UNITED STATES POSTAL SERVICE

Fiscal Year 2015 Budget

Congressional Submission

PART II

Financial Statements

Finance (HQ)

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.

The law divides our services into two broad categories: Market-Dominant and Competitive "products"; however, the term "services" is often used in this document for consistency with other descriptions of "services" offered by the Postal Service.

Postal Service prices for Market-Dominant services are set by the Governors and reviewed by the Postal Regulatory Commission (PRC) for legal compliance.

Prices for Competitive services, by law, must cover costs attributable to each product, as well as an appropriate share of the institutional costs of the Postal Service.

Periodic reclassifications and expansions of services from Market-Dominant to Competitive, which require approval from the PRC, are necessary to rationalize service offerings. The additional flexibility provided in Competitive service allows us to better offer services that meet customer needs, to increase business for the Postal Service, and to allow us to price our products and services competitively within the markets in which we operate. The Postal Service's Competitive services generally include most of our shipping, package, and expedited delivery services.

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.

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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, 2013, the total debt instruments issued and outstanding pursuant to this authority 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.

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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 expensees 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.

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OBRA of 1990 – continued

- 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 FYs 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.

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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. 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.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.

Biohazard Detection

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.

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Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 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. 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. 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.

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Postal Accountability and Enhancement Act of 2006 (P.L. 109-435) (continued)

Public Law 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 2011, the trust fund holding the Postal Service payments had a balance of more than $44 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.

Consolidated Appropriations Act, 2012 (P.L. 112-74)

Section 632 of Division C amended Title 5, United States Code by striking the date specified in section 8909a(d)(3)(A)(v) "September 30, 2011" and inserting "August 1, 2012" for the scheduled payment of $5,500,000,000 to the Postal Service Retiree Health Benefit Fund.

U.S. POSTAL SERVICE

Consolidated and Further Continuing Appropriations Act, 2013 (P.L. 113-6)

Set the FY 2013 Appropriation Amounts at the level previously set in The Financial Services and General Appropriations Act, 2012 (division C of P.L.112-74).

Section 1106 provides for applicable appropriations until a new law is enacted OR September 30, 2013, which ever comes first.

Consolidated Appropriations Act, 2014 (P.L. 113-76)

Set the FY 2014 Appropriation Amounts at the level set in The Financial Services and General Government Appropriations Act, 2014 (division E of P.L.113-76).

Provides for applicable appropriations until a new law is enacted OR September 30, 2014 which ever comes first.

The following Program and Financing Statement and Statement of Revenue and Expense reflect actual financial results for Fiscal Year 2013 and the Postal Service and Office of Management and Budget (OMB) forecast for Fiscal Years 2014 and 2015.

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

ITEM	ACTUAL FY 2013		P.L. 113-76 FY 2014		ESTIMATE FY 2015	
Obligations by Program Activity:						
Postal Field Operations	46,769		45,525		45,378	
Transportation	6,735		6,743		6,999	
Building Occupancy	1,866		1,899		1,919	
Supplies and Services	2,431		2,625		2,542	
Research and Development	21		22		23	
Administration and Area Operations	11,687		21,394	b/	19,247	c/
Interest	192		185		201	
Servicewide Expenses	109		109		110	
Subtotal Reimbursable Program Activities:	69,810		78,502		76,419	
Capital Investments	754		1,200		1,842	
Changes in Resources on Order and Inventory	349					
Subtotal Reimbursable Program Activities:	1,103		1,200		1,842	
Total New Obligations	70,913	a/	79,702	a/	78,261	a/
Budgetary Resources Available for Obligation:						
Unobligated balance carried forward, start of year	191		0		8,499	
Unobligated balance applied to repay debt	-		-		-	
Unobligated balance carried forward, end of year	191		0		8,499	
New Budget Authority (gross):						
Authority to Borrow (total mandatory)	-		-		-	
Spending Authority from Offsetting Collections	73,017		68,017		67,366	
Total New Budget Authority (gross)	-		-		-	

a/ See next page II-14
b/ FY2014 amount reflects estimate by OMB and is not indicative of the U.S. Postal Service estimate.
c/ FY2015 amount reflects estimate by OMB and is not indicative of the U.S. Postal Service estimate.

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-13 and funded from postal receipts) are reported:

	ACTUAL FY 2013	P.L. 113-76 FY 2014	ESTIMATE FY 2015
Office of Inspector General	241	241	241
Postal Regulatory Commission	14	14	14
	255	255	255

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 2013	P.L. 113-76 FY 2014	ESTIMATE FY 2015
Change in Obligated Balances:			
Obligated Balance, Start of Year	191	0	8,499
Total new Obligations	70,913	79,702 a/	78,261 b/
Total outlays (gross)	-71,104	-71,203	-71,463
Obligated Balance, End of Year	0	8,499 a/	15,297 b/
Outlays (gross) Detail:			
Outlays from New Mandatory Authority	70,913	71,203	71,463
Offsets Against Gross Budget Authority and Outlays:			
Offsetting Collections from:			
Policy Outlay (excl. of EOY PY Bal.)	-	-	-
Federal Sources	(843)	(841)	(829)
Interest on U.S. Securities	-	-	-
Non-Federal sources	(72,429)	(67,176)	(66,792)
Total, Offsetting Collections	(73,272)	(68,017)	(67,621)
Net budget Authority and Outlays:			
Budget Authority	(255)	-	(255)
Outlays	(2,168)	3,186	3,842

a/ FY2014 amounts reflect estimates by OMB and are not indicative of the U.S. Postal Service estimates.

b/ FY2015 amounts reflect estimates by OMB and are not indicative of the U.S. Postal Service estimates.

U.S. POSTAL SERVICE
STATEMENT OF REVENUE AND EXPENSE

(in millions of dollars)

	ACTUAL FY 2013	P.L. 113-76 FY 2014	ESTIMATE FY 2015
TOTAL REVENUE	67,342	67,911	68,834
TOTAL EXPENSES	72,319 a/	72,464 b/	73,668 c/
NET INCOME, LOSS (-)	(4,977)	(4,553)	(4,834)

a/ Includes Postal Service Retiree Health Benefits Fund (PSRHBF) payment of $5.6 Billion due in FY 2013. USPS did not make any payments in FY 2013.

b/ Includes Postal Service Retiree Health Benefits Fund (PSRHBF) payment of $5.7 Billion due in FY 2014.

c/ Includes Postal Service Retiree Health Benefits Fund (PSRHBF) payment of $5.7 Billion due in FY 2015.