



# OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

## Is Revenue Forgone a Bad Debt?

### RARC Report

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REVENUE  
FORGONE

PAST DUE



# OFFICE OF INSPECTOR GENERAL

## UNITED STATES POSTAL SERVICE

## Executive Summary

When Congress created the U.S. Postal Service from the Post Office Department in 1970, it pledged to appropriate funds to pay the cost of subsidized postage for nonprofit and charitable causes that it deemed worthy of public support, such as free mail for the blind and reduced postage for libraries. This promise was consistent with the founding concept of operations for the new postal enterprise: it would be self-sustaining and generate its revenues from the products and services it sold. Since the Postal Service would forgo the revenue it would ordinarily receive from these discounted and free public services mandated by Congress, the forgone postage would be paid through appropriations. Congress was essentially “purchasing” the services from the Postal Service. As an added precaution, however, the 1970 law permitted the Postal Service to raise rates if Congress failed to provide the funds.

Concern about the rising costs of this subsidy for “revenue forgone” by the Postal Service coincided with federal budget pressures in the early 1990s. Congress began to balk at paying its bill. At the same time, it refused to allow the Postal Service to raise rates on the subsidized groups. Losses on revenue forgone began to mount. The Revenue Forgone Reform Act of 1993 attempted to resolve the issue by reducing both the size of the discounts and the number of eligible groups and by passing on the remaining costs for reduced rate mailings from taxpayers to postal ratepayers.

As for the accumulated debt, \$1.218 billion in lost or forgone postal revenue, the act established a 42-year repayment

### Highlights

**Congress promised to pay for charitable and nonprofit subsidies, but failed to do so in the 1990s.**

**A 1993 law provided for paying the cumulative \$1.218 billion debt over 42 years, at \$29 million per year, without interest.**

**However, starting in fiscal year 2011, payments were reduced or skipped for 4 years, and OMB has proposed ending them. While payments have now resumed, \$105 million is past due, and there is always a risk that payments could stop again.**

**If payments stop permanently, the Postal Service will have to declare a bad debt on its bottom line.**

**One solution is to offset the remaining amount owed with interest, \$1.6 billion, against the Postal Service’s current debt to the Treasury.**

schedule at \$29 million per year, with no provision for interest on the debt. In effect, the arrangement is a 42-year interest-free loan from the Postal Service to the Treasury.

Today, Congress continues to require that the Postal Service provide free mail for the blind and for balloting materials for overseas voters. These services are funded through

appropriations. It also directs the Postal Service to offer discounts to other selected groups, which are now paid for by other mailers through postage rather than the U.S. Treasury. However, the Postal Service has received the \$29 million payments intermittently in recent years despite the generous interest-free payment schedule. Starting in fiscal year 2011, payments were reduced or skipped for 4 years, and the Office of Management and Budget (OMB) opposes making any further payments. While payments resumed last year, the past due amounts of \$105 million are still unpaid, and there is no guarantee that payments will continue. In total, the Postal Service is owed \$656 million as shown in Figure 1. If interest had been included at the Postal Service's 1-year Treasury borrowing rate from 1994 through 2015, this unpaid amount would today be \$1.6 billion.<sup>1</sup>

**Figure 1: Status of Revenue Forgone Reform Act Obligation**

**The Revenue Forgone Reform Act promised to pay \$1.218 Billion in 42 payments of \$29 Million from 1994 to 2035.**

	Interest Free	With Interest*
<b>PROMISED</b>	\$1.218 Billion	\$2.4 Billion
<b>PAID</b>	\$562 Million	\$0.8 Billion
<b>PAST DUE</b>	\$105 Million	
<b>DUE 2017 to 2035</b>	\$551 Million	
<b>TOTAL OWED</b>	<b>\$656 Million</b>	<b>\$1.6 Billion</b>

\* Interest calculated at the Postal service's 1-year borrowing rate from FY 1994 through FY 2015.

Although the \$29 million amount is small, receiving consistent payments is important for the Postal Service's finances. If Congress follows OMB's recommendation and again stops making payments, the Postal Service may be forced to conclude that repayment is unlikely. In that case, the Postal Service would be required under accounting principles to declare the amount it has already booked as a bad debt. This could have a material effect on the Postal Service's bottom line.

One solution may be to offset the Postal Service's \$15 billion debt to the Treasury dollar for dollar by the remaining amount owed to Postal Service using identical interest rates, \$1.6 billion, or removing interest from both. This would eliminate the need for the revenue forgone installment payments to be part of the annual appropriations process, removing a complication for appropriators, the Postal Service, and its auditors.

The issue of revenue forgone is a symptom of the problems caused by the Postal Service's longstanding entanglements with the federal government's budget. Even though the Postal Service generates its own revenue, it is continually dragged into issues related to the federal budget process and is subject to budget scoring even though it is off budget. Had the Postal Service been a private sector provider, the subsidies for free and reduced-rate postal services would have been paid directly through a contract to provide the services. Instead, the Postal Service was required to provide services without payment. As long as the Postal Service's finances remain interlinked with the federal budget, problems like the missed revenue forgone installment payments will likely continue. Resolving budget entanglements is essential to allow the Postal Service to operate in a more businesslike manner.

<sup>1</sup> The Postal Service borrows from the Federal Financing Bank at Treasury rates plus 0.125 percent. This analysis assumes that interest accumulated on the remainder owed each year at the 1-year Treasury rate plus 0.125 percent, starting in fiscal years (FY) 1994 through FY 2015. The past due amounts in the chart include small rescissions prior to FY 2011.

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# Observations

A long-deferred debt obligation owed by the Treasury to the U.S. Postal Service is creating complications for the Postal Service's finances. Congress failed to appropriate sufficient funds to make payment on the debt for 4 years. While payments resumed last year, there is a risk they could stop again. Repeated failures to make the appropriation could eventually result in a loss to the Postal Service's bottom line of hundreds of millions of dollars. This white paper explains how the debt arose, describes efforts over more than 2 decades to pay it off, and examines the financial implications of a failure to resolve the issue.

## What Is Revenue Forgone?

When the Postal Reorganization Act (PRA) of 1970 reorganized the Postal Service, the new independent organization was to operate in a businesslike manner, relying almost entirely on the revenue it generated through postage.<sup>1</sup> In the past, the Post Office had provided social and developmental services to the nation, and had long given preferential rates, well below cost and sometimes free, to mailers providing educational reading matter, community and church notices, agricultural advice, services to the blind, and countless other beneficial causes.

The PRA recognized that the Postal Service ought not to be responsible for funding social subsidies for mailing. Rather, Congress would be responsible for appropriating specific funds for free and reduced rate mail, to compensate the Postal Service for the revenue it would normally be entitled to for providing the service (i.e., for "forgoing" those revenues). The law also provided that if Congress failed in the future to appropriate funds to cover the expenses of those customers it chose to subsidize, the Postal Service could raise the postage rates for them to cover the full amount due for their mailings.<sup>2</sup>

## Growth of Appropriations in Early Years

The 1970 Reorganization Act carried over many preferred rates from the pre-reorganization era. Free mailings, such as for the blind and ballots for overseas voters, continued. The act also established a 10-year phase-in period for higher rates for many preferred mail categories. These mailers would have to pay only the costs attributable to their mail; they would not have to pay institutional costs, which would instead be covered by appropriations.<sup>3</sup> The affected categories included nonprofit third-class (now Standard) mailings, local newspapers mailed within the county, publications of nonprofit educational, religious, philanthropic, fraternal, scientific, labor, agricultural, and veterans organizations, classroom publications, science-of-agricultural publications sent to rural areas, and books, films, and recordings sent to and from libraries, schools, and similar institutions.

As time passed, the annual bill for revenue forgone began to seem increasingly costly to appropriators as the size and number of nonprofit organizations and other beneficiaries of preferred rates grew. By 1985, 310,000 nonprofits had mailing permits,<sup>4</sup> and appropriations reached \$970 million, prompting the Reagan Administration to encourage the Postal Rate Commission to make cost allocation changes in a partially successful effort to raise the proportion of costs that could be directly attributed to nonprofit mailings, rather than to overhead. This reduced appropriations for about 5 years, but they were rising again by 1990, coinciding with greater attention to budget deficits nationally.<sup>5</sup> During the 1991 to 1993 period, Congress cut more than \$500 million from

<sup>1</sup> For example, see the legislative history of H.R. 17070, which became the PRA. House Committee on Post Office and Civil Service, *Report on Postal Reorganization and Salary Adjustment Act of 1970*, 91<sup>st</sup> Congress, H. Rep. No. 91-1104 (1970), pp. 6 and 16.

<sup>2</sup> *Postal Reorganization Act*, Public Law 91-375, U.S. Statutes at Large 84 (1970), p. 763 codified at 39 U.S. Code § 3627 (1982). This provision still exists for the current, more limited list of revenue forgone products. For an account of the legislative rationale for this provision, see Richard B. Kielbowicz and Linda Lawson, "Reduced-Rate Postage for Nonprofit Organizations: A Policy History, Critique and Proposal," *Harvard Journal of Law & Policy*, vol. 11, no. 2, Spring 1988, <http://catalyst.uw.edu/workspace/file/download/15c113abc23afe161bacfb1295411605b795d68c70ceac2a9eab211b48b75f1>, pp. 369-370.

<sup>3</sup> *Postal Reorganization Act*, Public Law 91-375, U.S. Statutes at Large 84 (1970), pp. 762-3.

<sup>4</sup> Kielbowicz and Lawson, p. 347.

<sup>5</sup> For more background and detail on the legislative origins and growth in appropriations for revenue forgone, see Nye Stevens, *The Postal Revenue Forgone Appropriation: Overview and Current Issues*, Congressional Research Service, March 1, 2004, *et. seq.*, pp. 1-4.

the requested appropriations, simultaneously forbidding the Postal Service in 1992 and 1993 from raising its rates to cover the shortfall, and the Postal Service projected it would need an additional \$531 million for revenue forgone in 1994.<sup>6</sup>

## The Revenue Forgone Reform Act of 1993

Recognizing that the situation was unsustainable and following extensive negotiations between affected stakeholders, Congress enacted the Revenue Forgone Reform Act in 1993, greatly reducing its budgetary exposure.<sup>7</sup> Appropriations for reduced rate mailings were eliminated. Instead, rates for nonprofits would be partly increased, and other mailers rather than the federal budget would carry the remaining cost. Nonprofits, who paid none of the institutional costs of their mailings in 1993, would gradually be required to pay half of these costs after 1998, the remaining half to be absorbed by other mailers through their postage rates.<sup>8</sup> The only costs that would continue to be covered by annual appropriations were free mail for the blind and balloting materials for overseas voters.<sup>9</sup>

Authors of the act then faced the question of how to reimburse the Postal Service for the shortfall of appropriations in the early 1990s, and for the losses it would sustain through 1998 before the revised subsidy scheme was fully phased in. The amount was determined to be \$1.218 billion. The solution was not advantageous to the Postal Service. The act provided that the entire amount would be paid through appropriations, but only at the rate of \$29 million each year, for 42 years. Further, no interest was to be provided, in effect turning the arrangement into a 42-year interest-free loan to the Treasury from the Postal Service. At the time of the act, the Postal Service was paying interest on its outstanding debt to the Treasury at rates between 4.6 and 9.1 percent depending on the loan.<sup>10</sup> For Congress, ignoring interest minimized the current budget cost of the subsidies it had granted, by deferring payments far into the future, as opposed to paying the cost when the Postal Service rendered the services.

For the Postal Service, the decision reduced the present value of its account receivable from \$1.218 billion to \$390 million, or 32 cents on the dollar, using a 7 percent discount rate, even though the total of payments would still amount to \$1.218 billion.<sup>11</sup>

## Payments on the Amount Owed Were Made for Nearly 2 Decades

Changes brought about by the Revenue Forgone Reform Act greatly reduced the annual postal appropriation, typically to less than \$100 million annually, including free mail for the blind, a much smaller amount for mail to overseas voters, and the \$29 million debt installment. The appropriation was uncontroversial until 2004. In that year, the Postal Service appeared to be in a strong financial position because it had been given credit for past overpayments to the Civil Service Retirement Fund, and was rapidly on a path to pay off its debt to the Treasury by 2005. In preparing the fiscal year 2005 budget, the Office of Management and Budget (OMB) proposed to eliminate the annual \$29 million payment on the past revenue forgone debt, arguing that the Postal Service could

<sup>6</sup> *Treasury, Postal Service, and General Government Appropriations for Fiscal Year 1994: Hearing before a Subcommittee of the Committee on Appropriations, House of Representatives, Part 2, 103<sup>rd</sup> Cong. (1993), p. 5 and Postal Service Appropriations Acts, 1992 and 1993, Public Laws 102-141 and -393.*

<sup>7</sup> Public Law 103-123, U.S. Statutes at Large 107 (1993), pp. 1267-73.

<sup>8</sup> The formula was later modified by Public Law 106-384 in 2000, so that nonprofit rates are set to obtain 60 percent of the revenue per piece of regular rate mail. Appropriations were not affected by the change.

<sup>9</sup> Nye Stevens, p. 4. Individuals who are unable to read conventionally printed materials can send and receive braille or large print reading materials, certain types of equipment, and other eligible materials free of postage. While the term free mail for the blind is generally used in appropriations documents, the Postal Service uses Free Matter for the Blind and Other Physically Handicapped Persons in the Domestic Mail Manual. For more details, see U.S. Postal Service's Publication 347, <http://about.usps.com/publications/pub347/welcome.htm>. Absentee ballots, ballot requests, and registrations can be mailed for free to and from members of the military and other U.S. citizens residing outside the United States under 39 U.S.C. § 3406. To send these materials for free, overseas voters must use the U.S. mail system at Military Post Offices or U.S. embassies or consulates. Balloting materials can also be sent in bulk between state and local election officials. Overseas voting accounts for less than 5 percent of the appropriation.

<sup>10</sup> U.S. Postal Service, *Annual Report of the Postmaster General, Fiscal Year 1993*, pp. 22-23.

<sup>11</sup> Details of the calculation appear in U.S. Postal Service, Accounting Position Paper, *Appropriations: Revenue Forgone, Free and Reduced Rate Mail*, October 15, 2014, p. 3.

**The Act provided for a 42-year repayment schedule of \$29 million each year, in effect a 42-year interest-free loan from the Postal Service to the Treasury.**

**OMB first proposed eliminating payments on the debt in the fiscal 2005 budget, but Congress did not heed the recommendation.**

well afford not being paid because it had just received relief from the pension payments and its net income in 2003 was nearly \$4 billion.<sup>12</sup>

Congress heeded the Postal Service's objections to this proposal, however, and continued to provide the appropriation annually through fiscal year 2011. But in a departure from precedent, in that year, the normal \$29 million installment was reduced by \$17.2 million, to \$11.8 million. Except for minor cuts (no more than 1 percent) due to budget "rescissions," this was the first time the full annual installment had not been paid.<sup>13</sup>

In its fiscal 2012 budget, OMB once again proposed terminating the revenue forgone debt payment in its list of "terminations, reductions, and savings" in the President's budget. In describing the proposed termination, OMB argued that the annual payment was only 0.04 percent of postal gross revenue, and that other proposals in the budget (restructuring retiree health benefit payments and returning excess amounts paid for Federal Employee Retirement System overpayments) would more than compensate for loss of the debt repayment.<sup>14</sup> These proposals for financial relief were not enacted, but even so, this time, for the first time in 19 years, Congress did not include the payment in the omnibus spending bill.<sup>15</sup>

### Repayments Are \$105 Million Past Due

OMB's budget for fiscal year 2013 again recommended zero for the repayment, though without further comment since the recommendation for 2012 had been accepted.<sup>16</sup> In the President's budgets for fiscal year 2014 and subsequent years, the line item has been dropped altogether and there is no mention of the revenue forgone installment obligation.<sup>17</sup> It is one of many authorized programs for which OMB requests no funds.

Nonetheless, payments of \$29 million on the accumulated debt occurred in both fiscal years 2015 and 2016. The payments brought the total amount paid to \$562 million and followed the recommendations of the House Appropriations Committee.<sup>18</sup> The timing was beneficial. No funding increase above OMB's requested amount was required because of a sharp reduction in the Postal Service's estimate of the costs of mail for the blind and overseas voters (including reconciliation amounts to "true up" previous years to reflect actual costs). The amount declined by \$34 million between 2014 and 2015 and remained low in 2016.<sup>19</sup> The lower usage traced back to a major move by the National Library Service for the Blind and Physically Handicapped — by far the largest user of free mail for the blind — to make both audio and Braille products available over the Internet.<sup>20</sup>

The reduction allowed 2015's \$29 million installment for past revenue forgone to be paid, while still keeping the overall postal appropriation within the amount requested by OMB. OMB's budget had requested \$70.4 million for the blind and overseas voters, and nothing for payment on the debt for past revenue forgone. The 2015 appropriation was almost exactly the same — \$70 million — but it included the \$29 million payment on the debt.<sup>21</sup> The 2016 payment was similar. The appropriation was sufficient to cover

<sup>12</sup> Nye Stevens, p. 6. OMB reiterated its recommendation in each budget through fiscal year 2009.

<sup>13</sup> There were rescissions in 6 years between 2000 and 2006 that totaled \$1,055,600.

<sup>14</sup> OMB, "Terminations, Reductions, and Savings" *Budget of the U.S. Government, Fiscal Year 2012*, <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/trs.pdf>, pp. 4 and 60.

<sup>15</sup> Congress did push back the due date for the \$5.5 billion retiree health payment owed on September 30, 2011, to August 1, 2012, but this simply doubled the number of retiree health payments in FY 2012, increasing the amount owed that year from \$5.6 billion to \$11.1 billion. The Postal Service was not able to make either payment.

<sup>16</sup> OMB, *Budget of the U.S. Government, Fiscal Year 2013*, Appendix, <http://www.gpo.gov/fdsys/pkg/BUDGET-2013-APP/pdf/BUDGET-2013-APP-1-31.pdf>, p. 1388.

<sup>17</sup> OMB, *Budget of the U.S. Government, Fiscal Year 2014*, Appendix, <http://www.gpo.gov/fdsys/pkg/BUDGET-2014-APP/pdf/BUDGET-2014-APP-1-30.pdf>, p. 1299.

<sup>18</sup> House Appropriations Committee, *Report on Financial Services and General Government Appropriations Bill, 2015*, 113<sup>th</sup> Congress, H. Rep. No. 113-508 (2014) p. 79 and *Report on Financial Services and General Government Appropriations Bill, 2016*, 114<sup>th</sup> Congress, H. Rep. No. 114-194 (2015), p. 85.

<sup>19</sup> U.S. Postal Service, *Fiscal Year 2016 Congressional Budget Submission*, p. I-3.

<sup>20</sup> Interview with John G. Paré, Jr., Executive Director for Advocacy and Policy, National Federation for the Blind, September 2015.

<sup>21</sup> U.S. Postal Service, *Fiscal Year 2016 Congressional Budget Submission*, p. I-3.

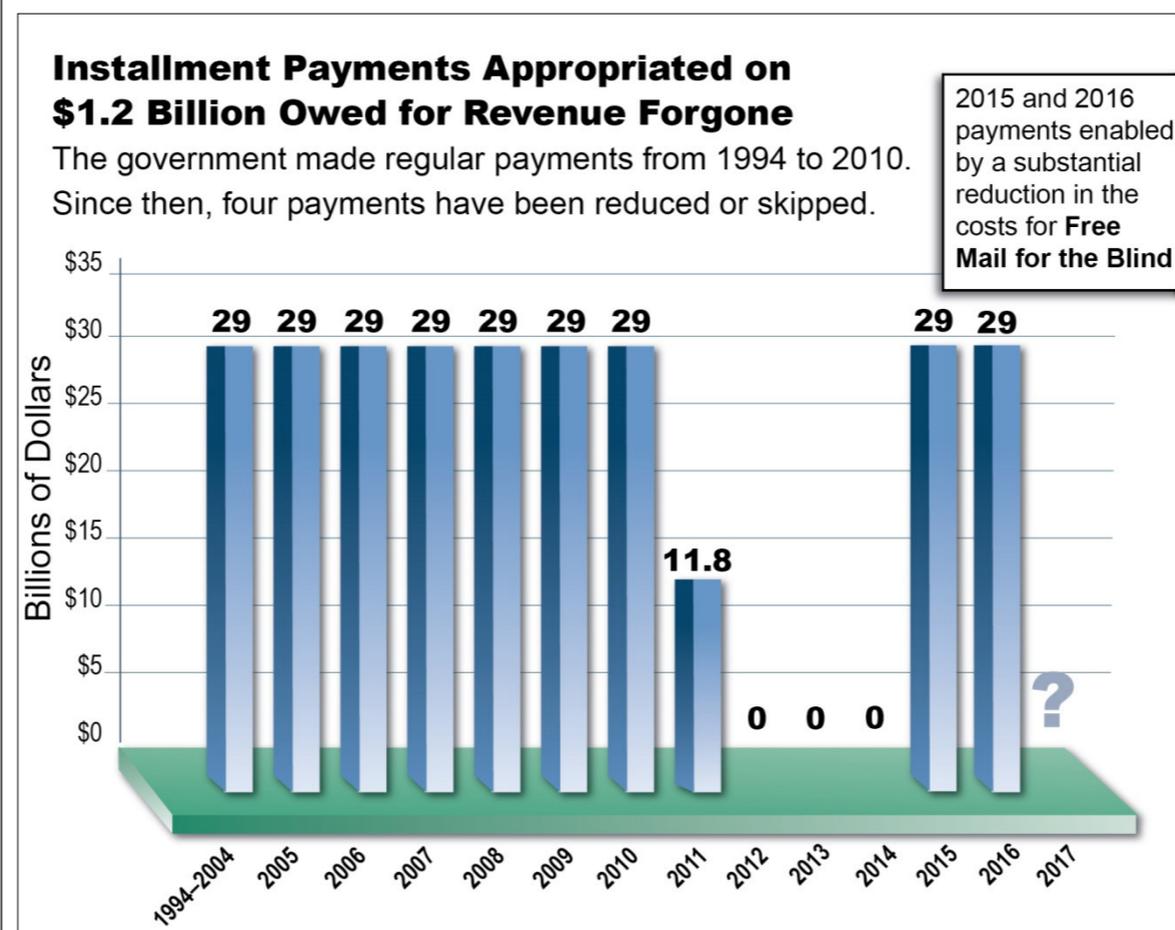
**The Postal Service is owed \$105 million for unpaid installment payments with another \$551 million in payments due over the next 19 years.**

both the Postal Service's request for free mail for the blind and overseas voters and the \$29 million payment without exceeding OMB's requested amount.<sup>22</sup> According to a spokesman for the National Federation of the Blind, further decreases in use of the mailing subsidy are likely to be gradual.<sup>23</sup>

Following the 2016 payment, the Postal Service is owed \$105 million for unpaid installment payments with another \$551 million in payments due over the next 19 years, for a total of \$656 million. Despite OMB's posture, the Postal Service has continued regularly to request the scheduled payments in full in communications with the House and Senate Appropriations Committees. Because the Postal Service is independent, ostensibly "off budget," and spending funds it generates from postage, the law allows it to submit its own budget request directly to Congress.<sup>24</sup>

In its budget request for fiscal 2017, the Postal Service asked for \$162.2 million. The request included unpaid amounts from fiscal years 2011 through 2014, and the payment for fiscal year 2016, which had not yet been appropriated, in addition to the payment due for fiscal year 2017.<sup>25</sup>

**Figure 2: Government Payments on Debt**



22 Congress also took the opportunity to move payment of the appropriation to fiscal year 2016, resolving a longstanding issue in which the Postal Service received its appropriation for free mail for the blind and overseas voters 1 year after the budget year.

23 Interview with John G. Paré, Jr.

24 OIG, *Federal Budget Treatment of the Postal Service*, Report No. ESS-WP-09-001, August 27, 2009, [http://www.uspsoidg.gov/sites/default/files/document-library-files/2015/ess-wp-09-001\\_0\\_0.pdf](http://www.uspsoidg.gov/sites/default/files/document-library-files/2015/ess-wp-09-001_0_0.pdf), pp. 14 and 39 U.S.C. § 2009.

25 The Postal Service did not request the \$1 million owed due to rescissions prior to 2011.

***When the Revenue Forgone Reform Act went into effect in 1994, the Postal Service entered the projected installment payments as a receivable in its accounts.***

## **Continued Non-Payment Would Raise Concerns**

When the Revenue Forgone Reform Act went into effect in 1994, the Postal Service entered the projected installment payments as a receivable in its accounts. In this unusual case, the account would be “receivable” over a period of 42 years and recorded as a long-term asset. Because the debt would be paid over a very long period with no interest, the amount booked was discounted from the \$1.218 billion scheduled to be received, to a present value of \$390 million. This calculation used a 7 percent discount rate to measure the interest that was forgone at the time.<sup>26</sup>

When OMB first proposed halting the installment payments in the fiscal 2005 budget year, the Postal Service reacted vigorously. In February 2, 2004, letters to the chairmen and ranking members of the Appropriations Committees, Postmaster General John Potter was highly critical of what he called “a dramatic departure from past Presidential budget submissions.” The Postmaster General said that “Failure to fund this authorized appropriation places the remaining debt of nearly \$900 million at risk of nonpayment.” And more alarmingly, the letter continued

Because the Postal Service is required under generally accepted accounting principles to reduce the value of an amount receivable to reflect an uncertainty as to full payment, the failure to receive these funds may require the Postal Service to treat these remaining payments as a bad debt.<sup>27</sup>

This argument was persuasive with regard to the 2005 appropriation, and put the matter to rest until 2012, when OMB once again proposed terminating the payment. In its justification for the recommendation, OMB did not mention the consequences of declaring the obligation a bad debt, and in fact may not have known that such would be the case.<sup>28</sup> If the amounts due were indeed declared a bad debt, the Postal Service would have to remove them from the long term assets category of its balance sheet and subtract the value of the debt from its net income in whichever year the decision is made.

## **The Postal Service Believes the Debt Will Be Paid**

Each year the Postal Service prepares an “accounting position paper” dealing with the question whether it is still justified in claiming the asset on its financial statement, given the missed payments and the past due amount. Such a document is available to the outside auditors (Ernst & Young) whose job it is to certify that the Postal Service’s financial statements are complete and accurate.

The Postal Service position paper dated October 15, 2014, asserted that there was still not “enough historical evidence” to conclude that repayment was unlikely in the future. It blamed the non-payment status on gridlock that existed in the current Congress and Administration, “which has resulted in a backup of numerous normal activities,” a situation that is not “typical and characteristic of behavior that will continue in the long run.” The government retains a credit rating of “AAA” and has the ability to pay its debts. Thus, “[m]anagement continues to believe that these funds are collectible because we believe that in the future, Congress will appropriate the funds in accordance with the 1993 act as it has historically done and as it is required to do by law.”<sup>29</sup> On November 10, 2015, its position strengthened by the first full payment in 4 years, the Postal Service issued a much briefer update of this position, affirming that the Postal Service will continue to request the skipped and future payments, and its belief that the payments “will be collected due to the good faith and credit of the United States Government.”<sup>30</sup> A weakness of the two latest position papers is that neither takes note of the continuing opposition of OMB and the Administration to making the payments.

<sup>26</sup> U.S. Postal Service, Accounting Position Paper, October 15, 2014, p. 10.

<sup>27</sup> Letter from the Postmaster General to the Honorable Ted Stevens, Chairman, Senate Committee on Appropriations, February 2, 2004.

<sup>28</sup> OMB, *Terminations, Reductions, and Savings*, FY 2012, p. 60.

<sup>29</sup> U.S. Postal Service, Accounting Position Paper, October 14, 2014, pp. 6-7.

<sup>30</sup> U.S. Postal Service, Accounting Position Paper, *Appropriations: Revenue Forgone, Free and Reduced Rate Mail*, November 10, 2015, p. 2.

***If the Postal Service management determines the obligation will never be paid, standard accounting principles will require the Postal Service to declare it a bad debt to be written off and added to the Postal Service deficit.***

## Problems Are Likely to Continue

The recent resumption of the payments does not fully resolve the issue. OMB has not recommended funding for the payment, and the accumulated amount past due is \$105 million. While the \$29 million payment was funded in 2015 and 2016, the prospects of getting the past due amount seems more daunting in the current budget climate. Even next year's payment may be more challenging for Congress, as the advantage provided by the reduction in free mail for the blind costs is diminishing. Appropriators will have to provide \$66 million to fund both the Postal Service's estimate for free mail for the blind and overseas voters and the \$29 million payment in fiscal year 2017, while OMB's request is \$64 million.<sup>31</sup>

This small gap is likely to grow in the fiscal 2018 budget. Part of the reason the Postal Service has been able to request a lower appropriation in recent years is because of savings in the annual reconciliation of past actual costs to the appropriated amount — the actual costs of revenue forgone mail came in lower than anticipated. However, this effect can be expected to diminish in the 2018 budget as current appropriations already reflect lower costs.

There is always a risk that the payments could stop again. If this happens and it is determined that the obligation will never be paid, standard accounting principles will require the Postal Service to declare it a bad debt to be written off and added to the Postal Service deficit.

## Option for Resolution: Offset the Money Owed against the Postal Service's Current Debt to the Treasury

Eliminating the revenue forgone installment payments from the annual appropriations process would remove a complication from the budget process for appropriators, the Postal Service, and its auditors. The Postal Service has borrowed \$15 billion from the Treasury, and is today paying interest at rates ranging from 0.2 to 3.8 percent depending on the payment terms and timeframe of the initial loan.<sup>32</sup> One simple but fitting way to settle the issue would be to offset the amount of money the Postal Service is owed for the revenue forgone obligation against the Postal Service's own current debt to the Treasury, treating the debts on equal terms in the year they were incurred, either at the same interest rate or at no interest rate. The Postal Service would receive some room from its current debt cap, and the annual effort to fund the \$29 million appropriation would end.

Deciding the amount of the credit offset is complicated by the inequity of the 1993 decision allowing no interest on the \$1.218 billion originally owed to the Postal Service. Using the same interest rates charged to the Postal Service on 1-year loans, the value of the initial debt today would have grown to nearly \$2.4 billion.<sup>33</sup> However, the payments Congress has already made should be deducted from this amount. These payments total \$562 million excluding any interest. If the same interest rates were applied to these payments in the year they were made, their value today would be approximately \$800 million, leaving the remaining amount due to the Postal Service today to be around \$1.6 billion.

## Conclusion

There seems to be no simple and cost-free way to address the shortfall in appropriations to settle an old debt with a 42-year payoff schedule oblivious to the time value of money. Had Congress met its obligations at the time it required services to be rendered, either by appropriating the funds needed at the time, by allowing a dollar for dollar offset against the Postal Service's debt to

<sup>31</sup> OMB, *Budget of the U.S. Government, Fiscal Year 2017*, Appendix, <http://www.gpo.gov/fdsys/pkg/BUDGET-2017-APP/pdf/BUDGET-2017-APP-1-31.pdf>, p. 1331.

<sup>32</sup> U.S. Postal Service, *Annual Report on Form 10-K for the Fiscal Year Ended September 30, 2015*, <http://about.usps.com/who-we-are/financials/10k-reports/fy2015.pdf>, p. 50. The interest rate range excludes overnight loans.

<sup>33</sup> The Postal Service borrows from the Federal Financing Bank at Treasury rates plus 0.125 percent.

the Treasury, or by passing the costs along to some segment of the mailing community, the problem would have disappeared in history. Today, it is a needless and irksome complication in the already difficult search for solutions to postal financial problems.

The issue of revenue forgone is characteristic of the problems caused by the Postal Service's longstanding entanglements with the federal government's budget. Even though the Postal Service generates its own revenue, it is continually dragged into issues related to the federal budget process. For instance, efforts to meet federal budget scoring rules have created significant problems with the Postal Service's pensions and retiree health benefits.<sup>34</sup> Had the Postal Service been a private sector provider, the subsidies for free and reduced-rate postal services would have been paid directly through a federal contract to provide the services. Instead, the Postal Service was required to provide services without payment for several years. Even though a law was in place allowing the Postal Service to raise rates if it did not receive federal funds, the Postal Service was forbidden from using this safety valve. Today's situation is a direct result. As long as the Postal Service's finances remain interlinked with the federal budget process, problems like the missed payments for revenue forgone will likely continue. Resolving budget entanglements is essential to allow the Postal Service to operate in a more businesslike manner.

### Management's Comments

Management reaffirmed their position that they do not consider revenue forgone a bad debt. They noted that the Postal Service has received two consecutive \$29 million appropriations for 2015 and 2016. They also pointed out that Congress has remained current providing appropriations for revenue forgone from free and reduced rate mail since enactment of the 1993 act and has only missed four payments of the 23 due under the 1993 act through 2016.

In addition, management stated that they do not have the legal right to offset their revenue forgone receivable with the Postal Service debt owed to the U.S. Treasury. They will continue to work with Congress and request the outstanding amounts due in future appropriation requests.

See [Appendix C](#) for management's comments in their entirety.

### Evaluation of Management's Comments

While the resumption of the \$29 million payments for the revenue forgone reimbursement is encouraging, the Postal Service is still owed \$105 million for past due installment payments. The Postal Service's previous requests to receive these past due amounts have not been successful. In addition, given past precedent and the fact that OMB has not requested funds for the reimbursement payments, there is always the possibility that payments will stop again. This paper was intended to highlight the issue of the missed installment payments and raise the question of whether revenue forgone could become a bad debt.

The Office of Inspector General agrees that Congressional action would be required to offset the remaining amount owed for the revenue forgone reimbursement against the Postal Service's debt to the U.S. Treasury.

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<sup>34</sup> See, for example, OIG, *Federal Budget Treatment of the Postal Service* and OIG, *Budget Enforcement Procedures and the Postal Service*, Report No. RARC-WP-12-007, February 22, 2012, [http://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rarc-wp-12-007\\_0.pdf](http://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rarc-wp-12-007_0.pdf).

# Appendices

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## Appendix A: Timeline

Fiscal Year	Event
<b>Prior to 1970</b>	Congress created preferred rates for certain types of mail such as nonprofit solicitations and free mail for the blind.
<b>1972</b>	The Postal Reorganization Act of 1970 took effect. It continued many preferred rates with the revenue forgone to be funded by appropriations. The act allowed the Postal Service to raise rates if Congress did not pay for revenue forgone.
<b>1985</b>	The revenue forgone appropriation reached \$970 million.
<b>1991-1993</b>	Congress cut more than \$500 million from the requested appropriations for revenue forgone.
<b>1994</b>	Congress passed the Revenue Forgone Reform Act of 1993, changing the method of paying for reduced rate mail and authorizing 42 annual payments of \$29 million in return for unpaid revenue forgone from 1991 through 1998.
<b>2004</b>	The Office of Management Budget (OMB) proposed ending the \$29 million revenue forgone payment for fiscal year (FY) 2005, but Congress continued to appropriate the funds.
<b>2011</b>	Congress reduced the FY 2011 appropriation from \$29 million to \$11.8 million.
<b>2011</b>	OMB again proposed terminating the \$29 million payment in FY 2012. This time Congress did not appropriate funds.
<b>2012-2014</b>	No appropriations were made for the \$29 million installment payment in FYs 2012 through 2014.
<b>2015-2016</b>	Despite OMB's failure to request the appropriation, the \$29 million payments were made in FYs 2015 and 2016 following the recommendation of the House Appropriations Committee and technology savings in the free mail for the blind program.
<b>2016</b>	Again, OMB did not request the installment payment appropriation for the FY 2017 budget year, and \$105 million in missed payments are past due.

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## Appendix C: Management's Comments

RICHARD B. ROSOFF  
VICE PRESIDENT, CONTROLLER



February 19, 2016

RENEE SHEEHY  
DIRECTOR, RISK ANALYSIS RESEARCH CENTER  
U.S. POSTAL SERVICE OFFICE OF INSPECTOR GENERAL

SUBJECT: Is Revenue Forgone a Bad Debt? (Final Draft Review, RARC-WP-16-004)

Thank you for the opportunity to respond to the final review draft of the white paper, "*Is Revenue Forgone a Bad Debt?*"

While the ideas presented in this report are interesting and may be worthy of discussion, we contend revenue forgone is not a bad debt. The United States Postal Service's position on this issue was clearly supported in our most recent accounting position paper issued in November 2015 in which we described our evaluation of payment history, the Federal Government as a debtor, and the proposed legislations in Congress in assessing collectability of these outstanding amounts.

We note that 2016 marks the second consecutive year that the Postal Service has received the \$29 million appropriation. We would also point out that Congress has remained current in providing appropriations for the revenue forgone from Free and Reduced Rate mail since enactment of the 1993 act and has only missed four payments of the 23 due under the 1993 act through 2016.

The Office of Management and Budget's (OMB) request of \$64 million for 2017 is further evidence that the OMB and the Administration are not opposed to resuming payments.

The Office of the Inspector General proposed offsetting our revenue forgone receivable with the Postal Service debt owed to the United States Treasury. We do not have a legal right to offset and we are currently receiving the \$29 million payments; therefore we do not plan to offset these amounts.

Management will continue to work with Congress and request the outstanding amounts due in future appropriation requests.

A handwritten signature in blue ink that reads "Richard Rosoff".

Richard Rosoff

cc: CARM Manager

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