

United States Postal Service: financial challenges

An overview of the United States Postal Service, its deteriorating financial conditions, and the impact of COVID-19 on its finances

May 27, 2020

Producer

Presentation Center

Roadmap

- USPS overview
- Funding and mail-in voting debate

The United States Postal Service (USPS) has been reorganized several times since its initial creation



- Since the 1970s, USPS has been organized to **operate as a self-funded public sector entity** that covers operating expenses by charging postage
- Unlike other federal agencies, **USPS does not receive funding from taxpayer dollars**
- **This has tradeoffs:** while USPS is guaranteed a monopoly on the provision of daily mail services, it also has a series of “public service obligations” that companies in the private sector would not have, such as flat postage rates

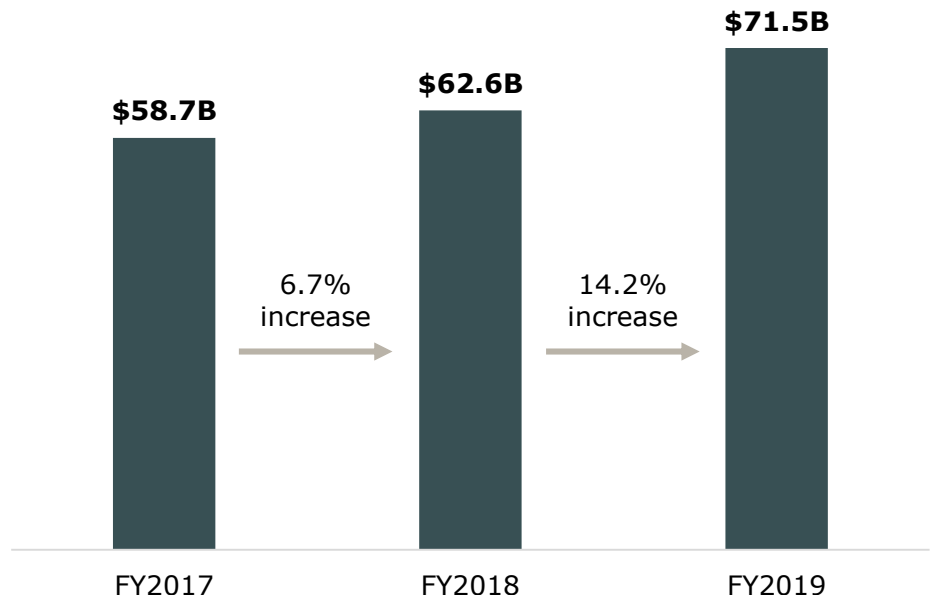
Postal Accountability and Enhancement Act of 2006



- In an attempt to pressure USPS towards privatization, in 2006 Congress **mandated that it provide prepaid health and retirement benefits to its employees** through investing in low-yield government bonds
- The bill was **passed under the assumption that USPS would continue gaining revenue** to cover these expenses
- USPS has **steadily incurred an operating loss** since 2006, while its liabilities continue to increase

USPS total net deficiency (total liabilities – total assets)

BILLIONS USD, ANNUAL



Sources: United States Postal Service; Washington Post; Vox; The Hill.

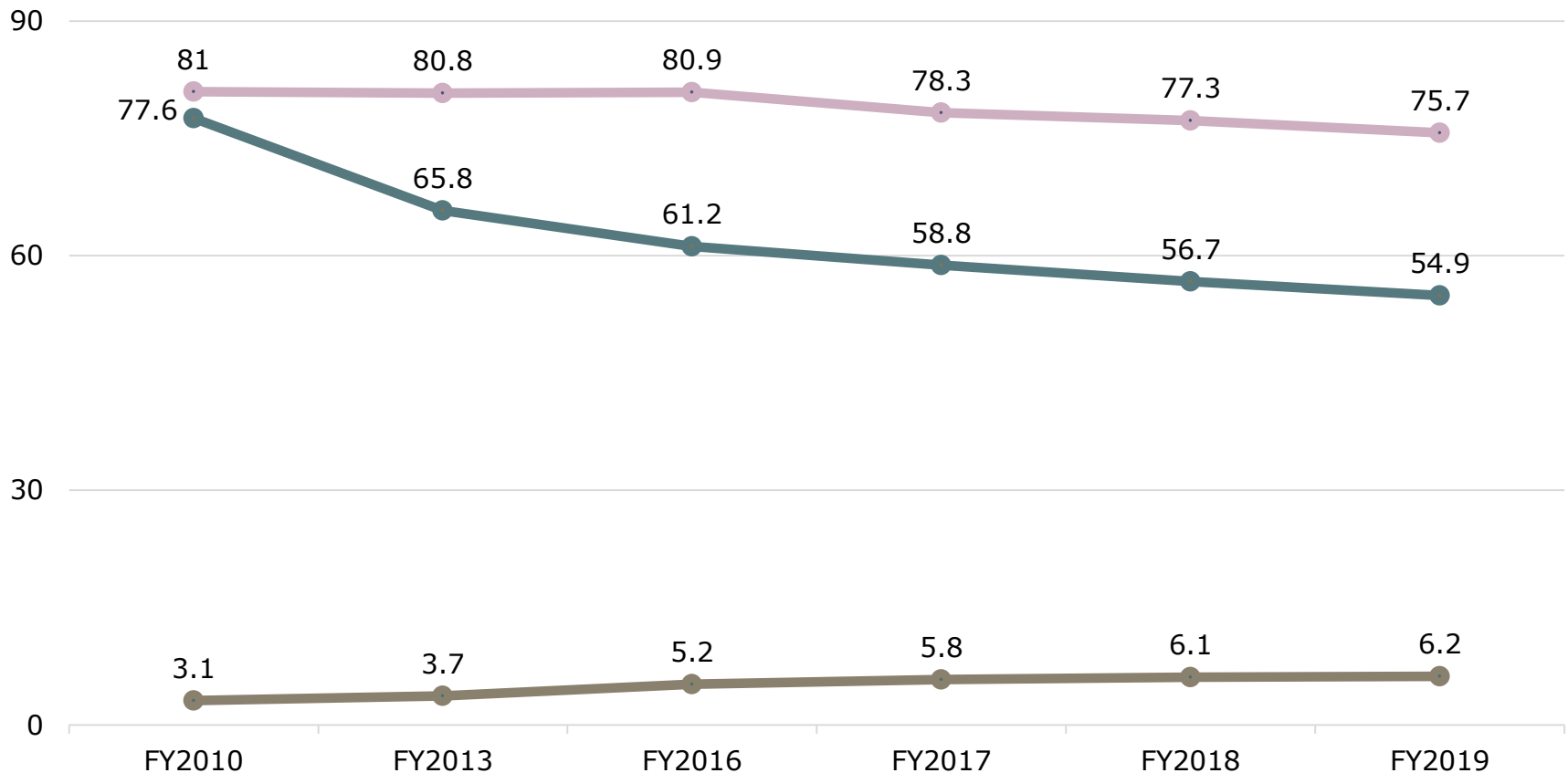
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USPS has experienced a decline in volume for its items with the best profit margins, such as first-class and marketing mail

Postal volume (number of pieces) annually, select mail items

BILLIONS PIECES

■ First-class mail ■ Marketing mail ■ Shipping and packages



Sources: United States Postal Service; Washington Post.

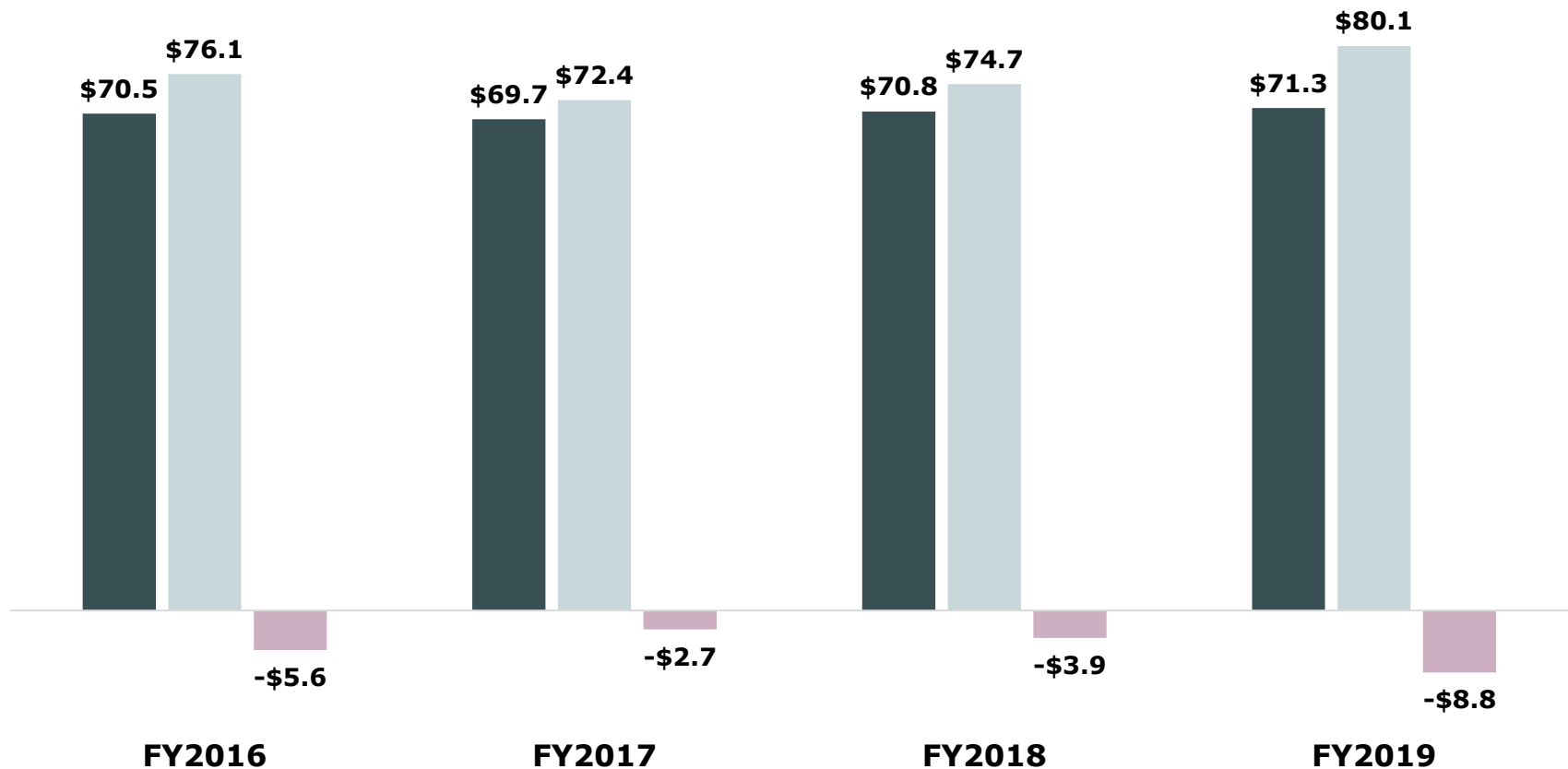
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USPS has not earned a profit since 2006; it lost \$8.8 billion in FY2019

USPS annual revenue and expenses

BILLIONS USD

■ Total Revenues ■ Total Expenses ■ Net Income (Loss)



Sources: United States Postal Service.

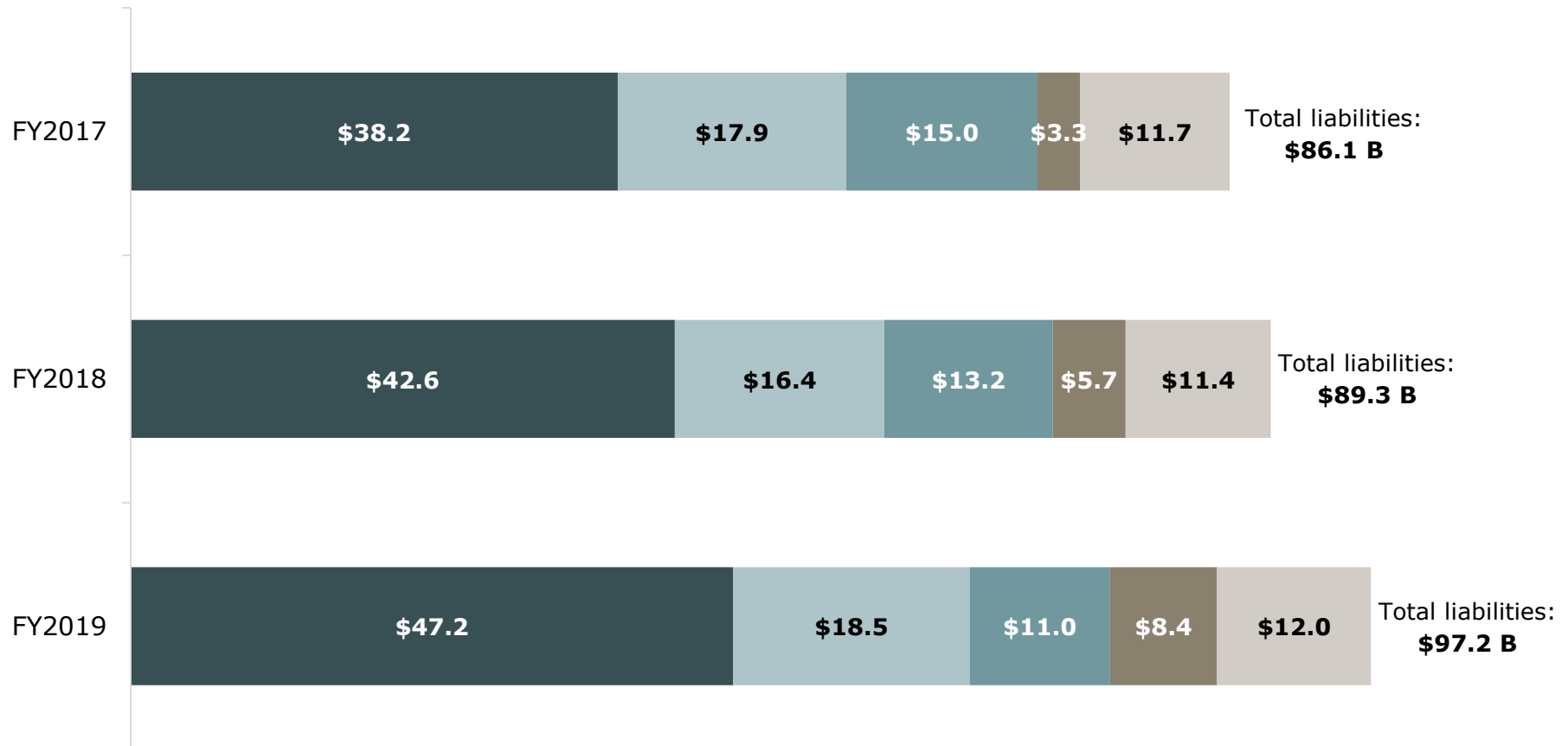
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The majority of USPS's liabilities comes from retiree health benefits

USPS annual total liabilities, by type of liability

BILLIONS USD

Retiree health benefits Workers' compensation liability Debt Retirement benefits Other



Sources: United States Postal Service.

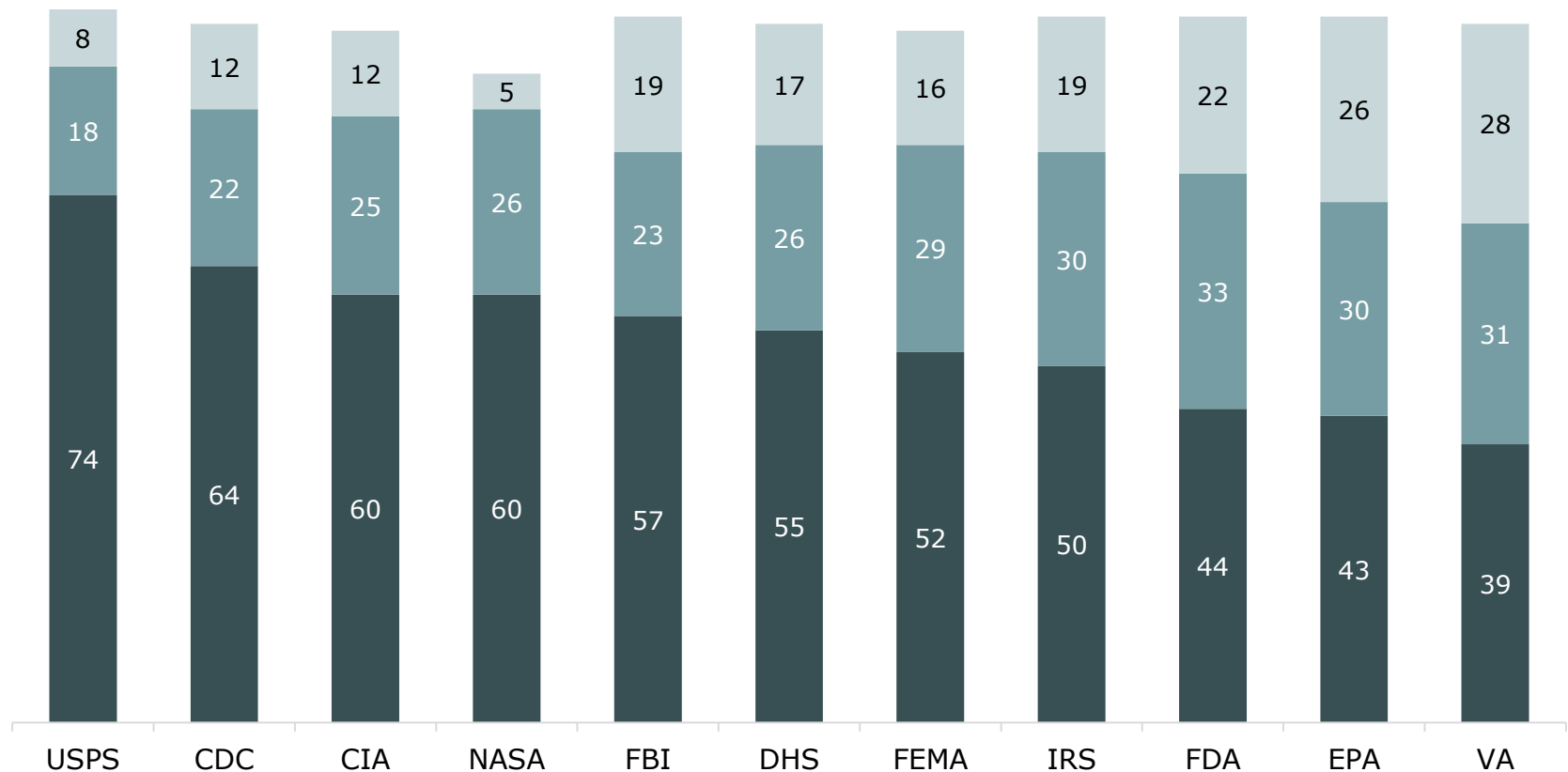
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In 2019, USPS received the highest percent of job ratings as “excellent” or “good” out of federal agencies

Ratings for federal government departments and agencies

% JOB APPROVAL RATING BY DEPARTMENT/AGENCY

■ Excellent/Good ■ Only fair ■ Poor



Sources: Gallup.

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USPS could become financially illiquid due to the impact of the COVID-19 outbreak

State of play

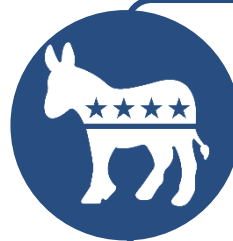


- The COVID-19 outbreak and its impact on businesses has **exacerbated USPS's existing financial crisis**
- USPS **volume dropped 30% in March** due to the outbreak, and the agency projects volume to be down 50% by the end of June
- The agency **predicts it will lose \$2 billion each month** throughout the virus-driven recession and could lose \$23 billion over the next 18 months
- Because **mail is an essential businesses**, postal workers continue providing delivery services; more than **1,200 postal workers have tested positive** for COVID-19
- Without additional funding, USPS will be **"financially illiquid" by Sept. 30**

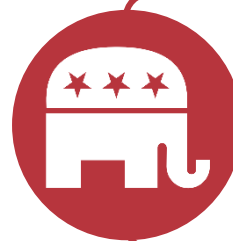
COVID-19 relief funding

- The Trump Administration told legislators the president **would not sign the \$2 trillion CARES Act** if it included "bail-out" money for USPS
- Lawmakers **agreed to include a \$13 billion grant** for USPS in the legislation, but Treasury Secretary Mnuchin blocked the proposal
- Instead, a last-minute **\$10 billion loan to USPS** from the Treasury Department was included; disbursement of the loan **is still awaiting approval from the Treasury Department**

Partisan debate



- Congressional Democrats included USPS funding in their list of priorities for the fourth COVID-19 relief package
- House Democrats initially requested that \$25 billion in emergency USPS funding be included in the CARES Act
- Democrats are now considering the need for additional funding to handle increased mail-in voting in November



- Senate Republicans have indicated they believe the \$10 billion loan in the CARES Act is sufficient to provide short-term liquidity
- Secretary Mnuchin indicated postal relief in the phase 4 stimulus package would be a poison pill
- Many conservatives support privatizing the postal system

On Apr. 30, a bipartisan group of members in the House of Representatives formed the Postal Preservation Caucus

Founding members of the Postal Preservation Caucus



Rep. Carolyn Maloney
(D-NY-12)



Rep. Gerry Connolly
(D-VA-11)



Rep. Peter King
(R-NY-02)



Rep. Mark Amodei
(R-NV-02)

First action: letter to congressional leadership

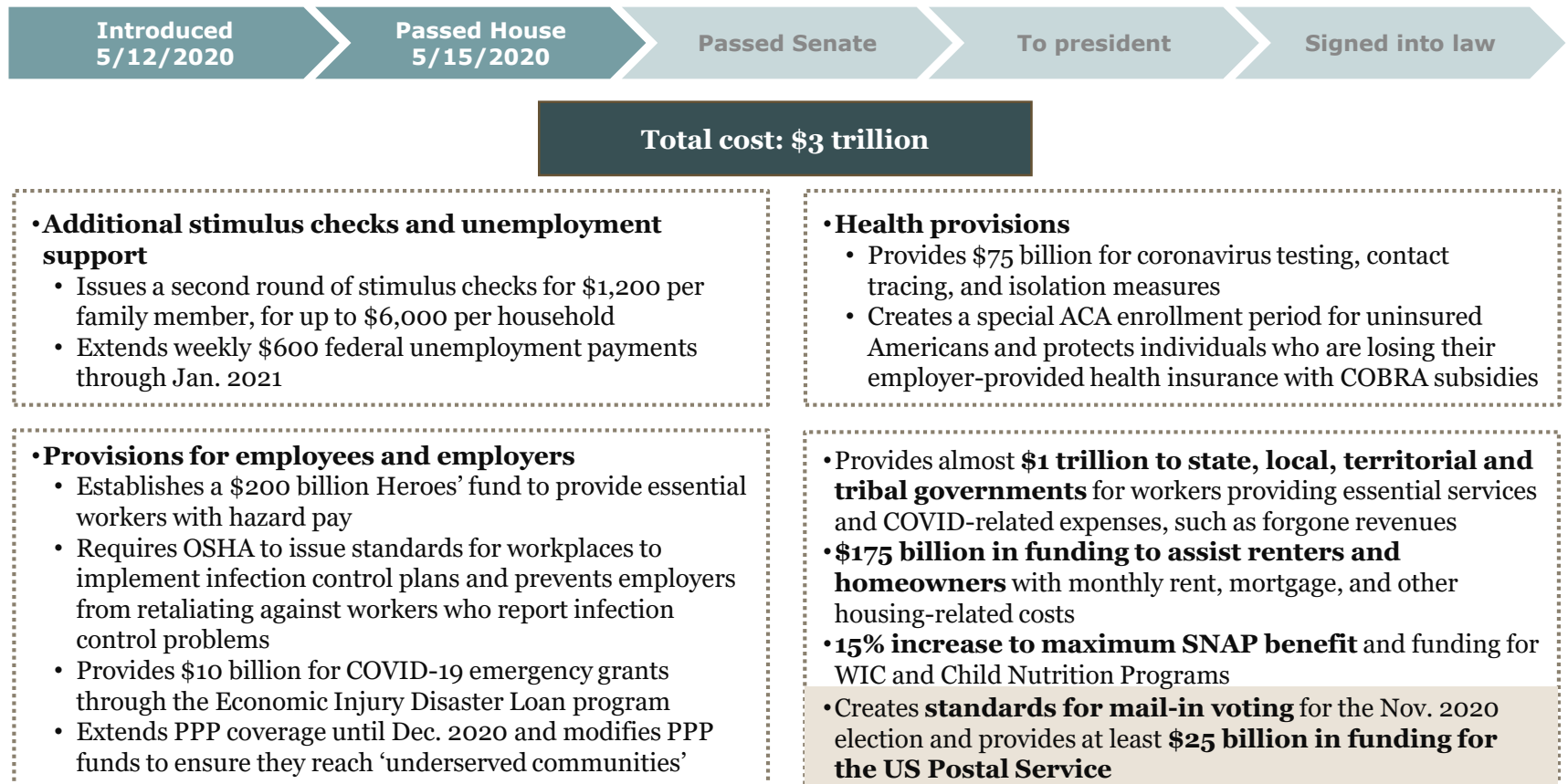
- The group sent a letter to both House and Senate leadership **urging the passage of legislation to provide financial assistance to USPS**, whose demise could negatively impact many Americans, particularly those in rural communities
- **USPS currently estimates \$13 billion in revenue losses** by the end of FY2020; it could lose \$54 billion over the next decade due to the impacts of COVID-19
- The USPS Board of Governors has requested **\$25 billion in emergency appropriations** due to COVID-19, **\$25 billion for “shovel-ready” projects** to modernize USPS, and access to **\$25 billion in borrowing authority** from the Treasury
- The group wrote, “We strongly support emergency funding for the Postal Service and urge you to do the same”

“

People have agendas, whether they're opposed to the post office or they want to try to change the post office. That's all for another day. We can't be doing that during the midst of a pandemic using this as an excuse to basically destroy the post office.”

—Rep. Peter King (R-NY-02)

The House passed the HEROES Act (H.R. 6800) on May 15, which would provide \$25 billion to bail out the U.S. Postal Service



Although this legislation has support from Democratic leadership, Republicans have been vocal they are not supportive of passing additional legislation at this time, making this bill unlikely to get enacted.