Five Glaring Errors: The U.S. Postal Service's Bailout Request Numbers Do Not Add Up

By: Paul Steidler

The U.S. Postal Service (USPS) wants an $89 billion federal bailout that it says is necessary because of the COVID-19 crisis. But unlike formerly profitable small businesses, hospitals and even local governments, USPS's finances were a mess for more than a decade before COVID-19 hit.

USPS's projected near-term financial losses do not stand up to basic financial scrutiny, i.e., they do not add up. Even more troubling, USPS has not publicly documented why it needs such a large bailout, withholding from the public even the most basic information.

To be sure, USPS is taking a financial hit from COVID-19, primarily due to a sharp reduction in marketing mail. Its parcels business, however, has shot up in double digits and is projected to stay strong. USPS is also expected to have robust business from political mail this election season.

The Dismal Financial Backdrop

In 2009, Congress's independent financial watchdog, the U.S. Government Accountability Office, put the Postal Service on its High-Risk List of government agencies. USPS has been on the list ever since. At the end of fiscal year 2019, the Postal Service reported a negative net worth of $71 billion and it has unfunded liabilities exceeding $140 billion.

Postal Service Financial Requests

At an April 9 video briefing for the U.S. House of Representatives' Committee on Oversight and Reform, Postmaster General Megan Brennan, on behalf of the Postal Service's Board of Governors, requested the following:

- $25 billion in emergency appropriations to offset coronavirus-related losses
- $25 billion grant to fund "shovel-ready" projects to modernize USPS
- $25 billion in unrestricted borrowing authority
- $14.5 billion in existing debt forgiveness.

USPS also said it anticipates COVID-19 will reduce its revenues by $13 billion this fiscal year and lead to $54.3 billion in additional losses over the next ten years.

Beyond these forecasts, USPS has provided hardly any additional information about its projected finances to policy makers and the general public.

The last widescale financial information it filed with its regulator, the Postal Regulatory Commission, was on March 23. This was a summary of revenues and expenses for the first five months of fiscal year 2020. It is not expected to provide additional public financial information until mid-May, when its quarterly financial announcement is made.

Given the above, and that USPS is likely to have ample liquidity well into 2021, the U.S. Congress should summarily reject the $89.5 billion request. Congress and the Administration should ask USPS and its Board of Governors to provide a holistic postal reform proposal and accompanying business plan. In fact, this should have been done when USPS first appeared on the High-Risk List of government agencies in 2009.

Any additional taxpayer assistance to USPS should only be included in a comprehensive, grand bargain of reform.

Ways the Numbers Do Not Add Up

Error #1: Total Amount Needed to Address COVID-19

Based on its own language provided to the House Committee on Oversight and Reform on April 9, USPS is asking for $45.2 billion more than it says the COVID-19 pandemic will cost it over the next 10 years. Furthermore, USPS wants this money immediately and unconditionally.

Also, it is not likely that USPS will be impacted by COVID-19 for 10 years, given the likelihood of a vaccine and other developments to arrest the virus.

What is clear is that COVID-19 is accelerating a decline in mail volume. That trend, due to the growth of the Internet, has been well known and documented for nearly 15 years. It seems USPS wants to position the entire future decline in mail volume as being the fault of COVID-19.

Error #2: Claim USPS Will Run Out of Cash This Fiscal Year

Even if we accept the preceding $13 billion revenue loss this fiscal year tied to COVID-19, USPS would still be in a positive cash position by September 30.

USPS had $7.9 billion in cash as of December 31, 2019. Coming into the COVID-19 crisis, USPS had access to a $5 billion line of credit from the U.S. Treasury, $3 billion of which it accessed on April 1. Under the CARES Act, USPS can borrow an addition $10 billion from the U.S. Treasury.

Thus, USPS has on hand, or access to, $23 billion in cash. Prior to the COVID-19 crisis, USPS projected a $7.6 billion net loss in fiscal year 2020. This amount, plus $13 billion for the revenue loss, comes to $20.6 billion, $2.4 billion less than the $23 billion in cash.

In fact, the revenue loss would not be a dollar for dollar net loss, or loss of cash. USPS would save money on transportation and labor costs by not providing $13 billion in services. Thus, using the information USPS has provided it is clear the Postal Service will have well above $2.4 billion in cash by the end of this fiscal year.

Error #3 – Not Likely to Lose $13 Billion in Revenue This Fiscal Year

The claim that USPS will have a $13 billion revenue loss this year because of COVID-19 has yet to be publicly documented.

In fact, based on conservative assumptions and using figures from USPS, it appears the revenue loss will be closer to $6.1 billion. Here is how that was determined.

According to USPS's Fiscal Year 2020 Integrated Financial Plan, issued March 9, 2020, USPS had fiscal year 2019 revenues of $71.3 billion and was projecting slightly higher revenues, $71.8 billion for fiscal year 2020.

For the first five months of this year, it was on track to achieve this goal. On March 23, USPS filed with the Postal Regulatory Commission a five-month financial report for the period October 1, 2019-February 29, 2020. USPS's five-month revenues were $31.1 billion, almost identical to the prior period in fiscal year 2019. For the first five months of fiscal year 2020, mail products were essentially flat, with a revenue decline of 2.0% and a volume decline of 3.8%.

One of the best indicators about business trends at USPS is a weekly report that it puts out to its Mailers' Technical Advisory Committee about weekly volume changes for its mailing services. These are year over year comparisons. As such, the period April 4-10, 2019 is compared with April 4-10, 2020 in the first column of Exhibit A that follows.

Below are the weekly changes in mail volume for April 3-24. This period is perhaps the height of economic disruption, i.e., it may go down as the roughest or one of the roughest periods economically in 2020.

Exhibit A: Recent Changes in Weekly Mail Volumes

Product/Category	10-Apr	17-Apr	24-Apr
Marketing Mail	-42.5%	-50.0%	-43.7%
First Class Mail, Presort	-2.2%	-8.0%	-2.0%
First Class Mail, Single-Piece	-16.3%	-25.0%	-16.6%
Flats	-36.5%	-36.0%	-37.4%
Periodicals	-17.7%	-7.0%	-38.7%

Next, the Postal Service's Fiscal Year 2019 Public Cost and Revenue Analysis was examined for full year revenue and volume information for these mail categories. It was then assumed that the worst overall week of the three above, April 11-17, 2020, would be representative of the entire period March 15-September 30, 2020, a rather pessimistic scenario.

As illustrated below, the loss in this amount of mail volume would result in a corresponding fiscal year revenue loss of $7.1 billion.

However, USPS's packages business has been up sharply during the pandemic and is projected to stay strong. While the Postal Service has been guarded about the numbers, the term "double digits" is commonly accepted to describe the growth.

USPS's fiscal year 2019 shipping and packages revenue was $22.8 billion. A 15 percent annualized gain in this area would be an annualized revenue increase of $3.42 billion. Applying just $1 billion of this for the six-and-a-half-month period March 16-September 30, 2020 would reduce the overall USPS revenue loss to $6.1 billion in fiscal year 2020.

The $6.1 billion revenue loss is just 47 percent of the amount that USPS projects.

Exhibit B:
Projected USPS Fiscal Year 2020 Revenue Change Due to COVID-19

Service	FY 2019 Revenue	Volume Change	FY 2020 Revenue Change
Marketing Mail	$16.4 billion	-50%	-$4.5 billion
First Class Mail, Presort Letters & Cards	$14.2 billion	-8%	-$0.6 billion
First Class Mail, Single-Piece	$8.5 billion	-25%	-$1.2 billion
Flats	$1.6 billion	-36%	-$0.3 billion
Periodicals	$1.2 billion	-7%	-$0.5 billion
		Mailing Revenues	**-$7.1 billion**
Packages/ "Double Digit Increases"	$22.8 billion	**Above Initial Estimate**	**$1.0 billion**
		Net Revenue Loss	**-$6.1 billion**

Error #4 – Claims that COVID-19 Will Increase the Net Operating Loss by More Than $22 Billion Over the Next 18 Months

USPS makes this claim in an April 10 press release. Whatever back-up information USPS used to make this calculation should be provided to Congress and the public to facilitate transparency as part of the $89 billion request or, better yet, a revised request.

Extrapolating the dire numbers for April 11-17 throughout the entire 2021 fiscal year, and assuming a corresponding sustained strong package business due to COVID-19 concerns, USPS would lose $10 billion in annual revenue. Factoring in cost reductions from lower labor, transportation and related expenses, the operating loss will be significantly lower than $10 billion annually.

Error #5 – A Chronic Failure to Know Product Costs

The Postal Service's Office of Inspector General has urged USPS to take concerted actions so that it knows the costs of its products. USPS has not implemented the strong recommendations in a 2014 report from its Office of Inspector General that found, "A modern bottom-up costing system would provide substantial and numerous benefits to the Postal Service, similar to those enjoyed by companies of comparable sizes."

This includes lower costs and better investment decisions. In addition, such a system "will enable a transformational change in the ways the Postal Service operates and communicates."

These and related findings were reiterated by the Office of the Inspector General in a 2019 report.

Last and Not Least – Protect Postal Workers from COVID-19

Postal workers have continued to perform an important public service by delivering mail and packages during the pandemic. They have undergone changes in their work routines to implement social distancing and other precautions. It is essential that they have personal protection equipment, particularly an abundant supply of gloves and masks.
They deserve the thanks and gratitude of all Americans.

The Postal Service should itemize what these protective costs are anticipated to be over the next 12 to 24 months and state this to Congress and the American public. This is an appropriate area for Congress to fund directly in order to make sure workers are protected.

Workers should not suffer, or be at risk, in the event Congress and USPS cannot come together in the next 12 months on comprehensive and much-needed postal reform.

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