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INSIGHT

U.S. Postal Service Financial Condition and Title VI of the CARES Act

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In its latest response to concerns about the financial condition of the United States Postal Service (USPS), Congress added a provision to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136, Section 6001) expanding USPS's authority to borrow from the Treasury. This comes at a time when USPS is delivering important information and products in connection with the ongoing COVID-19 pandemic, including economic impact payments, census mailings, mail-in election ballots, and vital medicines.

The CARES Act borrowing authority raises new questions about USPS's fiscal condition. This Insight briefly reviews USPS's funding structure, its existing borrowing authority, and the financial challenges it faced before, and is likely to face after, the pandemic. It concludes with potential issues for congressional consideration.

Existing USPS Funding Structure

USPS operates more than 31,600 retail locations and handles 48% of the world's mail volume. It provides military postal service in 67 countries and diplomatic mail service in 113 countries. It employs nearly 650,000 workers and has more than 600,000 retirees and survivors who receive benefits.

USPS generates almost all of its funding—over $71 billion annually—by charging mail users for the costs of the services it provides, but in certain situations, Congress provides funding. Since 1993, Congress has provided annual appropriations to the Postal Service Fund to compensate USPS for revenue it forgoes in providing free mailing privileges to the blind and to overseas voters ($56.7 million in FY2020). The USPS Office of Inspector General ($250 million) and the Postal Regulatory Commission (PRC; $16.6 million) receive funding via transfers from the Postal Service Fund.

Financial Condition

USPS has continued to incur annual losses for at least a decade. In FY2019, its expenses were nearly $80 billion while revenues were $71 billion, resulting in a loss of almost $9 billion. In 2019, Postmaster General Megan J. Brennan testified before the House Committee on Oversight and Reform on the financial condition of USPS. She stated that without legislative and regulatory reforms that alleviate

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current business-model constraints, USPS would likely run out of cash in 2024, even under normal circumstances.

The Government Accountability Office (GAO) has considered USPS's financial condition to be high risk since 2009, as USPS cannot fund its current operations from its revenues. GAO identified three sets of challenges:

- **Poor Financial Condition**: Between 2007 and 2019, USPS lost over $75 billion. Unfunded liabilities for employee benefits and debt contribute to the challenges.
- **Insufficient Cost Savings**: USPS's cost savings plans have not yielded the savings necessary to reduce operating costs. Statutory mandates, such as the requirements to maintain six-day delivery and prefund health benefits for future retirees, have limited the actions USPS might take to mitigate these challenges.
- **Unfavorable Trends:** For over a decade, total mail volume has continued to drop sharply. Market changes and global economic conditions contributed to USPS's financial challenges and affected its efforts to control expenses and expand revenue.

USPS's financial condition limits its ability to modernize. In FY2019, USPS stated it had 144,000 vehicles that are at least 20 years old and need significant maintenance to continue to provide its services. It also needs to continue to invest in upgrading letter sorting equipment that is at or near the end of its useful life to remain operationally viable.

USPS Borrowing Authority and the CARES Act

Since 1999, USPS has had a revolving borrowing authority from the Federal Financing Bank (FFB), a department within the Treasury, for up to $15 billion. Over the last decade, USPS has borrowed up to the $15 billion limit with an inability to borrow any additional funds.

Section 6001 of the CARES Act gives USPS an additional $10 billion in borrowing authority from the FFB. USPS is prohibited from paying off outstanding debt with borrowings under this authority. This provision also requires USPS to prioritize the delivery of medical supplies. USPS may also choose temporary delivery points for the protection of its employees. Based on USPS's projections, as a consequence of the COVID-19 pandemic, it will likely incur a larger loss than under normal circumstances. It appears likely that even if USPS borrowed the additional $10 billion, beyond FY2020, USPS would not have sufficient financial resources to maintain its current level of operations, as it would continue to incur losses.

COVID-19 and Financial Challenges

Arguably, USPS's financial condition was in a perilous position before any unforeseen events, such as the COVID-19 pandemic. In a press release on April 10, 2020, Postmaster General Brennan stated "the sudden drop in mail volumes, our most profitable revenue stream, is steep and may never fully recover." As a result of COVID-19, USPS expects a loss of $13 billion in FY2020, $22 billion over the next 18 months, and more than $54 billion over the longer term.

The USPS Board of Governors asked for an additional $75 billion in funding from Congress:

- $25 billion in emergency appropriations to offset COVID-19 related losses;
- $25 billion grant to modernize USPS; and
- $25 billion unrestricted borrowing authority from the Treasury.

Some Members have expressed bipartisan support for USPS's $75 billion request.

Issues for Congress

The current Administration and some Members of Congress have called for reform of USPS before additional funding or borrowing authority is made available. In recent years, efforts to reform USPS have focused on a number of issues, ranging from altering the payment structure of USPS employees' retiree health benefit fund to changing the prices for the various types of USPS delivery services. Other issues Congress might examine include the following:

- reforms, if any, by the new Postmaster General, who is appointed, or may be removed, by the USPS Board of Governors;
- the role of the current governing structure of USPS;
- the pricing recommendations made by the PRC; and
- what mail delivery and other postal services should look like in the future.

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