currently being implemented by the Postal Service. The third and fourth items have been implemented in part. The USPS arguably does not have authority to implement the final two items, and would likely require legislative action from Congress. Additional information on select initiatives developed and implemented (in full or in part) by the Postal Service is provided in the sections below.

Postal Service Delivery Standards[99]

The USPS's delivery standards are performance goals that reflect "the number of days after acceptance of a mail piece by which the sender and recipient can expect it to be delivered."[100] Delivery standards differ for each mail class and product. Since 2012, the Postal Service has phased-in revisions to its delivery standards for market dominant products.[101]

For example, as shown in **Table 5**, the length of delivery time for First-Class mail ranges from one to three days, while periodicals take between three and nine days.[102] Prior to the most recent revisions, the range for periodicals was from two to nine days and First-Class mail sent within a certain geographical boundary was generally guaranteed to be delivered overnight.[103]

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[97] Ibid., pp. 15-17.

[98] Ibid., pp. 15-19.

[99] This section authored by Michelle D. Christensen (7-0764).

[100] See U.S. Postal Service, "Our Future Network: USPS Delivery Standards and Statistics Fact Sheet," at http://about.usps.com/news/electronic-press-kits/our-future-network/ofn-usps-delivery-standards-and-statistics-fact-sheet.htm.

[101] The new revised standards went into effect on January 5, 2015, and are available at 39 C.F.R. §121. Also see U.S. Postal Service, *Five-Year Business Plan*, April 16, 2013, pp. 15-19, at http://about.usps.com/strategic-planning/fiveyearplan-04162013-final.pdf.

[102] 39 C.F.R. §121, Appendix A.

[103] Specifically, prior to January 5, 2015, with certain exceptions, an overnight service standard applied to First-Class mail that was received and was being delivered within an area served by a single U.S. Postal Service Sectional Center Facility (i.e., postal processing and distribution facility), provided the mail arrived at the facility by a certain time (referred to as the "critical entry time" or CET). After January 5, for First-Class mail to be subject to overnight business rules, it must be "Presort" mail (i.e., sorted and containerized by Zip code by the mailer). For additional details, see summary and comments accompanying the Final Rule, "Revised Service Standards for Market-Dominant Mail Products," at http://about.usps.com/news/facility-studies/_pdf/market-dominant-final-rule.pdf.

Table 5. USPS Delivery Standard Ranges

Mail Class	End-to-End Range (days)
First-Class Mail	1-3
Periodicals	3-9
Standard Mail	3-10
Package Services	2-8

Source: 39 C.F.R. §121, Appendix A.

Notes: More detailed information on service delivery standards for specific regions is provided by the U.S. Postal Service Standards Map, which is a ZIP code-searchable map showing service delivery standard ranges (in number of days) for each mail class by both originating and destination ZIP codes. USPS's interactive service standards map is available at https://ribbs.usps.gov/modernservicestandards/ssmaps/find_map.cfm.

The delivery standards are not, however, a guarantee of specific delivery times. Based on the delivery standards, the Postal Service sets "Service Performance Targets," which are the percentage of time it expects to meet its delivery standards. **Table 6** shows FY2015 service performance targets and the USPS's actual percent on-time score for each category of market dominant mail. Actual percent on-time scores that fail to meet the percent on-time service performance targets are shown in italics. Those that are more than 10 percentage points below the percent on-time performance targets are in italics and bold.

Table 6. USPS FY2015 Service Performance Targets and Percent On-Time

	Overnight		2-Day		3+ Days	
	Target % On-Time	Actual % On-Time	Target % On-Time	Actual % On-Time	Target % On-Time	Actual % On-Time
First-Class Mail						
Single-piece letters	96.8	*95.8*	96.5	*94.0*	95.3	***77.3***
Presort letters/postcards	96.8	*96.0*	96.5	*93.8*	95.3	***88.0***
Flats	96.8	***83.2***	96.5	***79.8***	95.3	***65.3***
Parcels	96.8	***84.8***	96.5	***84.2***	95.3	***73.7***
Periodicals						
In-county	-	-	-	-	91.0	***77.7***
Outside-county	-	-	-	-	91.0	***77.6***
Standard Mail						
Saturation letters	-	-	-	-	91.0	91.5
Saturation flats/parcels	-	-	-	-	91.0	*87.0*
Carrier route mail	-	-	-	-	91.0	*82.0*
Every Door Direct Mail™	-	-	-	-	91.0	***78.5***
Letters	-	-	-	-	91.0	*85.8*
Flats	-	-	-	-	91.0	***73.8***
Parcels	-	-	-	-	91.0	98.1

	Overnight		2-Day		3+ Days	
	Target % On-Time	Actual % On-Time	Target % On-Time	Actual % On-Time	Target % On-Time	Actual % On-Time
Package Services						
Parcel post/Alaska bypass	-	-	-	-	90.0	NA
Bound printed–flats	-	-	-	-	90.0	***45.2***
Bound printed–parcels	-	-	-	-	90.0	99.4
Media matter/library mail	-	-	-	-	90.0	91.2

Source: U.S. Postal Regulatory Commission, *Annual Compliance Determination Report FY2015*, March 28, 2016, pp. 132-143, at http://www.prc.gov/sites/default/files/reports/Final_2015_ACD.pdf.

Notes: *Periodicals*, *Standard Mail*, and *Package Services* do not have overnight or 2-day targets. Table excludes First-Class international mail, which had combined target of 94% and on-time % ranging from 75.6% to 96.1%. *Flats* are rectangular mailpieces that exceed the dimensions of letter-size mail, but may still be processed as mail rather than parcels or packages. *Saturation (and High Density) Letters, Flats, and Parcels* are mailpieces sent at reduced prices due to the total volume of pieces sent by the mailer. *Carrier Route* is category (and price) of mail presorted and prepared by the mailer. *Every Door Direct Mail*™ uses "postal customer" in place of a delivery address for mailing of advertising mail. *Alaska Bypass* allows mailers to ship palletized goods to and from certain points within rural Alaska at parcel post rates.

In FY2015, USPS failed to meet its percent on-time performance targets for nearly all types of market dominant mail, including all categories of First-Class mail. Single-piece letters and flats that fell within the 3-day processing window met USPS's on-time performance standards about 77% and 65% of the time, respectively. In many other instances, on-time performance was more than 10% below the USPS's targets. According to the PRC's *Annual Compliance Report*, the USPS largely attributes these results to (1) winter weather storms, (2) insufficient air transportation capacity, and (3) staff realignments and other issues related to the network rationalization initiative, which is discussed below.[104]

Restructuring the Processing and Delivery Network[105]

The revised delivery standards discussed above are part of the USPS's broader Network Rationalization Initiative (NRI).[106] The NRI involves the changes to delivery standards (discussed above) and the closure and consolidation of selected mail processing facilities. The USPS argues these changes are necessary to (1) address recent changes to mail volume (i.e., decreases in first-class mail volume and increases in package volume) and (2) improve the efficiency of the overall postal delivery network.[107]

The NRI was implemented in two phases. Phase I is complete and Phase II has been partially implemented beginning in January 2015. In late 2015, the Postal Service decided to defer until 2016 most of the remaining mail processing plant consolidations that were scheduled as part of

[104] U.S. Postal Regulatory Commission, *Annual Compliance Determination Report FY2015*, March 28, 2016, pp. 133-135, at http://www.prc.gov/sites/default/files/reports/Final_2015_ACD.pdf.

[105] This section authored by Michelle D. Christensen (7-0764).

[106] See U.S. Postal Service, "Our Future Network: Phase 2 Network Rationalization Frequently Asked Questions," at http://about.usps.com/news/electronic-press-kits/our-future-network/ofn-phase-2-faqs-new.htm.

[107] Ibid. Also see U.S. Postal Service, *Five-Year Business Plan*, April 16, 2013, pp. 15-19, at http://about.usps.com/strategic-planning/fiveyearplan-04162013-final.pdf.

Phase II.[108] Further, in February 2016, the Postal Service acknowledged that the Phase II closures failed to capture the savings originally projected.[109] In its filing to the PRC, the USPS reported $64.3 million in savings and $130.2 million in costs attributable to Phase II of the NRI, which is a net loss of $65.9 million.[110] The filing, however, did not state if the costs were a factor in USPS's decision to halt the closures.[111]

In comparison, the USPS reported an annualized savings of $865 million from Phase I. The USPS states that the increased costs of Phase II are due to "unplanned package growth and workload shift."[112] The U.S. Postal Service OIG, however, argues that the consolidations have likely led to increased transportation costs and it encourages greater transparency regarding USPS transportation contracts.[113]

Unanticipated Effects of the NRI on the USPS Workforce

A 2015 USPS OIG report found that the NRI had some unanticipated effects on USPS operations, including the USPS workforce.[114] The report asserted that revised service standards under the NRI allowed the USPS to expedite mail processing timelines, which prompted the agency to transition 5,000 employees from night to day shifts.[115] The shift changes have resulted in decreased differential pay and additional training for new jobs for some employees, according to the report.[116] The report further asserted that shift changes required larger mail processing plants to re-bid hundreds of jobs to employees with the new shift times, noting that the job bidding process can take "several months to complete."[117]

Restructuring the Retail Business

Two reforms the USPS included in its *Five-Year Business Plan* were (1) a proposal to move from six- to five-day delivery of all or most classes of mail, but maintain or expand package delivery, and (2) a proposal to further reduce retail post office hours to better align them with estimates of operational demand.

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[108] While several bills have been introduced in the 113th and 114th Congresses that would have placed restrictions on the closure of postal facilities, none have been enacted. See, for example, (113th), (113th), and (114th).

[109] U.S. Postal Regulatory Commission, *Response of the United States Postal Service to Question 16 of Chairman's Information Request No. 7,* Docket No. ACR2015, February 11, 2016, p. 2, at http://www.prc.gov/docs/94/94968/CHIR_No_7.Second.Response.Set.Q16.pdf.

[110] Ibid.

[111] Ibid.

[112] Ibid.

[113] U.S. Postal Service, Office of the Inspector General, *Peeling the Onion: The Real Cost of Mail,* April 18, 2016, RARC-WP-16-009, p. 13, at https://www.uspsoig.gov/sites/default/files/document-library-files/2016/RARC-WP-16-009.pdf.

[114] U.S. Postal Service, Office of the Inspector General, *Management Alert – Substantial Increase in Delayed Mail,* Report Number NO-MA-15-004, August 13, 2015, at https://www.uspsoig.gov/sites/default/files/document-library-files/2015/no-ma-15-004.pdf.

[115] Ibid., p 3.

[116] Ibid., pp. 3-5.

[117] Ibid.

Six- to Five-Day Delivery[118]

One reform that the USPS has repeatedly proposed in recent years is to move from six- to five-day delivery of all or most classes of mail—typically, USPS's market dominant products, such as first-class mail, standard mail (i.e., advertising mail), and periodicals.[119] To maximize revenue from the competitive portion of its product line, however, USPS proposes maintaining six-day delivery of packages, or further expanding its Sunday package delivery services.[120]

Opponents of reducing USPS's delivery days argue that it will have a negative effect on postal delivery standards, which—according to the PRC's FY2015 *Annual Compliance Report*—have already suffered following the closure and consolidation of postal processing facilities prior to the 2015 suspension of the process.[121]

According to economic estimates prepared for the PRC, shifting to five-day delivery of mail while maintaining Saturday delivery of packages would increase revenues by an estimated $912 million to $1.677 billion.[122] The estimated net profit would be less, however, due to two factors. The Postal Service may incur additional labor costs due to increased mail volume on Mondays.[123]

Also, proposals may differ regarding Saturday operating hours at local post offices. If local post offices are open, there would be additional operational costs. In contrast, some customers may mail fewer items or choose another service for shipping packages if their local post office is closed on Saturday, potentially leading to lost revenue in competitive products. The PRC report based its estimation on a model where post offices remained open but did not sort or dispatch letter mail.[124] Under this scenario, the PRC report estimated that the annual net savings to the Postal Service would be between $625 million and $1.393 billion.[125]

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[118] This section authored by Michelle D. Christensen (7-0764). For additional background on the history of six-day delivery, see CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: History, Issues, and Current Legislation*, by Wendy Ginsberg.

[119] For example, in the USPS's *Business Plan*, section titled "Executing on Identified Initiatives is Core to Addressing USPS's Financial Challenges," the USPS recommended adjusting service levels to six-day delivery of packages and five-day delivery of first-class mail. U.S. Postal Service, *Five-Year Business Plan*, April 16, 2013, p. 17, at http://about.usps.com/strategic-planning/fiveyearplan-04162013-final.pdf#page=17.

[120] The Postal Service has offered seven-day package delivery in select regions during the holiday shipping season. It has also entered into negotiated service agreements with large shippers (e.g., Amazon) to offer Sunday delivery from select hubs across the United States. U.S. Postal Service, "Postal Service to Delivery Packages Seven Days a Week During Holidays," November 6, 2014, http://about.usps.com/news/national-releases/2014/pr14_057.htm; U.S. Postal Service Office of Inspector General, *Sunday Parcel Delivery Service: Audit Report*, December 5, 2014, https://www.uspsoig.gov/sites/default/files/document-library-files/2015/dr-ar-15-002.pdf.

[121] U.S. Postal Regulatory Commission, *Annual Compliance Determination Report FY2015*, March 28, 2016, p. 3, http://www.prc.gov/sites/default/files/reports/Final_2015_ACD.pdf; U.S. Postal Regulatory Commission, *Analysis of FY 2015 Performance Report and FY 2016 Performance Plan*, May 4, 2016, p. 2, at http://www.prc.gov/sites/default/files/reports/Appendix%20-%20Findings%20and%20Recommdations.pdf.

[122] Urs Trinkner and Andreas Haller, *Impact of Discontinuance of Saturday Delivery for Letters and Flats*, Swiss Economics for the U.S. Postal Regulatory Commission, ISSN 2235-1868, February 2014, pp. 7-8, at http://www.prc.gov/sites/default/files/reports/FinalReport.pdf.

[123] Ibid., pp. 8-9.

[124] Ibid.

[125] Ibid., p. 9.

Retail Post Office Closures[126]

In 2012, the USPS announced a plan to reduce hours at 13,000 "low foot traffic" U.S. Post Offices in rural communities. The Post Office Structure Plan, commonly referred to as the "POStPlan," is, according to the USPS, an initiative intended to prevent closures of postal retail facilities by reducing operational hours at selected locations. According to communications from the PRC, most POStPlan facilities are small and often in rural areas, though neither term (i.e., "small" or "rural") has been defined by either the USPS or the PRC for the purpose of identifying specific retail postal facilities.[127]

Table 7 below provides data on the number of USPS retail facilities in existence at the end of each fiscal year from FY2010 through FY2015.[128]

Table 7. Total USPS Retail Postal Facilities, FY2010-FY2015

	2010	2011	2012	2013	2014	2015
Post Offices	27,077	26,927	26,755	26,670	26,669	26,615
Classified stations, branches, and carrier annexes	5,451	5,219	5,102	5,032	4,993	4,991
Total USPS-managed	**32,528**	**32,146**	**31,857**	**31,702**	**31,662**	**31,606**
Contract Postal Units	2,931	2,904	2,792	2,718	2,660	2,504
Village Post Offices	0	0	47	385	759	874
Community Post Offices	763	706	673	629	560	536
Total Contractor-operated	3,694	3,610	3,512	3,732	3,979	3,914
Total offices, stations, and branches (USPS-managed and contractor-operated)	**36,222**	**35,756**	**35,369**	**35,434**	**35,641**	**35,520**

Source: U.S. Postal Service *Annual Report to Congress, FY2013*, at http://about.usps.com/publications/annual-report-comprehensive-statement-2013/annualreport2013_001.htm; and U.S. Postal Regulatory Commission, *Annual Compliance Determination Report FY2015*, March 28, 2016, p. 148.

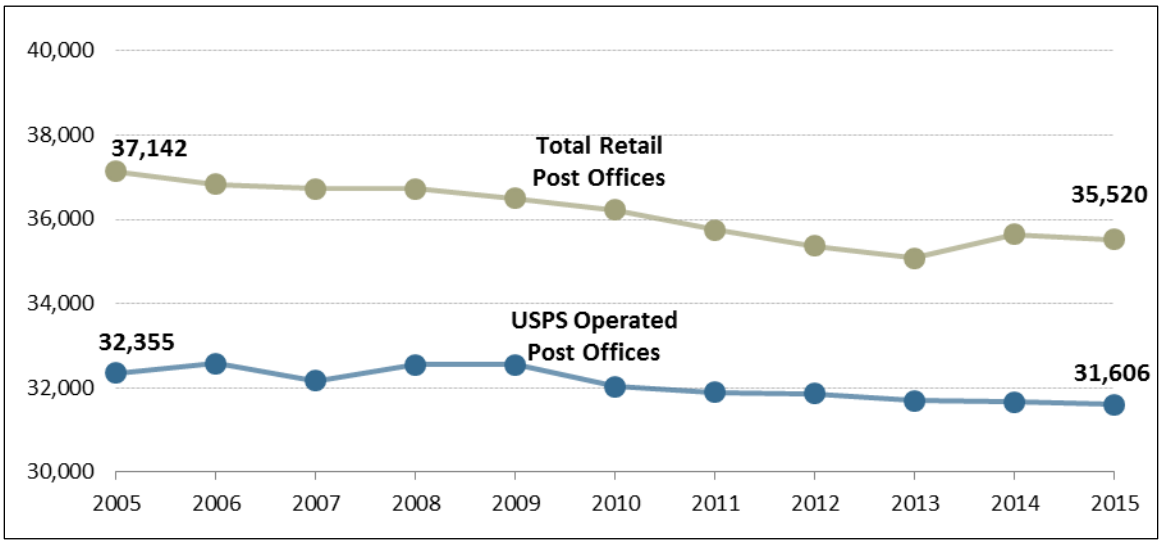
[126] This section coauthored by Michelle D. Christensen (7-0764) and Kathryn A. Francis (7-2351).

[127] The list of POStPlan facilities is available at http://about.usps.com/news/electronic-press-kits/our-future-network/assets/pdf/postplan-affected-post-offices-120509.pdf.

[128] For descriptions of the categories and types of postal facilities, please see CRS Report R41950, *The U.S. Postal Service: Common Questions About Post Office Closures*, by Michelle D. Christensen.

Figure 8. USPS Retail Postal Facilities

FY2005-FY2015



Source: Figure created by Congressional Research Service (CRS) using data from U.S. Postal Service "Decade of Facts and Figures," at http://about.usps.com/who-we-are/postal-facts/decade-of-facts-and-figures.htm.

Notes: "Total retail post offices" includes contractor-owned-and-operated postal facilities.

Impact of Postal Facility Closures on Postal Workforce

The USPS has implemented several non-personnel initiatives that have reportedly affected the size and cost of its workforce. GAO and the PRC, for example, reported that streamlining and consolidating activities associated with the POStPlan and NRI have reduced the number of career employees and work hours for postmasters, clerks, mailhandlers, and equipment maintenance personnel.[129] According to a 2014 GAO report, the USPS projects the POStPlan will generate $347.2 million in savings through FY2016.[130] The GAO report also discusses other initiatives to streamline and consolidate operations that have affected workforce size and cost, such as changes to delivery schedules and modes.[131]

[129] U.S. Postal Regulatory Commission, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2014, April 1, 2015,* p. 14, at http://www.prc.gov/sites/default/files/reports/Financial%20Report%202014.pdf; and Government Accountability Office, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13 2014, pp. 14-16. The GAO report did not specify the position types that experienced reduced work hours.

[130] Government Accountability Office, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13, 2014, p. 13.

[131] Ibid., pp. 14-20.

Possible Issues Facing the USPS Workforce[132]

Achievement of Workforce Reduction Goals

The USPS anticipates its strategic initiatives, which appear to include the aforementioned workforce initiatives, would reduce its career workforce to around 404,000 employees by FY2017.[133] The number of career employees, however, has not decreased at projected annual rates. While USPS anticipated the career workforce to decrease by about 84,000 employees from FY2012 to FY2014, it decreased by 40,158 employees over the two-year time period.[134] Consequently, achievement of workforce reduction targets for FY2015-FY2017 might become more difficult. It is unclear if USPS still intends to reach its FY2017 workforce reduction goal, as the agency has not explicitly revised it since April 2013. Additional separation incentives, or other workforce reduction initiatives, might be needed, however, if the USPS intends to achieve the goal.

The USPS's ability to achieve its workforce reduction goal might be affected by unanticipated policy changes or actions of stakeholders. According to a 2014 GAO report, for example, the USPS's FY2017 workforce reduction goal assumed the adoption of actions that would impact workforce size that have not occurred, such as adoption of six-day package/five-day mail delivery service.[135] In addition, USPS postponed implementation of Phase II of the NRI, which was projected to affect around 15,000 employees.[136] Finally, postal labor unions have made efforts to curtail reductions to the career workforce. For example, in September 2014, the American Postal Workers Union (APWU) won an arbitration award that was projected to create 9,000 positions within the clerk craft function, at least 3,000 of which must be career positions.[137]

Limitations on Use of Non-Career Employees

The USPS's use of certain non-career employees is governed by postal labor union contracts, which limit the total number of non-career employees that can comprise the USPS workforce. Union contracts current through 2015 and 2016 raised the number of non-career employees that can be used for certain functions. The 2006-2011 National Association of Letter Carriers (NALC) contract raised the limit on the total number of covered non-career employees to 15% of the total number of career carriers in a district,[138] compared to 3.5% in the 2006-2011 contract.[139] (**Table 8**).[140]

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[132] This section authored by Kathryn A. Francis (7-2351).

[133] U.S. Postal Service, *Five Year Business Plan*, April 2013, p. 28, at http://about.usps.com/strategic-planning/fiveyearplan-04162013-final.pdf. The USPS anticipates a reduction of approximately 146,000 career and non-career full-time equivalents by 2017.

[134] Ibid., CRS analysis of U.S. Postal Service *Reports on the Form 10-K*.

[135] Government Accountability Office, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13 2014, p. 13.

[136] U.S. Postal Service, "Phase 2 Network Rationalization," p. 1, at https://about.usps.com/news/electronic-press-kits/our-future-network/assets/pdf/ofn-phase-2-faqs.pdf.

[137] American Postal Workers Union, "APWU Wins Major Victory on Staffing 'POStPlan' Offices," September 22, 2014, at http://www.apwu.org/news/web-news-article/apwu-wins-major-victory-staffing-%E2%80%98postplan%E2%80%99-offices.

[138] National Association of Letter Carriers and U.S. Postal Service, *2011-2016 National Agreement*, p. 16.

[139] National Association of Letter Carriers and U.S. Postal Service, *2006-2011 National Agreement*, p. 15, at (continued...)

Table 8. Contract Limitations on the Number of Selected Non-Career Employees

Labor Union	Affected Non-Career Employee Positions	Past Contract Limit	Current Contract Limit
American Postal Workers Union (APWU)	Casuals (past limit) Postal Service Employees (current limit)	6% of the total number of career employees covered by the contract per district[a]	20% of career employees in the clerk craft per district[b]
National Postal Mail Handlers Union (NPHMU)	Casuals (past limit) Mail Handler Assistants (current limit)	12.5% of the total number of employees covered by the contract per installation	15% of career mail handlers per district 20% of career mail handlers per installation 5% of the total number of career employees covered by the contract per installation (casuals)
National Association of Letter Carriers (NALC)	Transitional employees (past limit) City Carrier Assistants (current limit)	3.5% of the total number of city carriers covered by the contract 6% of the total number of career city letter carriers per district[c]	15% of career city letter carriers per district[d]

Source: CRS analysis of contracts between the USPS and the American Postal Workers Union, National Postal Mail Handlers Union, and National Association of Letter Carriers; information provided by the Postal Regulatory Commission on August 14, 2015, and August 26, 2015.

Notes: Limitations listed under "current limit" are stipulated by postal union contracts current through 2015 and 2016. Limitations listed under "past limit" were stipulated by postal union contracts that expired in 2010 or 2011. A postal "district" refers to a ZIP code area, and a postal "installation" refers to a post office. In contracts that expired in 2010 or 2011, non-career employees were referred to as "casuals" or "transitional employees." These positions have been largely replaced by Postal Service Employees (PSEs), City Carrier Assistants (CCAs), and Mail Handler Assistants (MHAs), though some casuals still exist.

a. Within the 6% limitation, non-career casuals could not exceed 11% of career clerk craft employees at installations with 200 or more *workyears* of employment in the regular workforce. A *workyear* is equivalent to 2,080 hours of work. For more information, see CRS, *Federal Workforce Statistics Sources: OPM and OMB*; and Circular A-11, pp. 273-274, at https://www.whitehouse.gov/sites/default/files/omb/assets/a11_current_year/a11_2015.pdf.

b. The 2010-2015 APWU contract placed additional limits on retail (window) clerks. In larger offices (Level 22 and above), PSEs working retail windows could not exceed 10% of the career retail clerks in the installation. In smaller offices (Level 21 and below), PSEs could not exceed 20% of the career retail clerks.

c. In addition, the 2006-2011 NALC contract required installations with 200 or more *workyears* of employment in the regular workforce to be 88% staffed by career letter carriers.

d. The 2011-2016 NALC contract allows USPS to exceed the 15% limitation and hire an additional 8,000 CCAs to provide new products and services. The number of additional CCAs cannot exceed 8% of the total number of career city delivery carriers in the district for any one reporting period.

The USPS's ability to maintain or increase its use of certain non-career employees will depend on contract negotiations. Some labor unions seem to oppose increased use of non-career employees,

(...continued)

http://www.nalc.org/workplace-issues/contract-administration-unit/body/na2006.pdf. The 2006 agreement places limitations on the number of "transitional employees," a non-career employee category that was phased out and replaced by CCAs in 2013.

[140] National Association of Letter Carriers and U.S. Postal Service, *2011-2016 National Agreement*, p. 16.

which appear to have affected negotiations for certain unions. For example, negotiations between the USPS and the APWU ended without an agreement on May 28, 2015. [141] The APWU subsequently issued a press release stating that "proposed changes to the [USPS] workforce structure were completely unacceptable."[142] The press release then cited USPS workforce proposals for the new contract, which included, among other things, an increase in the percentage of non-career employees. The APWU workforce proposals, in contrast, called for more career employees.[143] On July 8, 2016, an arbitration panel issued a new APWU contract that maintained current levels of covered non-career employees.[144]

Lower caps on the percentage of non-career employees might have implications for the size and cost of the USPS's workforce. According to a 2014 GAO report, the USPS asserted that it is close to reaching current caps on non-career employees.[145] Lower caps, therefore, might require the USPS to reduce the number of non-career employees, which might prompt changes to the agency's workforce composition in ways that might increase personnel costs. For instance, compensation costs might increase if the USPS increases the number of career employees to comply with lower caps, either through additional hires or transitioning non-career employees to career positions. Alternatively, overtime pay cost might increase if the USPS reduces the number of non-career employees that were being used in place of career employees earning overtime.

Employee Morale

Some postal labor unions and Members of Congress have expressed concern about employee morale at the USPS, particularly amid the agency's efforts to reduce the size and cost of its workforce. For example, the APWU asserted that post office closures and mail processing plant consolidations are lowering employee morale.[146] On March 5, 2014, Senator Heidi Heitkamp sent a letter to the Postmaster General that highlighted challenges identified by USPS employees in North Dakota that might lead to low morale, including long hours, poor working conditions, a lack of training, and a lack of managerial focus on addressing such issues.[147]

On July 9, 2015, Senator Heitkamp introduced the Rural Postal Act of 2015.[148] The bill seeks to, among other things, improve employee morale at the USPS by establishing a Chief Morale Officer.[149] The Officer would be responsible for developing national initiatives[150] that address

[141] American Postal Workers Union, "USPS Demands Cuts in Pay, Benefits, Job Security," May 28, 2015, at http://www.apwu.org/news/news-bulletin/usps-demands-cuts-pay-benefits-job-security.

[142] Ibid.

[143] Ibid.

[144] American Postal Workers Union and U.S. Postal Service, *2015 National Agreement, Interest Arbitration Decision and Award*, July 8, 2016, p. 23, at http://www.apwu.org/sites/apwu/files/resource-files/7.08.16.%20FINAL%20AWARD.2015%20NATIONAL%20AGREEMENT%20signed.pdf.

[145] Government Accountability Office, *U.S. Postal Service, Status of Workforce Reductions and Related Planning Efforts*, GAO-15-43, November 13 2014, p. 18.

[146] American Postal Workers Union, "Management and Privatizers: Reading From the Same Script," at http://www.apwu.org/news/deptdiv-news-article/management-and-privatizers-reading-same-script.

[147] Letter from Senator Heidi Heitkamp, United States Senate, to Patrick Donahoe, former Postmaster General, March 5, 2014, PDF pp. 2-3, at http://www.heitkamp.senate.gov/public/_cache/files/4783d5ff-7e49-4d6b-868a-6df7bc3bee74/postmaster-general-nd-postal-service-letter.pdf.

[148] (114th Congress).

[149] Under §6(c)(1) of, "the Chief Morale Officer must have, among other things, experience 'revitalizing and improving the morale' of entities that have experienced financial or other challenges."

[150] The term *national initiatives* is not further defined in the bill.

employee morale and factors that might influence morale, such as factors related to working conditions, communication, and training. For example, the bill would require national initiatives to address wages and the balance between temporary and career employees. The bill also proposes the establishment of Regional Morale Officers, who would be responsible for (1) implementing the national initiatives; (2) holding monthly roundtables with employees to discuss concerns related to working conditions, staffing, communication, and training; (3) submitting biennial feedback reports to the Chief Morale Officer; and (4) communicating regularly with other Regional Morale Officers and the Chief Morale Officer to provide progress updates on achieving the initiatives.[151] As of August 10, 2016, there has been no committee or floor action on this bill.[152]

Further Postal Reform Issues for Congress

Updating the Postal Fleet[153]

To fulfill its mission of providing "prompt, reliable, and efficient"[154] postal services to its customers, the USPS has a fleet of approximately 190,000 delivery vehicles.[155] These vehicles transport more than 153 billion pieces of mail each year[156] to more than 150 million delivery points.[157] Approximately 75% of the delivery fleet (142,000 vehicles) is comprised of long-life vehicles (LLVs),[158] which have an expected useful life of 24 years.[159] Many LLVs were purchased in the late 1980s and early 1990s, and have now met or exceeded their life expectancy.[160] Indeed, the average age of an LLV reached 23 years in 2015.[161] Moreover, the USPS OIG determined the current fleet can only meet delivery needs through FY2017.[162]

[151] Ibid.

[152] For additional details, see **Table B-1** in **Appendix B**.

[153] This section authored by Garrett Hatch, Specialist in American National Government (7-7822).

[154] U.S. Postal Service, *Delivering the Mail and More: Postal Service Mission and "Motto"*, at https://about.usps.com/who-we-are/postal-history/mission-motto.pdf.

[155] U.S. Postal Service, Office of Inspector General, *The Road to a New Delivery Fleet*, July 28, 2014, at https://www.uspsoig.gov/blog/road-new-delivery-fleet.

[156] U.S. Postal Service, *FY2015 Integrated Financial Plan*, p. 3, at https://about.usps.com/who-we-are/financials/integrated-financial-plans/fy2015.pdf.

[157] Government Accountability Office, *Federal Vehicle Fleets: Leading Practices for Managing Fleet Operations*, GAO-15-644T, p. 4, at http://www.gao.gov/assets/680/670331.pdf.

[158] U.S. Postal Service, Office of Inspector General, *The Road to a New Delivery Fleet*, July 28, 2014.

[159] Testimony of U.S. Postal Service Chief Financial Officer and Executive Vice President, Joseph Corbett, in U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Government Operations, *Issues Facing Civilian and Postal Service Vehicle Procurement*, hearings, 114th Cong., 1st sess., May 21, 2015, at http://docs.house.gov/meetings/GO/GO24/20150521/103521/HHRG-114-GO24-Wstate-CorbettJ-20150521.pdf.

[160] U.S. Postal Service, *Request for Information and Prequalification/Sources Sought for Next Generation Delivery Vehicle (NGDV) Acquisition Program*, January 20, 2015, p. 5, at https://www.fbo.gov/index?s=opportunity&mode=form&tab=core&id=e4c65069740a6b4df5158fb0a9512b1c&_cview=0.

[161] Testimony of U.S. Postal Service Chief Financial Officer and Executive Vice President, Joseph Corbett, in U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Government Operations, *Issues Facing Civilian and Postal Service Vehicle Procurement*, hearings, 114th Cong., 1st sess., May 21, 2015.

[162] U.S. Postal Service, Office of Inspector General, *Delivery Vehicle Fleet Replacement*, DR-MA-14-005, June 10, 2014, p. 4, at https://www.uspsoig.gov/sites/default/files/document-library-files/2014/dr-ma-14-005.pdf.

Given the need to replace much of its aging delivery fleet, the USPS has proposed acquiring up to180,000 new delivery vehicles through its Next Generation Delivery Vehicle (NGDV) acquisition program.[163] The NGDVs would cost between $25,000 and $35,000 each, and have a life span of 20 years.[164] The new fleet would differ from the current LLV fleet in several ways, notably that they would be configured to handle a larger number of packages[165]—which analysts believe will continue to grow in volume in coming years.[166] The NGDVs would also use less fuel and more advanced safety features than the current LLV fleet.[167]

The NGDV acquisition program will take an estimated five to seven years to complete.[168] In January, 2015, the USPS issued a Request for Information (RFI), which provided prospective suppliers with the specifications of the NGDVs, and invited interested parties to submit information that demonstrated their ability to meet the manufacturing and production requirements of the program. Based on responses to the RFI, the USPS developed a list of "prequalified" suppliers who showed they could meet the program's requirements.[169] Only the prequalified suppliers are eligible to participate in the next phase of the program.[170]

In October, 2015, the USPS issued a Request for Proposal (RFP) seeking a qualified supplier to design and manufacture six "fully functional" prototypes of its NGDVs.[171] The USPS anticipates that this phase of the program—the design, build, and testing of the prototypes—will take about two years to complete.[172]

The final phase of the program, the production and delivery of the NGDV fleet, would begin in 2017.[173] At that point, a second RFP would be released, which would establish the final NGDV production requirements, and indicate whether the USPS will purchase the vehicles, lease them, or both. The USPS has stated that while it is likely that just one supplier would be awarded the contract, it is possible that more than one supplier may be selected.[174]

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[163] U.S. Postal Service, *Request for Information and Prequalification/Sources Sought for Next Generation Delivery Vehicle (NGDV) Acquisition Program*, January 20, 2015, p. 5, at https://www.fbo.gov/index?s=opportunity&mode=form&tab=core&id=e4c65069740a6b4df5158fb0a9512b1c&_cview=0.

[164] Ibid., pp. 1,5.

[165] Ibid.

[166] U.S. Postal Service, Office of Inspector General, *The Road to a New Delivery Fleet*, July 28, 2014.

[167] U.S. Postal Service, *Request for Information and Prequalification/Sources Sought for Next Generation Delivery Vehicle (NGDV) Acquisition Program*, January 20, 2015, p. 1, at https://www.fbo.gov/index?s=opportunity&mode=form&tab=core&id=e4c65069740a6b4df5158fb0a9512b1c&_cview=0.

[168] Ibid., p.5.

[169] U.S. Postal Service, *Next Generation Delivery Vehicle (NGDV) Acquisition Program-Prequalified Sources*, April 14, 2015, p. 1, at https://www.fbo.gov/utils/view?id=62fddc4fa87e8c3de4436a631e715a51.

[170] U.S. Postal Service, *Request for Information and Prequalification/Sources Sought for Next Generation Delivery Vehicle (NGDV) Acquisition Program*, January 20, 2015, p. 3, at https://www.fbo.gov/index?s=opportunity&mode=form&tab=core&id=e4c65069740a6b4df5158fb0a9512b1c&_cview=0.

[171] U.S. Postal Service, *Next Generation Delivery Vehicle (NGDV) Prototype Request for Proposal (RFP): Statement of Objectives* (Attachment 1), October 20, 2015, p. 2, at https://www.fbo.gov/utils/view?id=e5b5d2b386ee44c694aff2c5f2900c8f.

[172] Testimony of U.S. Postal Service Chief Financial Officer and Executive Vice President, Joseph Corbett, in U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Government Operations, *Issues Facing Civilian and Postal Service Vehicle Procurement*, hearings, 114th Cong., 1st sess., May 21, 2015.

[173] Ibid.

[174] Ibid.

Nonpostal Products and Services[175]

The PAEA defines *postal services* as "the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto" and prohibits the USPS from offering all but a limited number of excepted nonpostal products and services.[176] This restriction prevents the Postal Service from offering or developing new nonpostal products (e.g., expanded banking and financial services) or expanding into new markets that might increase its market share and revenue.[177]

Under the PAEA, the Postal Service is currently authorized to offer 11 nonpostal products and services, including two market dominant and nine competitive products.[178] The two market dominant products are

- USPS/public sector alliances, e.g., MoverSource, which allows the USPS to provide free change-of-address services by including moving tips and related advertisements;[179] and
- philatelic sales intended for stamp collectors, e.g., uncut press sheets, framed stamps, binders for storing stamps, and philatelic guides.[180]

The nine competitive products are

- private sector advertising on USPS.com, within U.S. post offices, or in other postal venues;[181]
- licensing of USPS's copyrights and trademarks;[182]
- mail service promotions, which "allow merchants who offer web-based customers the ability to create mail pieces through an online service." Prices for these products are negotiated between the merchant and the Postal Service;[183]
- sale of officially licensed USPS retail products;[184]
- U.S. Passport photo services;[185]

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[175] This section authored by Michelle D. Christensen (7-0764).

[176] P.L. 109-435, Title I, §§101-102, 120 Stat. 3199. Regulations subsequently issued by the PRC state that a *postal service* "refers to the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto" and that a *postal product* "means a postal service with a distinct cost or market characteristic for which a rate or rates are, or may reasonably be, applied." 39 C.F.R. §§3001.5(s)-(t).

[177] Ibid.

[178] U.S. Postal Regulatory Commission, *Order Approving Mail Classification Schedule Descriptions and Prices for Nonpostal Service Products*, Docket No. MC2010-24, December 11, 2012.

[179] U.S. Postal Regulatory Commission, *Mail Classification Schedule*, January 15, 2016, pp. 203-204, at http://www.prc.gov/mail-classification-schedule; U.S. Government Accountability Office, *U.S. Postal Service: Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products*, January 2013, p. 18, at http://www.gao.gov/assets/660/651298.pdf.

[180] U.S. Postal Regulatory Commission, *Mail Classification Schedule*, January 15, 2016, p. 204. Also see U.S. Postal Service retail website, "Stamp Collector Zone," at https://store.usps.com/store/browse/subcategory.jsp?categoryId=stamp-collectors&categoryNavIds=stamp-collectors.

[181] U.S. Postal Regulatory Commission, *Mail Classification Schedule*, January 15, 2016, p. 538. Also see U.S. Government Accountability Office, *U.S. Postal Service: Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products*, January 2013, pp. 18-20.

[182] Ibid., p. 537.

[183] Ibid., p. 538.

[184] Ibid., p. 539.

- photocopying services;[186]
- rental, leasing, and non-sale of USPS property;[187]
- use of USPS training facility and courses;[188] and
- the USPS Electronic Postmark (EPM) program, which "authorizes vendors to provide their customers with Postal Service-authorized timestamps."[189]

In FY2015, revenues from nonpostal market dominant products were $75 million and expenses were $13 million, for a net gain of $62 million.[190] For nonpostal competitive products, revenues were $106 million and expenses were $17 million, for a net gain of $89 million.[191] This was an increase of 13% and 4% from FY2014 nonpostal market dominant and competitive revenues, respectively.[192]

The Postal Service is also authorized, with limitations, to conduct short-term market tests that may include nonpostal products.[193] Market-tests are generally limited to two years and have included the sale of gift cards, a same-day delivery service (Metro Post™), and an international eCommerce shipping service (GeM Merchant).[194] The USPS OIG suggested grocery delivery as another possible market test in its June 2016 OIG Blog post.[195]

Select postal reform legislation introduced in the 113th and 114th Congresses would provide the USPS with authority to offer additional nonpostal products and services. The nonpostal products and services covered in recent bills include

- public internet access;[196]
- drivers' license services;[197]
- hunting and fishing license services;[198]
- voter registration;[199] and
- postal banking and financial services.[200]

(...continued)

[185] Ibid., p. 540.

[186] Ibid., p. 541.

[187] Ibid., p. 542.

[188] Ibid., p. 543.

[189] Ibid., p. 544.

[190] U.S. Postal Regulatory Commission, *Annual Compliance Determination Report FY2015*, March 28, 2016, p. 75, at http://www.prc.gov/sites/default/files/reports/Final_2015_ACD.pdf.

[191] Ibid., p. 92.

[192] Ibid., pp. 75, 92.

[193] 39 U.S.C. §3641; 39 C.F.R. §3503.

[194] U.S. Postal Regulatory Commission, "Market Test Dockets," at http://www.prc.gov/dockets/type/MarketTest. See dockets MT 2011-2; MT 2013-1; and MT 2016-1. Also see U.S. Postal Service "Metro Post" at https://www.usps.com/metropost.

[195] U.S. Postal Service Office of Inspector General, *OIG Blog: Ideas Worth Exploring*, "Groceries to Your Door," June 27, 2016, at https://www.uspsoig.gov/blog/groceries-your-door.

[196] (113th); (113th); (113th); (114th); (114th).

[197] (113th); (113th).

[198] Ibid.

[199] Ibid.

[200] (113th); (113th); (113th); (113th); (114th); (114th).

Further, legislation introduced in the 114th Congress, such as S. 2051, *Improving Postal Operations, Service, and Transparency Act of 2015* (iPOST Act) and H.R. 5714, *Postal Service Reform Act of 2016*, includes provisions that would allow the USPS to offer a range of nonpostal products and services that are currently prohibited under the PAEA.[201]

Postal Banking[202]

In looking for ways to grow USPS's nonpostal products and services, one option is to expand the financial services it offers (e.g., international money orders, prepaid cards). The USPS offered select financial products in the 20th century, but they have not been available since the termination of the Postal Savings System in 1967.[203]

One reason that postal financial services are still raised as a potentially beneficial product line may be the example provided by other nations. Countries with some form of postal financial services include the United Kingdom, France, Japan, Germany, South Korea, and Brazil, in addition to many others.[204] These examples also highlight the numerous different models that a postal system can utilize to provide financial services. In some cases, the postal service offers its own financial products through a separate entity established within the postal department. In other cases, the postal service facilitates the sale of financial services that are managed by a private financial institution. Some nations have implemented a hybrid of these two approaches. For example, South Korea uses a system wherein its postal service (Korea Post) offers its own financial services while also handling deposits made to private banks.[205]

To further explore this idea, the USPS OIG issued a white paper in early 2014 to study whether the USPS is well-positioned to offer financial services.[206] In this report, the USPS OIG determined that financial services are the best opportunities for the USPS to generate new revenue. In addition, the report estimated there would be significant demand for these services from populations currently underserved by private banks.

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[201] The two bills use different criteria and procedures to determine which nonpostal products and services the USPS would be permitted to offer. For additional details, see S. 2051, §303; and H.R. 5714, §204.

[202] This section authored by Michelle D. Christensen (7-0764) and Daniel J. Richardson, former Research Assistant at CRS. The terms *Postal Banking* and *Postal Financial Services* are used interchangeably in this section.

[203] In 1910, Congress passed "An Act to establish postal savings depositories," (36 Stat. 814). The postal savings system was discontinued in 1966 by P.L. 89-377; 80 Stat. 92. Pursuant to the *Postal Savings System Statute of Limitations Act* (; 98 Stat. 402), any money that remained in postal savings accounts as of July 13, 1985, was retained by the U.S. Treasury and could no longer be claimed by the depositors. All unclaimed funds were transferred to the Treasury-managed account "Unclaimed Moneys of Individuals Whose Whereabouts Are Unknown," and, with certain exceptions, will be held in perpetuity. 31 U.S.C. §1322.

[204] According to a 2009 journal article on Japan's postal banking system, at least 18 countries have established some form of postal banking, though not all are still operational today: United Kingdom (established 1861), New Zealand (established 1867), Canada (established 1868), Belgium (established 1870), Japan (established 1875), Italy (established 1876), France (established 1881), the Netherlands (established 1881), Austria (established 1883), Sweden (established 1884), Finland (established 1887), Greece (established 1902), the United States (established 1910), Spain (established 1916), Ireland (established 1923), Germany (established 1939), Norway (established 1950), and Denmark (established 1991). See Masami Imai, "Ideologies, Vested Interest Groups, and Postal Saving Privatization in Japan," *Public Choice*, vol. 138, no. 1/2 (January 2009), p. 139.

[205] Murthy M L N and Vani Vangala, *Bank@Post Office- A Global Trend: Thought Paper*, Infosys Finacle, Bangalore, India, at http://www.infosys.com/finacle/solutions/thought-papers/Documents/bank@post-office-global-trend.pdf. This paper includes a review of various models currently used around the world, pp. 3-4.

[206] U.S. Postal Service, Office of the Inspector General, *Providing Non-Bank Financial Services for the Underserved*, RARC-WP-14-007, Arlington, VA, January 27, 2014, at https://uspsoig.gov/sites/default/files/document-library-files/2014/rarc-wp-14-007.pdf.

Following the publication of the initial white paper, the USPS OIG completed a second study in 2015 that examined the statutory authority required to offer financial services and offered possible models that could be used.[207] First, the report stated that the USPS could simply expand its current offering of financial products, which includes paper money orders, gift cards, and check cashing. This approach would provide limited growth opportunities, but would also incur relatively low implementation costs and is permissible under current statutory authority. The USPS OIG estimates that after a five-year period of developing these services, the USPS could generate $1.1 billion in additional revenue annually.[208]

Beyond this approach, the white paper also identified four alternative models that draw heavily on the experience of other countries. For each of these approaches, the upfront costs would be higher and the USPS OIG states additional statutory authority would be needed.[209] These four approaches are (1) a partnership with one outside firm to offer services through the USPS; (2) partnerships with multiple outside firms that are specialized for each individual product; (3) a marketplace model wherein the USPS facilitates many options for each financial service; and (4) a full-fledged postal bank, which would offer financial products wholly managed by the USPS or an entity within the agency.[210]

Arguments For and Against Postal Banking

The work of the USPS OIG began a national conversation around the merits of developing postal financial services at the USPS, with many advocates for and against the concept. As mentioned above, proponents of postal financial services believe that such an expansion would offer financial services to underserved populations and provide needed revenue to the postal service at a time when demand for their traditional product line of first class mail delivery is declining.

Recently, many journalists and organizations have recommended a postal savings system as a way to reach households and individuals that do not currently make use of an insured financial institution and instead rely on alternative financial services (AFS). According to a 2013 report from the Federal Deposit Insurance Corporation (FDIC), this population is relatively large. [211] The report found that 7.7% of all U.S. households were unbanked, meaning they had no account at an insured financial institution, while 20% of households were considered underbanked, meaning they had used AFS in the previous 12 months.[212]

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[207] U.S. Postal Service, Office of the Inspector General, *The Road Ahead for Postal Financial Services*, RARC-WP-15-011, Arlington, VA, May 10, 2015, at https://uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-011.pdf.

[208] Ibid/, p. 16.

[209] Ibid., pp. 18-24.

[210] Ibid., p. 10 offers a comparison of each of the five approaches, compared on potential revenue, cost, benefits to the underserved, and operational complexity.

[211] The FDIC primer on alternative financial services states that this term is "often used to describe the array of financial services offered by providers that operate outside of federally insured banks and thrifts (hereafter referred to as "banks"). Check-cashing outlets, money transmitters, car title lenders, payday loan stores, pawnshops, and rent-to-own stores are all considered AFS providers. However, many of the products and services they provide are not "alternative"; rather, they are the same as or similar to those offered by banks." Christine Bradley, Susan Burhouse, and Heather Gratton, et al., *Alternative Financial Services: A Primer*, Federal Deposit Insurance Corporation, April 27, 2009, at https://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html.

[212] Susan Burhouse, Karyen Chu, and Ryan Goodstein, et al., *2013 FDIC National Survey of Unbanked and Underbanked Households: Executive Summary*, Federal Deposit Insurance Commission, October 2014, at https://www.fdic.gov/householdsurvey/2013execsumm.pdf.

On the other side of the debate over postal financial services are those who believe the expanded services would not generate revenue or would unfairly encroach on the private market for financial services. Specifically, some have critiqued the revenue forecasts developed by the USPS OIG and the assumption that the underserved populations trust the USPS more than other institutions.[213] Some have questioned whether there is a conflict between the two primary benefits that are currently suggested by postal banking advocates. Writing in the *Washington Post*, Charles Lane stated,

> At bottom, though, the problem with postal banking is a certain inherent tension between its policy objectives: is the primary purpose to help low-income people, or is it to help the postal service make more money to offset the irreversible decline of its bread-and-butter business, first-class mail?[214]

Without a more detailed estimate of the costs at which the USPS could profitably provide these services, the validity of this particular critique cannot be determined.

The U.S. Postal Savings System: 1911-1967

In evaluating the merits of expanding USPS financial products and services, many have looked to the USPS's own experience with postal banking in the first half of the 20th century. From 1911 until 1967, the USPS operated the U.S. Postal Savings System (PSS) throughout the United States. At its peak in the late 1940s, this system had more than 4 million depositors and $3.4 billion in accounts. The purpose of this system at the time of its creation was to "get money out of hiding, to attract savings of a large number of immigrants who were accustomed to savings at post offices in their native countries, and to provide safe depositories for people who had lost confidence in private banks."[215] This emphasis on reaching new underserved populations, providing an alternative beyond private institutions, and looking to international examples mirrors many of the arguments being made on behalf of postal financial services today.

Select Postal Banking Legislation

In the 113th Congress, Representative Cummings introduced H.R. 2690, *Innovate to Deliver Act of 2013*, which if enacted, would have expanded USPS's authority to offer nonpostal products and services, including "check-cashing services."[216]

As discussed in the 2015 USPS OIG report, a more comprehensive approach is for the Postal Service to become a chartered and licensed bank.[217] As a bank, the USPS would have authority to

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[213] See both Kevin R. Kosar, "Return to Sender: Postal banking is an idea whose time has come-and gone," *The Weekly Standard*, June 22, 2015, at http://www.weeklystandard.com/articles/return-sender_969654.html, and Kevin Drum, "The Case Against Postal Banking," *Mother Jones*, November 12, 2014, at http://www.motherjones.com/kevin-drum/2014/11/case-against-postal-banking, for examples of this critique.

[214] Charles Lane, "Postal Banking Could Make the Postal System's Troubles Worse," *Washington Post, Opinions*, April 1, 2015, at https://www.washingtonpost.com/opinions/postal-banking-could-make-the-postal-systems-troubles-worse/2015/04/01/ad1c643c-d88b-11e4-b3f2-607bd612aeac_story.html.

[215] U.S. Congress, House Committee on Post Office and Civil Service, *Discontinuance of Postal Savings System*, Report to accompany, 89th Cong., 1st sess., June 9, 1965, H. Rept. 89-483 (Washington: GPO, 1965).

[216] (113th).

[217] The white paper by the USPS OIG examines the costs, risks, and potential benefits of five options for expanding postal financial services ranging from (1) expansion of financial products USPS currently offers to (5) a development of a fully chartered and licensed bank. U.S. Postal Service, Office of the Inspector General, *The Road Ahead for Postal Financial Services*, RARC-WP-15-011, Arlington, VA, May 10, 2015, at https://uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-011.pdf.

provide a range of financial services, such as savings accounts, personal loans, check cashing services, and insurance products.[218] In the 114th Congress, Representative Richmond introduced H.R. 4422 which, if enacted, would provide the Postal Service with authority to "provide basic financial services" including small-dollar loans, checking and savings accounts, and other services in the public interest.[219] Under the bill, the USPS would have authority to provide some of these services "alone, or in partnership with depository institutions."[220] The bill, however, stopped short of establishing a new postal banking system with a chartered and licensed USPS bank.

While the specific proposals in the USPS OIG white paper, in articles, and in legislation differ in the financial products they cover, each of the proposals appears to share certain characteristics and goals. Each leverages the nationwide service network and accessibility of the USPS. Further, each seeks to achieve one or both of two goals: reach populations that are underserved by current financial institutions or provide additional revenue opportunities to the USPS.

[218] Ibid.

[219] A similar bill, H.R. 5179 (113th), was introduced by Representative Richmond in the 113th Congress. For additional details, see **Table B-1** in **Appendix B**.

[220] (114th). The bill uses the definition of *depository institutions* provided in the Federal Deposit Insurance Act (12 U.S.C. §1813), which is "any bank or savings association."

Appendix A. USPS Revenue and Volume by Mail Category and Class

Table A-1. USPS Revenue and Volume, by Mail Category and Class

Mail Category and Class	Revenue (thousands $)				Volume (thousands of pieces)			
	FY2014	FY2015	Change	Chg (%)	FY2014	FY2015	Change	Chg (%)
Market Dominant Mail								
First-Class Mail	29,636,930	29,596,896	-40,034	-0.14%	64,683,808	63,305,152	-1,378,656	-2.13%
Standard Mail	17,494,470	17,711,219	216,749	1.24%	80,374,260	80,090,273	-283,987	-0.35%
Periodicals Mail	1,625,326	1,589,221	-36,105	-2.22%	6,044,715	5,838,175	-206,540	-3.42%
Package Services Mail	831,075	806,077	-24,998	-3.01%	548,470	564,576	16,106	2.94%
U.S. Postal Service Mail	-	-	-	-	438,643	354,628	-84,015	-19.15%
Free Mail	-	-	-	-	45,989	45,135	-854	-1.86%
Ancillary and Special Services	2,016,591	1,924,730	-91,861	-4.56%	-	-	-	-
Other Market Dominant Revenue	1,162,137	798,198	-363,938	-31.30%	-	-	-	-
Total Market Dominant	52,766,529	52,426,341	-340,188	-0.64%	152,135,885	150,197,939	-1,937,946	-1.27%
Competitive Mail								
Priority Mail Express	759,843	779,067	19,224	2.50%	36,231	35,705	-526	-1.45%
First-Class Package Service	1,417,618	1,689,112	271,494	19.20%	616,280	708,423	92,143	14.95%
Standard Post	503,804	474,340	-29,464	-5.80%	36,306	32,516	-3,790	-10.44%
Priority Mail	6,729,485	7,276,239	546,754	8.10%	897,900	992,190	94,290	10.50%
Parcel Select Mail	2,528,944	3,298,476	769,533	30.40%	1,482,669	1,876,634	393,965	26.57%
Parcel Return Service Mail	138,619	152,301	13,682	9.90%	55,650	59,610	3,960	7.12%
International Mail	2,211,359	1,970,464	-240,895	10.90%	277,753	253,963	-23,790	-8.57%

Mail Category and Class	Revenue (thousands $)				Volume (thousands of pieces)			
	FY2014	FY2015	Change	Chg (%)	FY2014	FY2015	Change	Chg (%)
Ancillary and Special Services	710,019	785,790	75,771	10.70%	-	-	-	-
Other Competitive Revenue	88,100	99,049	10,949	12.40%	-	-	-	-
Total Competitive	15,087,791	16,524,838	1,437,047	9.52%	3,402,789	3,959,041	556,252	16.35%
Total All Mail and Services	67,854,320	68,951,179	1,096,859	1.62%	155,538,674	154,156,980	-1,381,694	-0.89%

Source: U.S. Postal Service, *Final Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2015*, October 2015, at http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2015-q4.csv.

Notes: *U.S. Postal Service Mail* and *Free Mail* refer to mail services that the USPS provides at no charge, either for its own purposes or because they are statutorily required to provide the service at no charge (e.g., free mail for the blind). For descriptions of the specific products that fall within each service category and mail class, see U.S. Postal Regulatory Commission, *Mail Classification Schedule*, January 15, 2016, at http://www.prc.gov/mail-classification-schedule; and U.S. Postal Service, *Glossary of Postal Terms*, Publication 32, July 2013, at http://about.usps.com/publications/pub32.pdf.

Appendix B. Postal Reform Legislation Introduced in the 113th and 114th Congresses

Table B-1. Selected Postal-Related Legislation Introduced in the 113th and 114th Congresses

Bill Number	Title	Sponsor	Committees	Selected Issue Area(s) Covered	Last Major Action
H.R. 5714 (114th)	Postal Service Reform Act of 2016	Rep. Chaffetz, Jason (R-UT-3)	House Oversight and Government Reform; House Energy and Commerce; House Ways and Means	Multiple, including new postal service health program requiring eligible retiree enrollment in Medicare Parts A & B, USPS pension funding reform, 2.15% rate increase for market dominant products, authorization for nonpostal products, phased/voluntary conversion to centralized delivery.	Latest Major Action: 7/12/2016 House Committee Consideration and Mark-up Session Held. Ordered to be Reported by Voice Vote.
H.R. 4656 (114th)	Stop Postal Closures Act of 2016	Rep. Huffman, Jared (D-CA-2)	House Oversight and Government Reform	Moratorium on processing facility closures and consolidations, and reinstatement of July 2012 service delivery standards.	Latest Major Action: 3/1/2016 Referred to the House Committee on Oversight and Government Reform.
H.R. 4422 (114th)	POSTAL Act of 2015	Rep. Richmond, Cedric L. (D-LA-2)	House Oversight and Government Reform	Expanding scope of nonpostal products and services, specifically, basic financial services.	Latest Major Action: 2/1/2016 Referred to the House Committee on Oversight and Government Reform.

Bill Number	Title	Sponsor	Committees	Selected Issue Area(s) Covered	Last Major Action
S. 2051 (114th)	Improving Postal Operations, Service, and Transparency Act of 2015 (or iPost Act)	Sen. Carper, Thomas R. (D-DE)	Senate Homeland Security and Governmental Affairs	Multiple, including new postal service health program requiring eligible employee and retiree enrollment in Medicare Parts A, B & D, pension funding reform, reinstitutes exigent price increase for market dominant products, authorizes nonpostal products, keeps current service delivery standards, and authorizes shipment of wine, beer, and spirits.	Latest Major Action: 9/17/2015 Referred to Senate Homeland Security and Governmental Affairs Committee. Full Committee hearing held 1/21/2016, "Laying Out the Reality of the United States Postal Service."
H.R. 3464 (114th)	Defending Quality Postal Delivery for the Future Act	Rep. Grijalva, Raul M. (D-AZ-3)	House Oversight and Government Reform	Closure of USPS facilities.	Latest Major Action: 9/9/2015 Referred to the House Committee on Oversight and Government Reform.
H.R. 3412 (114th)	United States Postal Service Shipping Equity Act	Rep. Speier, Jackie (D-CA-14)	House Oversight and Government Reform; House Judiciary	Shipping of wine and malt beverages.	Latest Major Action: 7/29/2015 Referred to the House Committee on Oversight and Government Reform and House Judiciary Committee.
S. 1854 (114th)	Postal Innovation Act	Sen. Booker, Cory A. (D-NJ)	Senate Homeland Security and Governmental Affairs	Multiple, including expanding scope of nonpostal products and services and shipment of beer, wine, and spirits.	Latest Major Action: 7/23/2015 Referred to Senate Homeland Security and Governmental Affairs Committee.
S. 1742 (114th)	Rural Postal Act of 2015	Sen. Heitkamp, Heidi (D-ND)	Senate Homeland Security and Governmental Affairs	Multiple, including 6-day delivery, service delivery standards, and closure of USPS facilities.	Latest Major Action: 7/9/2015 Referred to Senate Homeland Security and Governmental Affairs Committee.
H.R. 1963 (114th)	Federal Leadership in Energy Efficient Transportation Act of 2015	Rep. Huffman, Jared (D-CA-2)	House Oversight and Government Reform; House Energy and Commerce	Upgrades to postal fleet.	Latest Major Action: 4/24/2015 Referred to Subcommittee on Energy and Power.

Bill Number	Title	Sponsor	Committees	Selected Issue Area(s) Covered	Last Major Action
H.R. 1885 (114th)	Securing Access to Rural Postal Services Act of 2015	Rep. Smith, Adrian (R-NE-3)	House Oversight and Government Reform	Closure of USPS facilities.	Latest Major Action: 4/16/2015 Referred to the House Committee on Oversight and Government Reform.
H.R. 1837 (114th)	Secure Delivery for America Act of 2015	Rep. Issa, Darrell E. (R-CA-49)	House Oversight and Government Reform	Centralized and curbside mail delivery.	Latest Major Action: 4/16/2015 Referred to the House Committee on Oversight and Government Reform.
H.R. 1501 (114th)	Moratorium on United States Postal Facilities Act	Rep. Lee, Barbara (D-CA-13)	House Oversight and Government Reform	Closure of USPS facilities.	Latest Major Action: 3/9/2015 Referred to the House Committee on Oversight and Government Reform.
H.R. 1198 (114th)	Postal Employee Appeal Rights Amendments Act	Rep. Connolly, Gerald E. (D-VA-11)	House Oversight and Government Reform	USPS employee protection, e.g., right to appeal certain adverse actions to Merit Systems Protection Board.	Latest Major Action: 3/2/2015 Referred to the House Committee on Oversight and Government Reform.
S. 606 (114th)	Postal Employee Appeal Rights Amendments Act of 2015	Sen. Tester, Jon (D-MT)	Senate Homeland Security and Governmental Affairs	USPS employee protection, e.g., right to appeal certain adverse actions to Merit Systems Protection Board.	Latest Major Action: 2/26/2015 Referred to Senate Homeland Security and Governmental Affairs Committee.
H.R. 784 (114th)	Protect Overnight Delivery Act	Rep. DeLauro, Rosa L. (D-CT-3)	House Oversight and Government Reform	Service delivery standards.	Latest Major Action: 2/5/2015 Referred to the House Committee on Oversight and Government Reform.
H.R. 5377 (113th)	Postal Facilities Preservation and Sales Reform Act	Rep. Serrano, Jose E. (D-NY-15)	House Oversight and Government Reform	Closure of USPS facilities.	Latest Major Action: 7/31/2014 Referred to the House Committee on Oversight and Government Reform.
H.R. 5179 (113th)	POSTAL Act of 2014	Rep. Richmond, Cedric L. (D-LA-2)	House Oversight and Government Reform	Expanding scope of nonpostal products and services, specifically, basic financial services.	Latest Major Action: 7/23/2014 Referred to the House Committee on Oversight and Government Reform.

Bill Number	Title	Sponsor	Committees	Selected Issue Area(s) Covered	Last Major Action
H.R. 4670 (113th)	Secure Delivery for America Act of 2014	Rep. Issa, Darrell E. (R-CA-49)	House Oversight and Government Reform	Centralized and curbside mail delivery.	Latest Major Action: 5/21/2014 Ordered to be Reported (Amended) by the Yeas and Nays: 18 - 13.
H.R. 4174 (113th)	Alaska Bypass Modernization Act of 2014	Rep. Issa, Darrell E. (R-CA-49)	House Oversight and Government Reform	Air carrier requirements and product rates in the state of Alaska.	Latest Major Action: 3/12/2014 House Committee Consideration and Mark-up Session Held. Ordered to be Reported by Voice Vote.
H.R. 4011 (113th)	Alaska Bypass Fair Competition Act of 2014	Rep. Issa, Darrell E. (R-CA-49)	House Oversight and Government Reform	Air carrier requirements in the state of Alaska.	Latest Major Action: 2/11/2014 House Committee Consideration and Mark-up Session Held. Ordered to be Reported by Voice Vote.
H.R. 3963 (113th)	Federal Leadership in Energy Efficient Transportation Act of 2014	Rep. Huffman, Jared (D-CA-2)	House Oversight and Government Reform; House Energy and Commerce	Upgrades to postal fleet.	Latest Major Action: 2/7/2014 Referred to Subcommittee on Energy and Power.
H.R. 3910 (113th)	Expand Nonpostal Services to Americans Act	Rep. Cohen, Steve (D-TN-9)	House Oversight and Government Reform	Expanding the scope of nonpostal products and services offered.	Latest Major Action: 1/16/2014 Referred to the House Committee on Oversight and Government Reform.
H.R. 3801 (113th)	To repeal the reductions in military retirement benefits made by the Bipartisan Budget Act of 2013 and to authorize the United States Postal Service to implement a modified Saturday delivery schedule.	Rep. Issa, Darrell E. (R-CA-49)	House Armed Services; House Oversight and Government Reform	Five-day delivery.	Latest Major Action: 12/19/2013 Referred to the House Armed Services Committee and House Committee on Oversight and Government Reform.

Bill Number	Title	Sponsor	Committees	Selected Issue Area(s) Covered	Last Major Action
S. 1486 (113th)	Postal Reform Act of 2014	Sen. Carper, Thomas R. (D-DE)	Senate Homeland Security and Governmental Affairs	Multiple, including prefunding of RHBF, service delivery standards, and closure of USPS facilities.	Latest Major Action: 7/31/2014 Placed on Senate Legislative Calendar under General Orders. Calendar No. 523.
H.R. 2748 (113th)	Postal Reform Act of 2013	Rep. Issa, Darrell E. (R-CA-49)	House Oversight and Government Reform; House Education and the Workforce	Multiple, including post office closures and five-day delivery.	Latest Major Action: 1/2/2015 Placed on the Union Calendar, Calendar No. 564.
H.R. 2690 (113th)	Innovate to Deliver Act of 2013	Rep. Cummings, Elijah E. (D-MD-7)	House Oversight and Government Reform; House Judiciary	Multiple, including shipping of alcohol and expanding the scope of products and services offered at retail locations.	Latest Major Action: 9/13/2013 Referred to the Subcommittee on Crime, Terrorism, Homeland Security, and Investigations.
H.R. 2615 (113th)	Securing Access to Rural Postal Services Act of 2013	Rep. Smith, Adrian (R-NE-3)	House Oversight and Government Reform	Closure of USPS facilities in rural communities.	Latest Major Action: 7/8/2013 Referred to the House Committee on Oversight and Government Reform.
H.R. 2459 (113th)	Protect Overnight Delivery Act	Rep. DeLauro, Rosa L. (D-CT-3)	House Oversight and Government Reform	Service delivery standards.	Latest Major Action: 6/20/2013 Referred to the House Committee on Oversight and Government Reform.
H.R. 1718 (113th)	United States Postal Service Shipping Equity Act	Rep. Speier, Jackie (D-CA-14)	House Oversight and Government Reform; House Judiciary	Shipping of wine and malt beverages.	Latest Major Action: 6/14/2013 Referred to the Subcommittee on Crime, Terrorism, Homeland Security, and Investigations.
H.R. 1431 (113th)	Postal Employee Appeal Rights Amendments Act of 2013	Rep. Connolly, Gerald E. (D-VA-11)	House Oversight and Government Reform	USPS employee protection, e.g., right to appeal certain adverse actions to Merit Systems Protection Board.	Latest Major Action: 4/9/2013 Referred to the House Committee on Oversight and Government Reform.
S. 686 (113th)	Postal Employee Appeal Rights Amendments Act of 2013	Sen. Pryor, Mark L. (D-AR)	Senate Homeland Security and Governmental Affairs	USPS employee protection, e.g., right to appeal certain adverse actions to Merit Systems Protection Board.	Latest Major Action: 2/13/2013 Referred to Senate Homeland Security and Governmental Affairs Committee.

Bill Number	Title	Sponsor	Committees	Selected Issue Area(s) Covered	Last Major Action
H.R. 1016 (113th)	Community Post Office Relocation Act	Rep. Peters, Scott H. (D-CA-52)	House Oversight and Government Reform	USPS real property.	Latest Major Action: 3/6/2013 Referred to the House Committee on Oversight and Government Reform.
H.R. 1006 (113th)	Postal Executive Accountability Act	Rep. Griffith, H. Morgan (R-VA-9)	House Oversight and Government Reform	Pay, bonuses, and benefits for USPS officers and senior executive positions.	Latest Major Action: 3/6/2013 Referred to the House Committee on Oversight and Government Reform.
H.R. 961 (113th)	United States Postal Service Stabilization Act of 2013	Rep. Lynch, Stephen F. (D-MA-8)	House Oversight and Government Reform	Calculation of USPS's contributions to the Federal Employees Retirement System (FERS) for its employees.	Latest Major Action: 3/5/2013 Referred to the House Committee on Oversight and Government Reform.
H.R. 630 (113th)	Postal Service Protection Act of 2013	Rep. DeFazio, Peter A. (D-OR-4)	House Oversight and Government Reform; House Judiciary	Multiple, including prefunding of RHBF and closure of USPS facilities.	Latest Major Action: 4/8/2013 Referred to the Subcommittee on Crime, Terrorism, Homeland Security, and Investigations.
S. 316 (113th)	Service Protection Act of 2013	Sen. Sanders, Bernard (I-VT)	Senate Homeland Security and Governmental Affairs	Multiple, including prefunding of RHBF and closure of USPS facilities.	Latest Major Action: 2/13/2013 Referred to Senate Homeland Security and Governmental Affairs Committee.

Source: CRS analysis using the Legislative Information System of the U.S. Congress (LIS), available at http://lis.gov/.

Notes: Results include all legislation listed under the drop-down menu topic titled "Postal Service (USPS)", with the following exceptions: post office naming bills, bills to establish commemorative or semi-postal stamps, bills to establish new postal ZIP codes. Postal-related provisions contained within omnibus budget and appropriations bills have also been excluded.

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