UNITED STATES POSTAL SERVICE

# POSTAL NEWS

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## USPS REPORTS FIRST QUARTER LOSS DUE TO FUNDING MANDATED BY NEW POSTAL LAW

***New postal law requires funding of retiree health benefits***

WASHINGTON, D.C. – The U.S. Postal Service (USPS) reported a Fiscal Year 2007 first quarter loss of $2.7 billion due to the accelerated funding of retiree health benefits mandated by the Postal Accountability and Enhancement Act signed into law on Dec. 20, 2006. The law requires the Postal Service to substantially fund its share of these benefits by 2017. Operationally, the Postal Service would have otherwise achieved a net income of $1.2 billion, in line with its first quarter financial plan.

**First Quarter Highlights**

Revenue for the first quarter (ending December 31, 2006) was $19.7 billion, an increase of 6.4 percent over the first quarter last year. This increase was driven by a 2.3 percent increase in mail volume. Standard mail volume grew by 4.9 percent. First-Class Mail volume for the quarter was virtually flat in relation to the first quarter the previous year. Total Factor Productivity (TFP) increased by 1.9 percent over the first quarter of last year—the highest in the last eight quarters. TFP measures the relationship between workload and resource usage. The first quarter gain in productivity was driven by larger than expected growth in revenue and volume.

**Finances Under New Postal Law**

The new postal law eliminates the escrow previously required under Public Law 108-18 and reduces USPS payments into the Civil Service Retirement System (CSRS). The $3 billion in cash – that the Postal Service placed in a federally mandated escrow account in FY 2006 – is now designated to fund retiree health benefits. Generally Accepted Accounting Principles (GAAP) dictate the $3 billion be reported as an expense in the quarter in which the law was enacted.

For FY 2007, the new law mandates $5.4 billion to be placed in the newly created Postal Service Retiree Health Benefits Fund (PSRHBF). Consequently, the relief from this year's $3.3 billion planned escrow and the reduction of $1.5 billion in CSRS payments must be applied to the fund. The net result is a shortfall of $600 million for FY 2007.

“It’s important to put this into perspective,” said Chief Financial Officer H. Glen Walker. “Although this will have a multi-billion dollar impact on our reported financial results, the additional cash required is approximately $600 million.”

**Summary**

The USPS FY 2007 budget has a net income of $1.7 billion. With the enactment of the law, GAAP requires the $3.0 billion FY 2006 escrow be reported as an expense. There is also a required $5.4 billion payment into PSRHBF, as well as $1.5 billion of reduced CSRS payments. The net result is a total additional expense of $6.9 billion. Therefore, the projected net loss for USPS in FY 2007 is $5.2 billion. Fiscal year forecasts assume that the Postal Regulatory Commission recommends the full USPS revenue request in the pending case.

**USPS FINANCES UNDER NEW POSTAL LAW**

| | 1st Quarter | Projected FY 2007 |
|---|---|---|
| Income from Operations | + $1.2 | + $1.7 |
| | | |
| PL 109-435 impacts: | | |
| ▪ 2006 escrow transferred into PSRHBF | - $3.0 | - $3.0 |
| ▪ 2007 PSRHBF expense | - $1.3 | - $5.4 |
| ▪ CSRS savings | + $0.4 | + $1.5 |
| | | |
| Net loss | - $2.7 | - $5.2 |
| ($ in billions) | | |

The new law has ongoing financial implications for the Postal Service. As compared to the escalating escrow requirements of Public Law 108-18, the new law has a flattened 10-year payment requirement into the PSHRBF that ranges from $5.4 to $5.8 billion annually. USPS is required to comply with Section 404 of the Sarbanes-Oxley Act beginning in 2010; significant costs are expected with this new requirement. Additional costs, such as separating products and services into market-dominant and competitive components, are yet to be determined.

The complete first quarter results are available at www.usps.com/financials/fcr/.