



July 13, 2015

Honorable Tom Carper  
Ranking Member  
Committee on Homeland Security  
and Governmental Affairs  
United States Senate  
Washington, DC 20510

Dear Senator:

As you requested, the Congressional Budget Office (CBO) is providing additional information about the estimated costs of the amendment offered by Congressman Fattah to the Fiscal Year 2016 Financial Services and General Government Appropriations bill, as approved by the House Committee on Appropriations on June 17, 2015. For fiscal year 2016 the amendment would require the United States Postal Service (USPS) to comply with the service standards for first class mail and periodicals that were effective on July 1, 2012. CBO estimated that enacting the Fattah amendment would increase off-budget spending by \$300 million in fiscal year 2016.

In July of 2012 the Postal Service changed its delivery service standards and began one of the most comprehensive operational transformations in the agency's history. Since then USPS has closed about 150 mail processing facilities, about one third of the 460 such facilities that it operated in 2012. The Postal Service has significantly reconfigured its mail delivery network, including modifying employee schedules and redesigning transportation systems. To attempt to comply with the amendment USPS would need to at least partly reverse those changes by adding work hours, reopening facilities that have been closed or sold, and replacing equipment it no longer owns. Because the amendment would be effective only for 2016, we expect the USPS would return in 2017 to its plans to reduce its operational costs.

USPS has estimated that its transformation plan will save the agency about \$1.5 billion a year in operating costs. Based on preliminary conversations with USPS, CBO expects that reconfiguring agency operations to fully meet the 2012 delivery standards during fiscal year 2016 would probably cost significantly more than \$300 million. However, in CBO's judgment the USPS does not have sufficient resources to do that, and the agency's past actions demonstrate that it likely would give continued funding of its daily operations a higher priority than attempting to comply with a new Congressional mandate.

USPS reached its statutory debt limit of \$15 billion in 2012, and has no authority to borrow more funds. The Postal Service has severely reduced its capital spending in recent years from nearly \$2 billion in 2009 to less than \$1 billion in 2014. As a result, the agency plans to ramp up its capital program and devote available funds to upgrading an aging vehicle fleet, purchasing mail processing equipment, and maintaining current facilities.

Because of liquidity constraints in recent years, the Postal Service failed to pay a total of \$22.4 billion over the 2011-2014 period for retiree health prepayments that are required by the Postal Accountability and Enhancement Act (Public Law 109-435). After making those payments in 2010 and previous years, the agency demonstrated that under financial duress it would prioritize its limited resources to continue its operations and financial viability despite the requirements of current law.

Based on preliminary information from the Postal Service, we expect that it would cost well over \$1 billion in 2016 for USPS to attempt to fully comply with the amendment. However, because of operational challenges and the Postal Service's precarious financial condition, CBO doubts the agency could fully comply with the amendment. CBO currently estimates that the USPS will end fiscal year 2016 with net receipts of about \$1 billion (on a cash accounting basis). Of that profit, we estimate the agency could spend about \$300 million in 2016 to improve service for delivery of first class mail and periodicals as required by the amendment.

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If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Mark Grabowicz.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Hall". The signature is fluid and cursive, with the first name "Keith" and last name "Hall" clearly distinguishable.

Keith Hall

Director

cc: Honorable Ron Johnson  
Chairman

Honorable Chaka Fattah

Honorable Ander Crenshaw  
Chairman

House Appropriations Subcommittee on Financial Services  
and General Government

Honorable José Serrano  
Ranking Member