THE WALL STREET JOURNAL

Postal Service Reports $1.3 Billion Loss

By: Betsy Morris and Eric Morath – February 8, 2013

The Postal Service said Friday its cash crunch is worsening and predicted it will have to default for a third time on a more than $5 billion annual payment required by Congress to prefund future retiree health care.

The warning came two days after the agency announced it would end Saturday delivery of most mail except for packages in a move designed to save $2 billion annually, seizing an opportunity to circumvent a congressional mandate.

The agency, which is required to operate like a business but also must follow congressional legislation, narrowed its net loss to $1.3 billion from $3.3 billion in its fiscal quarter. But it projected that cash on hand will drop to below $1.3 billion in August—enough to run the service only five days—unless it can convince Congress to lift a mandate to prefund retire health care and allow other cost-cutting measures.

Even then, the Postal Service said, its cash position is likely to worsen significantly in October when it's required to make another payment to the Department of Labor for its worker's compensation plan. That payment is about $1.4 billion.

"We ended the quarter at dangerously low levels of liquidity," said Postal Service Chief Financial Officer Joe Corbett. "We cannot continue to operate on the precipice."

The fiscal first quarter, which ends Dec. 31 and includes holiday shipping, is normally the agency's strongest. This year the period also included a deluge of election-related mail. But its most profitable mail category—First-Class—continued to contract. If the Postal Service stays on plan, it will lose $7.5 billion this fiscal year, which ends Sept. 30, Mr. Corbett said.

Postal Service Inspector General Dave Williams, whose office independently audits the Postal Service, confirmed that the agency has no margin for error. "A single serious event, such as Katrina, 9/11 or anthrax would more than devour the last little bit of cash—there are a lot of ways of going out of business."

If that happens, it would require either a taxpayer-funded bailout or a combination of widespread layoffs and deferred payments to suppliers, Mr. Williams said. If the agency isn't able to pay its workers' comp bill, the federal government would have to decide whether to stop the payments or compensate injured workers out of other funds, he said.

The Postal Service has maxed out its $15 billion borrowing authority from the U.S. Treasury, which is its only line of credit, Mr. Williams confirmed. The agency would need congressional approval to raise that debt limit.

"We need fundamental changes to stay liquid and find a point to return to profitability," said Postmaster General Patrick R. Donahoe.

The biggest drag on the Postal Service is a congressional mandate that requires it to prefund health benefits for future retirees. The Postal Service employs 522,000 full-time employees covered by a government plan. Mr. Donahoe would like the Postal Service to be able to create its own plan, and says it could leverage its size to get the same benefits for less cost.

The Postal Service has done a lot to cut costs already. It has reduced its work force by about 20% in the past five years. It is in the process of closing or consolidating more than 200 plants—about half of all such processing facilities.

The agency doesn't receive an annual taxpayer subsidy toward its annual $73 billion operating budget. It is reimbursed by Congress between $80 million and $100 million a year for services like delivering mail to the blind and overseas voters. It raises the rest by selling stamps and postal-related products. "The post office is supposed to act like a business, but it's board of directors is Congress, who make decisions based on politics, not finance," said Tad DeHaven, a budget analyst at the Cato Institute, a libertarian think tank.

Mr. Williams said the Postal Service suffers under several untenable mandates from Congress, including the requirement to prefund retiree expenses, the resistance to closing post offices and processing plants and the inability to raise prices more than inflation. "You can't survive with those mandates," he said.

Delaying reforms will make more fixes difficult, Mr. Williams said.

Some don't see the situation as quite so dire. Fredric Rolando, president of the National Association of Letter Carriers union, said if not for the health-care prefunding mandate from Congress, the Postal Service would be better than a break-even operation.

"The USPS reported a $100 million operational profit delivering the mail, despite the continuing poor economy," he said. "The decline in first class mail was more than offset by gains in standard mail and in package deliveries–providing the operating profit."