

UNITED STATES POSTAL SERVICE

Fiscal Year 2012 Budget Congressional Submission

**Finance
Integrated Financial Planning**

U.S. POSTAL SERVICE Appropriations

The following schedules reflect the Postal Service's budget request for Fiscal Year 2012.

Revenue Forgone

The Postal Service requests funding in Fiscal Year 2012 for revenue forgone on free mail for the blind and overseas voting, plus reconciliation amounts for past years, consistent with 39 U.S.C. §2401(c).

Revenue Forgone Reform Reimbursement

The Postal Service requests funding authorized under 39 U.S.C. §2401 (d) as reimbursement for losses incurred as a result of insufficient appropriations in Fiscal Years 1991 through 1993, and to compensate for revenues not received as a result of the rate phasing provisions of 39 U.S.C. §3626 (a) (3) (B).

Public Service Costs

For public service costs, 39 U.S.C. §2401(b)(1)(G) authorizes, for years after Fiscal Year 1984, an amount equal to 5 percent of the Post Office Department's Fiscal Year 1971 appropriation. This amounts to \$460,000,000, however, section 2401(b)(2) authorizes the Postal Service to reduce such percentage, including a reduction to zero.

The Postal Service has operated without this appropriation since Fiscal Year 1982, therefore, no appropriation for public service costs is requested during Fiscal Year 2012.

The following schedule provides a summary of the appropriations requested and recommended level of funding.

U.S. POSTAL SERVICE

Appropriations Summary (in thousands of dollars)

	Public Service Costs	Revenue Forgone	Total
FY 2010:			
USPS Request	161,827	161,827
OMB Proposal.....	...	118,328	118,328
Consolidated Appropriations Act, 2010 P.L. 111-117		118,328	118,328
Available, October 1, 2009.....		29,000	29,000
Available, October 1, 2010.....		89,328	89,328
FY 2011			
USPS Request	102,167	102,167
OMB Proposal.....	...	103,905	103,905
Continuing Appropriations Act, 2011		103,905	103,905
Available, October 1, 2010*.....		29,000	29,000
Available, October 1, 2011**		74,905	74,905
FY 2012:			
USPS Request	129,982	129,982
OMB Proposal.....	...	78,153	78,153

*Continuing Resolution P.L. 111-242, 111-290, 111-317, 111-322

**H.R. 3082

U.S. POSTAL SERVICE
Appropriations Summary
(In thousands of dollars)

	FY 2010			FY 2011			FY 2012	
	Request	OMB Proposal	P.L. No. 111-117	Request	OMB Proposal	H.R. 3082	Request	OMB Proposal
A. Total Budget Authority (Appropriations).....	161,827	118,328	118,328	102,167	103,905	103,905	129,982	78,153
B. Program by Activity:								
1. Public Service Costs .....	...	...	...	...	...	...	...	...
2. Free for the Blind and Overseas Voting	91,859	68,776	68,776	67,176	68,914	68,914	94,490	69,475
3. Free and Reduced-rate Mail: Reconciliation Adjustment	40,968	20,552	20,552	5,991	5,991	5,991	6,492	8,678
4. Revenue Forgone Reform Reimbursement	29,000	29,000	29,000	29,000	29,000	29,000	29,000	...
5. Emergency Preparedness Costs .....	...	...	...	...	...	...	...	...
Total Appropriations	161,827	118,328	118,328	102,167	103,905	103,905	129,982	78,153

a/ Includes \$29,000,000 available in FY 2010 and \$89,328,000 not available until 10/1/10.

b/ Includes \$29,000,000 available in FY 2011 and \$74,905,000 not available until 10/1/11.

**U.S. POSTAL SERVICE
Federal Funds**

General and special funds:

Payment to the Postal Service Fund

For payment to the Postal Service Fund for: (1) current revenue forgone on free and reduced-rate mail for the blind and for overseas voting, plus reconciliation amounts for past years pursuant to subsection 39 U.S.C. §2401(c) , \$100,982,000; and (2) reimbursement of losses incurred as a result of insufficient appropriations for revenue forgone on free and reduced-rate mail pursuant to 39 U.S.C. §2401(d), \$29,000,000.

Program and Financing				
(in thousands of dollars)				
	FY 2010 P.L. 111-117	FY 2011 H.R. 3082	FY 2012	
			Request	OMB Proposal
Program by activities:				
Payment to the Postal Service fund for:				
Revenue forgone on free and reduced-rate mail:				
Current year.....	68,776	68,914	94,490	69,475
Reconciliation adjustment	20,552	5,991	6,492	8,678
Subtotal.....	89,328	74,905	100,982	78,153
Revenue forgone reform reimbursement:.....	29,000	29,000	29,000	...
Total free and reduced-rate mail.....	a/ 118,328	b/ 103,905	129,982	78,153
Emergency Preparedness Costs .....	...	...	...	...
Total payment to the Postal Service Fund				
(total obligations(41.0)).....	a/ 118,328	b/ 103,905	129,982	78,153
Financing:				
Budget authority (appropriations)	a/ 118,328	b/ 103,905	129,982	78,153

a/ Includes \$29,000,000 available in FY 2010 and \$89,328,000 not available until 10/1/10.

b/ Includes \$29,000,000 available in FY 2011 and \$74,905,000 not available until 10/1/11.

**U.S. POSTAL SERVICE
Federal Funds**

Payment to the Postal Service Fund

Program and Financing, Cont'd
(in thousands of dollars)

	FY 2010 P.L. 111-117	FY 2011 H.R. 3082	FY 2012 Estimate	
			Request	OMB Proposal
Relation of obligations to outlays:				
Obligations incurred, net	a/ 118,328	b/ 103,905	129,982	78,153
Outlays	a/ 118,328	b/ 103,905	129,982	78,153

a/ Includes \$29,000,000 available in FY 2010 and \$82,328,000 not available until 10/1/10.

b/ Includes \$29,000,000 available in FY 2011 and \$74,905,000 not available until 10/1/11.

An appropriation request of \$94,490,000 is for reimbursing the Postal Service for providing free mail for the blind and overseas voting; \$6,492,000 is a reconciliation adjustment for revenue forgone on free and reduced-rate mail; and \$29,000,000 is for partial reimbursement for losses incurred during FY1991 – FY1998 as a result of insufficient appropriations for revenue forgone.

The following table represents the estimated revenue forgone by the Postal Service in Fiscal Year 2012 for carrying certain categories of mail for free.

**U. S. POSTAL SERVICE
APPROPRIATIONS**

Justifications

a. FY 2012 Appropriation request for Free for the Blind and Overseas Voting mail, \$94,490,000

(in thousands of dollars)

Item	FY 2010	FY 2011		FY 2012	
	Appropriated Amount	Appropriated Amount	Change from Prior Year	Request Amount	Change from Prior Year
A. Free for the Blind	67,376	67,568	192	80,164	12,596
B. Overseas Voting	1,400	1,346	-54	14,326	12,980
Total, Free for the Blind and Overseas Voting	68,776	68,914	138	94,490	25,576

An appropriation of \$94,490,000 is requested for free mail for the blind and overseas voting which provides funding for:

Certain matter for use by the blind or other persons who cannot use or read conventionally printed materials because of physical impairment can be mailed free of postage. In order to qualify, there must be no charge, rental, subscription, or other fee required for such matter.

Items mailable free by a qualifying person include unsealed letters, sound reproductions, Braille writers or typewriters, and educational or other materials or devices specifically designed or adapted for use of a visually handicapped person.

Absentee balloting materials can be mailed free by members of the Armed Forces and other U.S. citizens residing outside the territorial limits of the United States, and in bulk between state and local election officials. Effective November 2010 (P.L. 111-84) the majority of categories of absentee balloting materials are eligible to be processed via the United States Postal Service at the expedited mail delivery rate.

**U. S. POSTAL SERVICE
 APPROPRIATIONS
 Justifications - Cont'd**

b. Reconciliation Adjustment Request, Revenue Forgone, \$6,492,000:
 (in thousands of dollars)

ITEM	FY 2010	FY 2011		FY 2012	
	Amount	Amount	Change from Prior Year	Amount	Change from Prior Year
Reconciliation adjustment	20,552	5,991	-14,561	6,492	501

Under 39 U.S.C. §2401(c) the Postal Service continues to be instructed to include in its annual revenue forgone funding requests "an amount to reconcile sums authorized to be appropriated for prior fiscal years on the basis of estimated mail volume with sums which would have been authorized if based on the final audited mail volume." This instruction to seek reconciliation adjustments was not changed by section 703(a) of the Revenue Forgone Reform Act (RFRA) of 1993, which eliminated the appropriation for the revenue forgone on the various types of reduced-rate mail provided under section 3626 of title 39 (while keeping the funding mechanism for free mail for the blind and overseas voting intact).

U. S. POSTAL SERVICE APPROPRIATIONS

Justifications - Cont'd

The Postal Service, in accordance with the objectives established in the Postal Reorganization Act by the Congress, is therefore submitting a reconciliation adjustment of \$6,492,000 to adjust the reimbursement for services performed on Free Mail for the Blind and Overseas Voting mail during Fiscal Year 2009. Amounts appropriated to the Postal Service for Fiscal Year 2009 were based on estimates that appropriations amounting to \$67,526,000 would be required for FY 2009. However, audited mail volumes indicate that \$74,018,000 was actually required to fully reimburse the Postal Service for services provided during FY 2009. Therefore, a balance of \$6,492,000 relating to FY 2009 remains unpaid for which reimbursement is requested in this Fiscal Year 2012 appropriation request.

(in thousands of dollars)

	Free for the Blind	Overseas Voting	Totals	Reconciliation Adjustment
FY 2007:				
Based Upon Final Audited Mail Volume	80,886	391	81,277	
Appropriation Received P.L. 110-5.....	60,522	203	60,725	
Reconciliation Adjustment -Funded in FY2010 Request	20,364	188	----->	20,552
FY 2008:				
Based Upon Final Audited Mail Volume	69,687	750	70,437	
Appropriation Received P.L. 110-92.....	64,231	215	64,446	
Reconciliation Adjustment - FY2011 Request	5,456	535	----->	5,991
FY 2009:				
Based Upon Final Audited Mail Volume	73,229	789	74,018	
Appropriation Received P.L. 111-8.....	66,025	1,501	67,526	
Reconciliation Adjustment - FY2012 Request	7,204	-712	----->	6,492

**U. S. POSTAL SERVICE
APPROPRIATIONS**

Justifications - Cont'd

FY 2012 Appropriation Request for Revenue Forgone Reform Reimbursement, \$29,000,000:

(in thousands of dollars)

ITEM	FY 2010	FY 2011		FY 2012	
	Amount	Amount	Change from Prior Year	Amount	Change from Prior Year
Revenue Forgone Reform Reimbursement Current Year Installment	29,000	29,000	...	29,000	...
Total	29,000	29,000	...	29,000	...

The Revenue Forgone Reform Act of 1993 authorizes \$29,000,000 to be appropriated to the Postal Service for each of Fiscal Years 1994 through 2035 for revenue forgone reform reimbursement to provide reimbursement to the Postal Service for losses incurred as a result of insufficient amounts appropriated under section §2401(c) for Fiscal Years 1991 through 1993, and to compensate for the additional revenues it is estimated the Postal Service would have received under the provisions of section §3626(a) for the period beginning October 1, 1993, and ending on September 30, 1998, if the fraction specified in sub-clause (VI) of section §3626(a)(3)(B)(ii) were applied with respect to such period instead of the respective fractions specified in sub-clauses (I) though (V) thereof.

**U. S. POSTAL SERVICE
ADVANCE APPROPRIATIONS – REVENUE FORGONE**

The purpose of this schedule is to assist in tracking authorized amounts to the year of payment and reflect the advance funding of Revenue Forgone appropriations, and recissions, if any.

(in thousands of dollars)

Authorized for	Amount		Received During			
			FY 2009	FY 2010	FY 2011	FY 2012
Advance Funding from FY 2008			88,864			
FY 2009:						
Free Mail for the Blind and Overseas Voters	67,526	a/		67,526		
Reconciliation Adjustment (re: FY 2006)	15,305	a/		15,305		
Revenue Forgone Reform Reimbursement	29,000		29,000			
Total Appropriated, Omnibus Appropriations Act, 2009 - P.L. 111-8	111,831			82,831		
Amount Received			117,864			
FY 2010:						
Free Mail for the Blind and Overseas Voters	68,776	a/			68,776	
Reconciliation Adjustment (re FY 2007)	20,552	a/			20,552	
Revenue Forgone Reform Reimbursement	29,000			29,000		
Total Appropriated, Consolidated Appropriations Act, 2010 - P.L. 111-117	118,328			111,831	89,328	
Amount Received				111,831		
FY 2011:						
Free Mail for the Blind and Overseas Voters	68,914	a/				68,914
Reconciliation Adjustment (re FY 2008)	5,991	a/				5,991
Revenue Forgone Reform Reimbursement	29,000				29,000	
Total Appropriated, Consolidated Appropriations Act, 2011 H.R. 3082 - Continuing Resolutions (P.L. 111-242, 111-290, 111-317, 111-322 to date)	103,905				118,328	
Amount Received						

a/ Advance Funding

UNITED STATES POSTAL SERVICE

**Fiscal Year 2012 Budget
Congressional Submission**

**PART II
Financial Statements**

U.S. POSTAL SERVICE

The Postal Reorganization Act of 1970 (PRA), Public Law 91-375, converted the Post Office Department into the U.S. Postal Service, an independent establishment within the executive branch. The Postal Service commenced operations July 1, 1971. This agency is charged with providing reliable mail service at reasonable rates and fees.

The U.S. Postal Service is governed by an 11-member Board of Governors, including 9 Governors appointed by the President, the Postmaster General who is selected by the Governors, and the Deputy Postmaster General who is selected by the Governors and the Postmaster General.

Decisions on changes in domestic rates and postage and fees for postal services are recommended to the Governors of the Postal Service by the independent Postal Rate Commission after a hearing on the record under the Administrative Procedure Act. The Commission also recommends decisions on changes in the domestic mail classification schedule to the Governors. Decisions of the Governors on rates of postage, fees for postal services, and mail classification are final, subject to judicial review.

Programs - Included are all postal activities providing window services; processing, delivery, and transportation of mail; research and development; administration of postal field activities; and associated expenses of providing facilities and equipment.

Financing - The activities of the U.S. Postal Service are financed from the following sources: (1) mail and services revenue; (2) reimbursements from Federal and non-Federal sources; (3) proceeds from borrowing; (4) interest from U.S. securities and other investments; and (5) appropriations by the Congress. All receipts and deposits are made to the Postal Service Fund and are available without fiscal year limitation for payment of all expenses incurred, retirement of obligations, investment in capital assets, and investment in obligations and securities.

U.S. POSTAL SERVICE

Section 2005 of Title 39, United States Code, authorizes the Postal Service to borrow money and to issue obligations for this purpose. Through the end of Fiscal Year 1990, the aggregate amount of such obligations outstanding at any one time was limited to \$10 billion. This maximum amount was increased to \$12.5 billion in Fiscal Year 1991 and to \$15.0 billion for Fiscal Year 1992 and each fiscal year thereafter. Also beginning in Fiscal Year 1991, the net increase in amounts outstanding in any year may not exceed \$2.0 billion in obligations issued for the purpose of capital improvements and \$1.0 billion for the purpose of defraying operating expenses.

P.L. 109-435 removed the separate limitations on borrowing for capital improvements and operating expenses so that under the \$15 billion debt cap, the annual increase in outstanding debt cannot now exceed a combined total of \$3.0 billion. As of September 30, 2011, it is expected that the total debt instruments issued and outstanding pursuant to this authority will amount to \$15.0 billion.

The PRA created an independent Postal Service with a mandate to operate in a business-like manner and to report its finances using business-like accounting and budgeting. As a result, the Postal Service adopted an accrual accounting system, which follows generally accepted accounting principles, in which capital expenditures are charged to expense through depreciation over an asset's useful life. This provides an allocation of costs to the years in which an asset's benefits are received. A cash accounting approach, as used by the Federal Government, ignores the fact that valuable assets are acquired by the Postal Service and funded through postage rates set to recover the cost of those assets over their useful lives rather than in one year. Consistent with the purpose of the Act, the Office of Management and Budget (OMB) removed all Postal Service financial transactions except those involving appropriations, such as the revenue forgone payments for free and reduced-rate mail, from the Federal Government's budget and deficit calculations in Fiscal Year 1974. This action placed the Postal Service off-budget.

However, with the Fiscal Year 1986 Federal Budget, OMB placed the Postal Service back on-budget. As a result, the way capital expenditures are treated under the government's cash-basis system improperly made it appear that the "break-even" mandate of the Postal Service consistently adds to the Federal deficit in the near-term.

Enactment of the Budget Reconciliation Act of 1989 once again placed the Postal Service Fund off-budget. Effective with Fiscal Year 1990, receipts and disbursements of the Postal Service Fund are not considered as part of the congressional and executive budget process relating to calculations under the Balanced Budget and Emergency Deficit Control Act of 1985.

U.S. POSTAL SERVICE

Omnibus Budget Reconciliation Act of 1987 (OBRA of 1987)

The OBRA of 1987 required the Postal Service to make payments of \$350 million to the Civil Service Retirement and Disability Fund and \$160 million to the Employees Health Benefits Fund in Fiscal Year 1988. Also required was a \$270 million payment in 1989 to the Employees Health Benefits Fund. Funds for the 1988 and 1989 health benefit payments were derived from operating budget savings. An escrow account was also established with the U.S. Treasury into which the Postal Service deposited \$465 million on October 31, 1988. The escrow was terminated and the funds returned on October 1, 1989. Excluding the temporarily escrowed funds, this legislation required Postal Service payments totaling \$780 million during 1988 and 1989.

The Act also limited Postal Service capital investment commitments to \$625 million in Fiscal Year 1988. Compared to the original Fiscal Year 1988 capital investment plan, these restrictions reduced Fiscal Year 1988 capital commitments by \$1.736 billion for a 74 percent reduction. The Act also limited Fiscal Year 1989 capital commitments to \$1.995 billion, a reduction of \$635 million or 24 percent from the original plan.

Omnibus Budget Reconciliation Act of 1989 (OBRA of 1989)

The OBRA of 1989 included several provisions affecting the Postal Service's budget for 1990 and the budgets of future years.

The OBRA of 1989 placed the Postal Service Fund off budget effective in Fiscal Year 1990. It excludes postal receipts and disbursements from the totals in the President's Budget, the Congressional Budget Resolution and Gramm-Rudman-Hollings Act sequestration. Appropriations to USPS remain on-budget.

Payments to the Department of Labor for USPS workers' compensation are accelerated. The OBRA of 1989 made USPS liable for CSRS COLA payments to USPS annuitants (or their survivors) who retire from USPS after 9/30/86. It also made USPS liable for the employer's share of health benefits costs of survivors of former USPS employees who died after 9/30/86.

U.S. POSTAL SERVICE

Debt Ceiling Legislation

Legislation enacted December 12, 1989, also increased Postal Service borrowing authority. The following changes have been made to Postal Service statutory borrowing authority:

- Maximum total outstanding borrowing was increased from \$10.0 billion to \$12.5 billion in Fiscal Year 1991 and to \$15.0 billion for Fiscal Year 1992 and each fiscal year thereafter.
- Maximum annual net increase in obligations outstanding for capital improvements increased to \$2.0 billion.
- Maximum annual net increase in obligations outstanding for operating expenses increased to \$1.0 billion.

Omnibus Budget Reconciliation Act of 1990 (OBRA of 1990)

The OBRA of 1990 affected the Postal Service as follows:

- Existing laws which required the Postal Service to fund Civil Service Retirement System (CSRS) cost-of-living adjustments (COLA) and Federal Employees Health Benefit Program (FEHBP) premiums only for postal annuitants who retired after September 30, 1986, and their survivors, were rescinded.
- Effective October 1, 1990, the Postal Service is required to fund the CSRS COLAs for postal annuitants who retired after June 30, 1971, and their survivors. Each year's liability will be prorated and the Postal Service's portion will reflect only Federal civilian employment service occurring after June 30, 1971. This liability will be amortized over 15 years at 5 percent interest.
- Effective October 1, 1990, the Postal Service is required to fund the employer's share of FEHBP insurance premiums for postal annuitants who retired after June 30, 1971, and their survivors. These costs are apportioned and the Postal Service's share reflects only Federal civilian employment service occurring after June 30, 1971.

U.S. POSTAL SERVICE

OBRA of 1990 – cont'd

- The Postal Service is liable for the retroactive CSRS COLA and FEHBP premium payments that would have been required between July 1, 1971, and September 30, 1986, if the provisions described previously had been in effect since July 1, 1971. This retroactive liability was reduced by \$780 million representing the extraordinary Postal Service payments required by the Omnibus Budget Reconciliation Act of 1987 and the remaining balance was liquidated during FY 1991-1995.
- Included several reforms to the FEHBP to help control FEHBP premium increases beginning in FY 1991.

Omnibus Budget Reconciliation Act of 1993 (OBRA of 1993)

The OBRA of 1993 obligated the Postal Service to pay interest on the retroactive assessments due under the OBRA of 1990. The OBRA of 1993 assessment represents interest at 5 percent on the employer's portion of annuitant COLAs and health benefits, previously paid by the U. S. Government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971 through September 30, 1986. This interest assessment, totaling \$1.041 billion, was paid in three equal annual installments beginning September 30, 1996.

Balanced Budget Act of 1997

Under the Postal Reorganization Act of 1971, the U.S. Government remained responsible for payment of all Post Office Department workers' compensation claims incurred before July 1, 1971 and the newly created Postal Service was responsible only for its own workers' compensation claims. However, the Balanced Budget Act of 1997 repealed the authorization for transitional appropriations to the Postal Service under which funding had been provided for the liabilities of the former Post Office Department to the Employees' Compensation Fund. Effective October 1, 1997, these remaining claims became liabilities of the Postal Service payable out of the Postal Service Fund. At September 30, 1997, the discounted present value of these liabilities was estimated at \$258 million.

U.S. POSTAL SERVICE

Revenue Forgone Reform Act of 1993

Congress did not fund Postal Service revenue forgone requests at amounts that were required to fully fund the services rendered during fiscal years 1991, 1992, and 1993. These unpaid appropriation shortfalls totaled \$516 million as of September 30, 1993. The Revenue Forgone Reform Act of 1993 (Act) was enacted to provide funding for these appropriation shortfalls as well as for the cost of phasing out certain aspects of the revenue forgone program (estimated at \$702 million) during fiscal years 1994 through 1998. The Act authorizes the total of \$1.218 billion payable to the Postal Service in 42 annual installments of \$29 million each, without interest, during 1994 through 2035, as reimbursement for these amounts due.

Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States (P.L. No. 107-38)

On November 20, 2001 the President released \$175 million from the Emergency Response Fund to the U.S. Postal Service in response to the anthrax attacks. This included \$100 million for an initial purchase of irradiation equipment to sanitize the mail and \$75 million for the costs of personnel protection equipment, first-response/environmental testing kits and services, site clean-up and medical goods and services, and public education material. The specific restrictions of \$100 million for irradiation equipment and \$75 million for other costs were subsequently removed.

As part of the Department of Defense Appropriations Act, 2002 (P.L. 107-117), enacted January 10, 2002, Congress appropriated, from amounts authorized by P.L. No. 107-38, an additional \$500 million to the Postal Service to protect postal employees and postal customers from exposure to bio-hazardous material, sanitize and screen the mail, and replace or repair postal facilities destroyed or damaged in New York City as a result of the September 11, 2001 terrorist attacks. A supplemental appropriation, P.L. 107-206 provided an additional \$87 million to support completion of planned FY 2002 activities.

Congress appropriated an additional \$507 million as part of the Consolidated Appropriations Act, 2005 (P.L. 108-447) for the protection of postal employees and postal customers from exposure to hazardous materials in the mail.

U.S. POSTAL SERVICE

Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. No. 108-18)

Public Law 108-18, signed into law by the President on April 23, 2003, made significant changes to the way the Postal Service funds its Civil Service Retirement System (CSRS) retirement obligation. Based upon an analysis by the Office of Personnel Management (OPM) and confirmed by a General Accounting Office review, without this legislation, the Postal Service was on course to over-fund this CSRS pension obligation by approximately \$105 billion. This over-funding resulted from higher than assumed interest earnings, lower than assumed outlays and other factors.

The major components of Public Law 108-18 are:

- Previously, a retirement liability resulted from general pay increases granted to CSRS employees and was discharged over 30 years with interest at 5% and a retirement liability resulting from annual cost-of-living adjustments granted to CSRS retirees was discharged over 15 years with interest at 5%. These retirement liabilities and payments are eliminated.
- Effective in May 2003, the Postal Service paid 17.4% of current CSRS employees' wages to the retirement fund rather than the 7.0% previously paid.
- Effective September 30, 2004, the Postal Service will begin a series of 40 annual payments to discharge any remaining CSRS retirement liability as calculated and updated annually by OPM.
- Retirement obligations associated with the military service of CSRS postal employees previously paid by the U.S. Treasury, were retroactively transferred to the Postal Service. The Postal Service, U.S. Treasury and OPM are required to submit proposals to Congress detailing who should be responsible for military service retirement costs. These proposals were submitted September 30, 2003.
- Cash savings resulting from this law must be used to reduce debt with the U.S. Treasury in 2003 and 2004. In 2005, the savings will be used to offset operational expenses and hold postal rates steady. After 2005, the savings should be held in escrow until directed by Congress as to their use.

U.S. POSTAL SERVICE

Postal Accountability and Enhancement Act of 2006 (P.L. No. 109-435)

Public Law 109-435, signed into law by the President on December 20, 2006, made a number of changes affecting the operations and oversight of the Postal Service, many of which are consistent with the recommendations of the President's Commission.

The Act provided for separate accounting and reporting for Postal Service activities related to:

- Products where the Postal Service dominates the market
- Products where the Postal Service is in a competitive market.

The Act amended the process for determining rate increases for market-dominant products, in part by imposing a limitation on rate increases for at least the next 10 years linked to the Consumer Price Index. This will provide the Postal Service with flexibility and ratepayers with a degree of rate predictability. The Act also replaced the Postal Rate Commission with a Postal Regulatory Commission with expanded authorities, including subpoena powers.

Debt Legislation

P.L. No. 109-435 changed the structure of our borrowing authority. The following changes have been made to Postal Service statutory borrowing authority:

- Maximum total outstanding borrowing continued to be \$15.0 billion for Fiscal Year 1992 and each fiscal year thereafter.
- Removed the separate limitations on borrowing for capital improvements and operating expenses so that under the \$15 billion debt cap, the annual increase in outstanding debt cannot now exceed a combined total of \$3.0 billion.

U.S. POSTAL SERVICE

Postal Accountability and Enhancement Act of 2006 (P.L. No. 109-435) (cont.)

P.L. 109-435 created the Postal Service Retiree Health Benefits Fund to put the Postal Service on a path that fully funds its substantial retiree (annuitant) health benefits liabilities. The new Fund receives from the Postal Service:

- The pension savings provided to the Postal Service by the Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 108-18) that were held in escrow during 2006.
- A 10-year stream of payments defined within P.L. 109-435 to begin the liquidation of the Postal Service's unfunded liability for post-retirement health benefits.
- Beginning in 2017, the Office of Personnel Management will make annual actuarial evaluations of the assets of the Fund compared to the estimated liability for future health benefit payments from the Fund. Any net liability shall be liquidated by a series of future annual payments.
- The surplus resources of Civil Service Retirement and Disability Fund that are not needed to finance future retirement benefits under CSRS to current or former employees of the Postal Service that are attributable to civilian employment with the Postal Service, including the savings from shifting the responsibility for retirement credit related to military service from the Postal Service to the Treasury (effectively eliminating the need for the dynamic CSRS funding payments and supplemental liability payments).

As a result of this new health benefits financing system, the Postal Service will cease to pay annual premium cost for its post-1971 current annuitants directly to the Employees and Retired Employees Health Benefits Fund in 2017. Instead, these premium payments will be paid from amounts that the Postal Service remits to this new fund. Payments for a proportion of the premium costs of Postal Service annuitants pre-1971 service would continue to be paid by the General Fund of the Treasury through the Government Payment for Annuitants, Employees Health Benefits account.

U.S. POSTAL SERVICE

Continuing Appropriations Resolution, 2010 (P.L. 111-68)

Due to the downturn in the economy, the Postal Service is facing an unprecedented decline in mail volume, and the resulting loss in revenue is critically affecting its ability to meet the requirement of the Postal Accountability and Enhancement Act (P.L. 109-435) to prefund its future retiree health benefits.

To protect the financial viability of America's postal system, Congress approved via the Continuing Appropriations Resolution, 2010 (P.L. 111-68) a reduction in the payment due September 30, 2009, to the Postal Service Retiree Health Benefit Fund from \$5,400,000,000 to \$1,400,000,000. At the end of FY 2009, the trust fund holding the Postal Service payments had a balance of more than \$35 billion. In 2017, the Office of Personnel Management will determine the Postal Service's payments to amortize the remaining unfunded retiree health benefit liability over the next forty years.

The following Program and Financing Statement and Statement of Revenue and Expense reflect actual financial results for Fiscal Year 2010 and the Postal Service and Office of Management & Budget (OMB) forecasts for Fiscal Years 2011 and 2012.

**U.S. POSTAL SERVICE
PROGRAM AND FINANCING**
(in millions of dollars)

ITEM	ACTUAL FY 2010	ESTIMATE FY 2011	ESTIMATE FY 2012
Obligations by Program Activity:			
Reimbursable Program:			
Postal Field Operations	48,935	48,196	47,375
Transportation	5,863	6,148	6,245
Building Occupancy	2,015	2,000	2,014
Supplies and Services	2,292	2,376	2,399
Research and Development	12	13	14
Administration and Area Operations	13,241	11,929	12,238
Interest	161	266	618
Service-wide Expenses	123	123	125
Capital Investments	1,181	1,400	1,501
Total New Obligations	73,823 a/	72,451 a/	72,529 a/
Budgetary Resources Available for Obligation:			
Unobligated balance carried forward, start of year	5,495	807	0
Unobligated balance applied to repay debt	-4,492	-807	0
Unobligated balance carried forward, end of year	1,003	0	0
New Budget Authority (gross)			
Authority to Borrow (total mandatory)	4,700	5,154	6,205
Spending Authority from Offsetting Collections	68,927	67,297	66,403
Total New Budget Authority (gross)	73,627	72,451	72,608

a/ See page II-12

Note: FY 2011 and 2012 reflect estimates by OMB and are not indicative of the US Postal Service estimates.

**U.S. POSTAL SERVICE
PROGRAM AND FINANCING**

(in millions of dollars)

a/ In compliance with P.L. 109-435, Section 603 [c](1), the following amounts (included in the totals previously shown on Page II-11 and funded from postal receipts) are reported:

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Office of Inspector General	244	244	244
Postal Regulatory Commission	14	14	14
	<u>258</u>	<u>258</u>	<u>258</u>

For additional details, refer to the annual budget submissions of these two individual organizations.

**U.S. POSTAL SERVICE
PROGRAM AND FINANCING**
(in millions of dollars)

ITEM	ACTUAL FY 2010	ESTIMATE FY 2011	ESTIMATE FY 2012
Change in Obligated Balances:			
Obligated Balance, Start of Year	27,049	27,245	28,334
Total new Obligations	73,823	72,451	72,529
Total outlays (gross)	<u>-73,627</u>	<u>-71,362</u>	<u>-66,661</u>
Obligated Balance, End of Year	27,245	28,334	34,202
Outlays (gross) Detail:			
Outlays from New Mandatory Authority	73,627	71,362	66,661
Offsets Against Gross Budget Authority and Outlays:			
Offsetting Collections from:			
Federal Sources	1,284	1,135	877
Interest on U.S. Securities	-	-	-
Non-Federal sources	<u>67,901</u>	<u>66,420</u>	<u>65,526</u>
Total, Offsetting Collections	69,185	67,555	66,403
Net budget Authority and Outlays:			
Budget Authority	4,442	4,896	5,947
Outlays	4,442	3,807	-

Note: FY 2011 and 2012 reflect estimates by OMB and are not indicative of the US Postal Service estimates.

**U.S. POSTAL SERVICE
STATEMENT OF REVENUE AND EXPENSE**

(in millions of dollars)

	<u>ACTUAL FY 2010</u>	<u>PLAN FY 2011</u>	<u>ESTIMATE FY 2012</u>
TOTAL REVENUE	67,077	67,726	68,195
	<i>a/</i>	<i>a/</i>	<i>a/</i>
TOTAL EXPENSES	<u>75,582</u>	<u>74,126</u>	<u>75,730</u>
	<i>a/</i>	<i>a/</i>	<i>a/</i>
NET INCOME, LOSS (-)	<u><u>-8,505</u></u>	<u><u>-6,400</u></u>	<u><u>-7,535</u></u>

a/ Includes scheduled payments to the Postal Service Retiree Health Benefits Fund (PSRHBF) of \$5.5 Billion for 2010, \$5.5 billion for FY 2011 and \$5.6 Billion for 2012.

