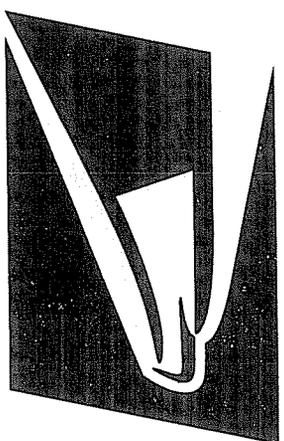


UNITED STATES POSTAL SERVICE



**UNITED STATES
POSTAL SERVICE.**

Fiscal Year 2005 Budget

Congressional Submission

Finance

Budget and Financial Analysis

**U.S. POSTAL SERVICE
FY 2005 BUDGET**

TABLE OF CONTENTS

PART I - APPROPRIATION REQUEST:

Appropriations	I-1
Appropriations - Summary	I-2
Appropriations - Program and Financing	I-4
Free For the Blind and Overseas Voters	I-6
Reconciliation Adjustment.....	I-7
Revenue Forgone Reform Reimbursement.....	I-9
Advance Appropriations	I-10
Emergency Preparedness Costs	I-11

PART II - FINANCIAL STATEMENTS:

Narrative	II-1
Program and Financing	II-8
Statement of Revenue and Expense	II-10

U. S. POSTAL SERVICE

FISCAL YEAR 2005 BUDGET

PART I

APPROPRIATION REQUEST

U.S. POSTAL SERVICE
Appropriations

The following schedules reflect the Postal Service's budget request for Fiscal Year 2005.

Revenue Forgone

The Postal Service is requesting funding in Fiscal Year 2005 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. Also, 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 2005.

Emergency Preparedness Costs

Funding is requested for reimbursement of costs incurred to protect postal employees and postal customers from exposure to bio-hazardous materials.

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	Transitional Costs	Emergency Preparedness Costs	Total
FY 2003:					
USPS Request.....	...	988,188	...	799,800	1,787,988
OMB Proposal	60,014	...	...	60,014
Postal Service Appropriations Act, 2003					
-- Public Law No. 108-7 :					
Available October 1, 2002	29,000	...	...	29,000
Available October 1, 2003	31,014	...	...	31,014
FY 2004:					
USPS Request	65,521	...	350,000	415,521
OMB Proposal	65,521	...	...	65,521
Postal Service Appropriations Act, 2004					
-- Public Law No. 108-199 :					
Available, October 1, 2003	29,000	...	...	29,000
Available, October 1, 2004	36,521	...	...	36,521
FY 2005:					
USPS Request	104,881	...	779,000	883,881
OMB Proposal	61,709	...	...	61,709

a/ \$47,619 thousand was advance funded from FY 2002 pursuant to P.L. No. 107-67 and became available 10/01/02.

THIS SCHEDULE, AND SUBSEQUENT SCHEDULES IN THIS BUDGET SUBMISSION, DO NOT REFLECT AMOUNTS RESCINDED IN RECENTLY ENACTED APPROPRIATION BILLS.

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

	FY 2003			FY 2004			FY 2005	
	Request	OMB Proposal	P.L. No. 108-7	Request	OMB Proposal	P.L. No. 108-199	Request	OMB Proposal
A. Total Budget Authority (Appropriations).....	1,787,988	60,014	60,014	415,521	65,521	65,521	883,881	61,709
B. Program by Activity:								
1. Public Service Costs.....	...	...	...	...	...	...	...	...
2. Free for the Blind and Overseas Voting	48,999	48,999	48,999 a/ b/	55,685	55,685	55,685 c/	69,803	55,631
3. Free and Reduced-rate Mail: Reconciliation Adjustment	-17,985	-17,985	-17,985 a/ b/	-19,164	-19,164	-19,164 c/	6,078	6,078
4. Revenue Forgone Reform Reimbursement:								
Current Year	29,000	29,000	29,000	29,000	29,000	29,000	29,000	...
Remaining balance	928,174	...	...	...	...	...	...	...
5. Emergency Preparedness Costs	799,800	...	...	350,000	...	...	779,000	...
Total Appropriations	1,787,988	60,014	60,014	415,521	65,521	65,521	883,881	61,709

a/ An additional \$47,619 thousand was advance funded from FY 2002 pursuant to P.L. No. 107-67 and became available 10/1/02.

b/ Includes \$31,014 thousand, not available until 10/1/03.

c/ Includes \$36,521 thousand, not available until 10/1/04.

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 overseas voting, plus reconciliation amounts for past years pursuant to subsection 39 U.S.C. §2401(c) , \$75,881,000 ; (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 ; and (3) reimbursement of costs incurred to protect postal employees and postal customers from exposure to bio-hazardous materials, \$779,000,000.

	Program and Financing (in thousands of dollars)		FY 2005	
	FY 2003 Actual	FY 2004 Actual	Request	OMB Proposal
Program by activities:				
Payment to the Postal Service fund for:				
Revenue forgone on free and reduced-rate mail:				
Current year.....	48,999	55,685	69,803	55,631
Reconciliation adjustment	-17,985	-19,164	6,078	6,078
Subtotal.....	31,014	36,521	75,881	61,709
Revenue forgone reform reimbursement:.....	29,000	29,000	29,000	...
Subtotal , free and reduced-rate mail.....	60,014	65,521	104,881	61,709
Emergency Preparedness Costs .....	...	...	779,000	...
Total payment to the Postal Service Fund (total obligations(41.0).....	60,014	65,521	883,881	61,709
Financing: Budget authority (appropriations)	60,014	65,521	883,881	61,709

- a/ Includes \$31,014 thousand not available until 10/1/03
- b/ An additional \$47,619 thousand was advance-funded from FY 2002 pursuant to P.L. No. 107-67.
- c/ Includes \$36,521 thousand not available until 10/1/04

U.S. POSTAL SERVICE
Federal Funds

Payment to the Postal Service Fund

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

	FY 2003	FY 2004	FY 2005	
	Actual	Actual	Request	OMB Proposal
Relation of obligations to outlays:				
Obligations incurred, net	a/ b/ 60,014	c/ 65,521	883,881	61,709
Outlays	a/ b/ 60,014	c/ 65,521	883,881	61,709

- a/ Includes \$31,014 thousand, not available until 10/1/03.
- b/ An additional \$47,619 thousand was forward-funded from FY 2002 pursuant to P.L. No. 107-67.
- c/ Includes \$36,521 thousand, not available until 10/1/04.

An appropriation of \$69,803,000 is for reimbursing the Postal Service for providing free mail for the blind and overseas voting; \$6,078,000 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. An amount of \$779,000,000 is for emergency preparedness costs to enable the Postal Service to protect postal employees and customers from exposure to biohazardous materials.

The following table represents the estimated revenue forgone by the Postal Service in Fiscal Year 2005 for carrying certain categories of mail for free.

**U. S. POSTAL SERVICE
APPROPRIATIONS**

Justifications

a. FY 2005 Appropriation request for Free for the Blind and Overseas Voting mail, \$69,803,000:

(in thousands of dollars)

ITEM	FY 2003	FY 2004	FY 2005	
	Amount	Amount	Change from Prior Year	Change from Prior Year
A. Free for the Blind	48,710	55,104	6,394	14,644
B. Overseas Voting	289	581	292	- 526
Total, Free for the Blind and Overseas Voting	48,999	55,685	6,686	14,118

An appropriation of \$69,803,000 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.

**U. S. POSTAL SERVICE
APPROPRIATIONS**

Justifications - Cont'd

b. Reconciliation Adjustment, Revenue Forgone:

(in thousands of dollars)

ITEM	FY 2003	FY 2004	FY 2005	
	Amount	Amount	Amount	Change from Prior Year
Reconciliation adjustment	- 17,985	-19,164	6,078	25,242

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 (RFRRA) 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 \$6,078,000 to adjust the reimbursement for services performed on Free Mail for the Blind and Overseas Voting mail during Fiscal Year 2002. The amounts appropriated to the Postal Service for Fiscal Year 2002 were based on estimates that appropriations amounting to \$56,303,000 would be required for free for the blind and overseas voting mail. However, audited mail volumes indicate that \$62,381,000 was actually required to fully reimburse the Postal Service for services provided - leaving an balance of \$6,078,000 for which reimbursement is requested in the Postal Service's Fiscal Year 2005 appropriation request.

(in thousands of dollars)

	Free for the Blind	Overseas Voting	Reduced- rate Mail	Total	Reconciliation Adjustment
FY 2000:					
Based Upon Final Audited Mail Volume.....	52,229	525	...	52,754	
Appropriation Received a/	69,543	1,196	...	70,739	
Reconciliation Adjustment - Funded in FY 2003....	-17,314	-671	...	----->	-17,985
FY 2001:					
Based Upon Final Audited Mail Volume.....	46,330	979	...	47,309	
Appropriation Received b/	65,932	541	...	66,473	
Reconciliation Adjustment - FY 2004 request.....	- 19,602	438	...	----->	- 19,164
FY 2002:					
Based Upon Final Audited Mail Volume.....	59,065	3,316	...	62,381	
Appropriation Received	56,132	171	...	56,303	
Reconciliation Adjustment - FY 2005 request.....	2,933	3,145	...	----->	6,078

a/ Received Oct. 1, 1999. Reflects 0.38% rescission authorized by the Consolidated Appropriations Act for 2000, (P. L. 106-113).
b/ Received Oct. 1, 2000. Reflects 0.22% rescission authorized by the Consolidated Appropriations Act for 2001, (P. L. 106-554).

**U. S. POSTAL SERVICE
APPROPRIATIONS**

Justifications - Cont'd

FY 2005 Appropriation Request for Revenue Forgone Reform Reimbursement, \$29,000,000:

(in thousands of dollars)

ITEM	FY 2003	FY 2004		FY 2005	
	Amount	Amount	Change from Prior Year	Amount	Change from Prior Year
Revenue Forgone Reform Reimbursements					
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) through (V) thereof.

**U. S. POSTAL SERVICE
ADVANCE APPROPRIATIONS**

The purpose of this schedule is to assist in tracking rescinded amounts as impacted by the advance funding of appropriations.

(in thousands of dollars)

Authorized for	Amount	Received During			
		FY 2002	FY 2003	FY 2004	FY 2005
FY 2002: Free Mail for the Blind & O/S Voters Reconciliation Adjustment (re: FY 1999) Revenue Forgone Reform Reimbursement Total Appropriated, PL 107-67	56,303	...	56,303	...	...
	(8,684)	...	(8,684)	...	...
	29,000	29,000	...	...	...
	76,619	...	...	...	...
FY 2003: Free Mail for the Blind & O/S Voters Reconciliation Adjustment (re: FY 2000) Revenue Forgone Reform Reimbursement Total Appropriated, PL 108-7 Less 0.65% Rescinded by Consolidated Appropriations Resolution, 2003 (PL 108-7) Amount Received	48,999	...	...	48,999	...
	(17,985)	...	...	(17,985)	...
	29,000	29,000	76,619	...	...
	60,014	...	(498)	...	...
FY 2004: Free Mail for the Blind & O/S Voters Reconciliation Adjustment (re FY 2001) Revenue Forgone Reform Reimbursement Total Appropriated, PL 108-59 Less 0.59% Rescinded by Miscellaneous Appropriations and Offsets Act, 2004 (PL 108-59) Amount Received	55,685	...	...	...	55,685
	19,164	...	...	...	19,164
	29,000	29,000	...	...	...
	65,521	...	...	60,014	...
		...	...	(354)	...
			59,660		

a/ Advance Funding

**U. S. POSTAL SERVICE
APPROPRIATIONS**

Justifications - Cont'd

Amounts for reimbursement of costs incurred to protect postal employees and postal customers from exposure to bio-hazardous materials.

(in thousands of dollars)

ITEM	FY 2003	FY 2004	FY 2005	
	Amount	Amount	Change from Prior Year	Amount
Emergency Response Funds:				
Budget Request	350,000	350,000	779,000
Total Requested	...	350,000	350,000	779,000
			Change from Prior Year	429,000

On November 20, 2001 the President released \$175,000,000 from the Emergency Response Fund to the U.S. Postal Service in response to the anthrax attacks. This included funding for an initial purchase of irradiation equipment to sanitize the mail and for the costs of personnel protection equipment (gloves, masks, barrier creams, etc.), first-response/environmental testing kits and services, site clean-up and medical goods and services, and public education material.

As part of the Department of Defense Appropriations Act, 2002 (P.L. No. 107-117), enacted January 10, 2002, Congress appropriated, from amounts authorized by P.L. No. 107-38, an additional \$500,000,000 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.

As a supplemental appropriation (P.L. No. 107-206) Congress appropriated an additional \$87,000,000 to help support continuation of planned actions in FY2002 to improve mail safety and security.

**U. S. POSTAL SERVICE
APPROPRIATIONS**

Justifications - Cont'd

Emergency Preparedness Funding -- cont'd

Pursuant to Public Law No. 107-117, the Postal Service submitted on March 6, 2002 an *Emergency Preparedness Plan* that outlined and discussed in detail the activities considered necessary to provide for the safety of our employees and customers. The *Plan* covered a span of several years and the activities are categorized as Near-Term, Intermediate-Term and Long-Term in describing the time frames during which these activities are planned. At the request of the Appropriations Committee, an update to the *Plan* was submitted April 30, 2003.

In the *Plan*, obligations for the Near-Term activities identified for FY2002 were projected to total \$587 million. Of this total, \$500 million was funded by Public Law 107-117, and \$87,000,000 was funded by Public Law 107-206.

No funding for emergency preparedness was included in the initial Postal Service FY2003 Budget Request pending completion of the *Emergency Preparedness Plan*, however, a FY2003 budget amendment request was subsequently forwarded to the Office of Management and Budget to fund activities totaling \$799.8 million relating to FY2003.

The Postal Service 2004 Budget requested \$350 million to continue emergency preparedness activities.

No additional funding beyond the \$587 million, received in 2002, has been received.

The *Plan* and related requests are dynamic and, as such, some modifications are necessary as our field testing proceeds, our knowledge of biohazard detection increases, and as technology matures.

2/2/04

APPROPRIATIONS

I-12

**U. S. POSTAL SERVICE
APPROPRIATIONS**

Justifications - Cont'd

Significantly more funds than originally anticipated were required to clean and restore two mail processing centers that had been closed due to anthrax contamination. Safety was the paramount concern in performing this task and actions were coordinated with several scientific, medical, and government agencies. Delays were experienced due to questions regarding indemnification of contractors performing the process and the sheer scale of the task for which EPA required additional testing and verification. Reimbursement is now requested for the additional costs required in the refurbishment of these facilities.

A major portion of the \$779 million Emergency Response funds requested for FY 2005 and prior years will be used to continue acquisition and deployment of ventilation and filtration (VFS) equipment that was initiated with the funds provided previously. A portion of the \$587 million provided during FY 2002 is being used to develop, acquire and install VFS on our culling and canceling equipment. Our Emergency Preparedness Plan discussed further deployment of VFS equipment to be installed on our delivery barcode sorters (DBCS) and automated flat sorting machines (AFSM) 100 and loose mail systems. The \$779 million includes funding for the DBCS and AFSM 100 VFS acquisition and deployment.

(in thousands of dollars)

Item	Prior Years	FY 2005	Total
Building Restoration	268,800	...	268,800
Biohazard Detection System	402,700	24,000	426,700
Ventilation and Filtration	271,700	364,000	635,700
DC Area Mail Irradiation Facility	9,000	7,000	16,000
Other	18,800	...	18,800
Subtotal	971,000	395,000	1,366,000
Appropriation Received	-587,000	...	-587,000
Total	384,000	395,000	779,000

U. S. POSTAL SERVICE

FISCAL YEAR 2005 BUDGET

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.

01/29/04

PROGRAM AND FINANCING

II-1

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. As of September 30, 2005, it is expected that the total debt instruments issued and outstanding pursuant to this authority will amount to \$3.073 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 totalling \$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. Beginning in September 1990, all future payments normally due in mid-October will be made during the preceding September. This change resulted in two payments during Fiscal Year 1990 and will cause all subsequent payments to be advanced one fiscal year. 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:

- o 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.
 - o Maximum annual net increase in obligations outstanding for capital improvements increased to \$2.0 billion.
 - o 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:

- o 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.
- o 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.
- o 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

o 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.

o 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. This Act required that the newly created Postal Service be 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 that had funded 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.

01/29/04

PROGRAM AND FINANCING

II-5

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.

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 will pay 17.4% of current CSRS employees' wages to the retirement fund rather than the 7.0% previously paid.
- Effective in 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, are 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 maintain postal rates steady until 2006. After 2005, the savings must be held in escrow until directed by Congress as to their use.

The following Program and Financing Statement and Statement of Revenue and Expense reflect actual financial results for Fiscal Year 2003 and the Postal Service forecasts for Fiscal Years 2004 and 2005.

02/02/04

PROGRAM AND FINANCING

II-7

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

ITEM	ACTUAL FY 2003	ESTIMATE FY 2004	ESTIMATE FY 2005
Obligations by Program Activity:			
Reimbursable Program:			
Postal Field Operations	47,535,000	49,146,000	49,879,000
Transportation	4,990,000	5,001,000	5,269,000
Building Occupancy	1,788,000	1,826,000	1,974,000
Supplies and Services	2,814,000	3,006,000	3,319,000
Research and Development	55,000	55,000	55,000
Administration and Area Operations	3,995,000	4,213,000	4,734,000
Interest	813,000	331,000	297,000
Service-wide Expenses	1,471,000	390,000	696,000
Capital Investments	2,239,000	2,938,000	2,696,000
Total New Obligations	65,700,000	66,906,000	68,919,000
Budgetary Resources Available for Obligation:			
New Budget Authority (gross)	74,150,000	71,106,000	68,919,000
Redemption of Debt	-8,450,000	-4,200,000	...
Total Budgetary Resources Available for Obligation	65,700,000	66,906,000	68,919,000
Total New Obligations	-65,700,000	-66,906,000	-68,919,000
New Budget Authority (gross)	5,386,000	2,200,000	-253,000
Authority to Borrow (indefinite)	68,764,000	68,906,000	69,172,000
Spending Authority from Offsetting Collections: Offsetting Collections			
Total New Budget Authority (gross)	74,150,000	71,106,000	68,919,000

01/30/04

PROGRAM AND FINANCING

II-8

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

ITEM	ACTUAL FY 2003	ESTIMATE FY 2004	ESTIMATE FY 2005
Change in Obligated Balances:			
Obligated Balance, Start of Year	19,574,000	21,755,000	24,711,000
Total new Obligations	65,700,000	66,906,000	68,919,000
Total outlays (gross)	<u>-63,519,000</u>	<u>-63,950,000</u>	<u>-68,922,000</u>
Obligated Balance, End of Year	21,755,000	24,711,000	20,708,000
Outlays (gross) Detail:			
Outlays from New Permanent Authority	63,519,000	63,950,000	68,922,000
Offsets Against Gross Budget Authority and Outlays:			
Offsetting Collections from:			
Federal Sources	954,000	970,000	1,018,000
Interest on U.S. Securities	58,000	20,000	20,000
Non-Federal sources	<u>67,752,000</u>	<u>67,916,000</u>	<u>68,134,000</u>
Total, Offsetting Collections	68,764,000	68,906,000	69,172,000
Net budget Authority and Outlays:			
Budget Authority	5,386,000	2,200,000	-253,000
Outlays	<u>-5,245,000</u>	<u>-4,956,000</u>	<u>-250,000</u>

01/30/04

PROGRAM AND FINANCING

II-9

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

(in thousands of dollars)

	ACTUAL FY 2003	ESTIMATE FY 2004	ESTIMATE FY 2005
TOTAL REVENUE	68,764,000	68,906,000	69,171,000
TOTAL EXPENSES	64,896,000	66,796,000	69,171,000
NET INCOME	3,868,000	2,110,000	...

01/30/04

STATEMENT OF REVENUE AND EXPENSE

