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The Postal Revenue Forgone Appropriation: Overview and Current Issues

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Summary

When Congress put the U.S. Postal Service (USPS) on a self-sustaining basis in 1971, it continued to subsidize the mailing costs of such groups as the blind, non-profit organizations, local newspapers, and publishers of educational material, by providing an appropriation to USPS to cover the revenues that were given up, or “forgone,” in charging below-cost rates for these services. Appropriations for these subsidies mounted as postage rates and the number of non-profits grew, approaching \$1 billion annually in the mid-1980s. Successive administrations sought to cut these costs by reducing eligibility and having other mailers bear more of the burden. Congress failed to appropriate enough to cover costs in the early 1990s, and refused as well to allow USPS to invoke its statutory right to raise rates to cover the shortfall. USPS pleaded that providing social subsidies was not part of its mission, hindered its competitiveness, and was more regressive than taxation in its impact on the public.

The Revenue Forgone Reform Act of 1993 eliminated appropriations to support reduced rates for non-profits, transferring the costs to other mailers. The act retained free postage only for the blind and for overseas absentee balloting materials. Appropriations for subsidizing that narrow purpose since then have been in the range of \$60 million to \$100 million each year. Some of this has lately been provided as an advance appropriation for the next fiscal year, a practice the Bush Administration termed “misleading” in 2001 and tried without success to reverse. The 1993 act also provided for an annual payment of \$29 million each year for 42 years to pay off the debt accumulated in the early 1990s. Congress appropriated this amount every year from 1994 through 2004, but the President’s FY2005 budget proposes to eliminate the payment. The House agreed, but the Senate provided the funds and prevailed in omnibus negotiations.

This report will be updated when the FY2006 budget is sent to Congress.

Each year since implementation of the Postal Reorganization Act (PRA) of 1970, Congress has provided an appropriation to the U.S. Postal Service (USPS) to compensate it for the revenues it would have collected if it had charged full postage to groups Congress has chosen to subsidize. This report covers the concept of the revenue forgone

appropriation, an overview of the appropriations provided since 1972, changes brought about by the Revenue Forgone Reform Act of 1993, and current issues regarding the appropriation.

The Concept of Revenue Forgone

The PRA¹ established the Postal Service as an independent entity with a mandate to operate as a business and cover its expenses through postal revenues. Before then the Post Office was an executive branch department and Congress was heavily involved in such basic decisions as mail classes, postage rates, and annual wage increases. Postage rates were set by law, and because raising them was politically difficult, the substantial annual postal deficit — often as much as 25% of costs — was covered by appropriated funds. There was a long history of especially favorable — even free — postage rates for mailers providing educational materials, political discourse, services to the blind, and other eleemosynary benefits.

With its business orientation and cost-recovery mandate, however, USPS was not expected to provide social services or subsidies. Rather, Congress recognized its own responsibility to appropriate specific funds for any subsidies, and to compensate USPS for any revenues that it would normally be entitled to for providing the service (i.e., for “forgoing” those revenues). As a fail-safe provision, 39 U.S.C. § 3627 authorized USPS, if Congress failed to appropriate funds to cover the costs of free or preferred rates for any class of mail, to “adjust” its rates “so that the increased revenues received from the users of such class will equal the amount for that class that the Congress was to appropriate.” Thus, for example, if Congress failed to appropriate an adequate amount of money, USPS could (and vowed it would) raise rates for non-profits, the blind, in-county newspapers, or books to the full regular rate applicable based on the cost of service as verified by the Postal Rate Commission.

USPS strongly opposed suggestions that it pick up subsidy costs. It argued that shifting costs for social subsidies from the taxpayer to the mailing public was not only in conflict with the USPS mission, it would hinder USPS’s efforts to meet competition, and perhaps also be regressive compared to covering the same costs through taxation. USPS suggested that the need to appropriate money would in turn force Congress to consider more carefully the costs and benefits of each subsidy.²

Growth of Appropriations in Early Years

In the early years, a number of preferred rates carried over from the pre-PRA days. Free mailing privileges were provided for the blind and visually handicapped, and for balloting materials sent under the Uniformed and Overseas Citizens Absentee Voting Act. Reduced second-class rates were provided for in-county mailings of small local newspapers, for publications of non-profit religious, educational, fraternal, scientific,

¹ P.L. 91-375; 84 Stat. 719; 39 U.S.C. 101 et seq.

² U.S. Congress, House Committee on Appropriations, Subcommittee on the Treasury, Postal Service, and General Government Appropriations, *Treasury, Postal Service, and General Government Appropriations for Fiscal Year 1994*, hearings, part 2, 103rd Cong., 1st sess., Feb. 4, 1993 (Washington: GPO, 1993), pp. 44-45, 61, 66-67.

agricultural, labor, and veterans organizations, and for-profit agricultural periodicals. Reduced third-class bulk rates were available to certain non-profits and to authorized political committees. Books, films, and recordings could be sent at reduced fourth-class rates, including from publishers to schools and libraries.

The PRA provided a complicated formula for determining, and gradually raising, postage rates for preferred mailing groups. It depended on the separation of costs of handling into two categories: direct, or “attributable” costs that could be tied to each class of mail, and overhead or institutional costs of maintaining the system, such as costs of facilities, vehicles, pensions, debt service, management, and administration. The Postal Rate Commission was established to oversee the cost determination and rate-setting processes. The PRA set out a 16-year schedule for phasing in increases in preferred rates until they fully covered attributable costs. It was contemplated that Congress would continue in perpetuity to appropriate funds to cover the institutional costs for preferred-rate mailers, assumed at the time to be about half of total costs associated with these mailings. Over the years, as non-profit organizations grew in size and number and regular postage rates increased, the annual revenue forgone subsidy became quite costly. Amounts appropriated rose from \$441 million and \$557 million in FY1972 and FY1973, to \$800 million in FY1979, \$782 million in FY1980, and \$789 million in FY1981. (See **Figure 1**.) At the same time, commercial interests began to complain that they were losing business to non-profits. A frequently cited example was the alumni association of a well-endowed university able to send out travel and cruise advertisements at subsidized rates in competition with commercial travel agents.

President Reagan’s first budget, early in 1981 for FY1982, recommended substantial cuts in revenue forgone funding. Congress eventually provided \$620 million, about \$180 million less than full funding for the subsidy. Consequently, USPS did raise second-class preferred and library rates closer to their actual costs, and raised the non-profit third class rate to the full attributable cost level, effective in January 1983.³ Under pressure from the Office of Management and Budget (OMB), the Postal Rate Commission gradually changed its cost allocation principles so that attributable costs became a larger share of the total, thus reducing the proportion for appropriations to cover.

The high point of revenue forgone appropriations was FY1985, when \$970 million was provided. The program was fully funded during the rest of the 1980s, but at diminished amounts because of the cost allocation principles changes: \$716 million in FY1986, \$650 million in FY1987, \$517 million in FY1988, \$436 million in FY1989, and \$460 million in FY1990. (See **Figure 1**.) About three quarters of these amounts went for the costs of third-class bulk mailing for non-profit organizations.

During the first Bush Administration, the revenue forgone appropriation again became the target of cost-cutting attention in the budget process. In FY1991, the appropriation was \$81 million short of what was due; in FY1992, it was \$71 million short; and in FY1993, it was an additional \$360 million short. The shortfall was

³ U.S. Congress, House Committee on Post Office and Civil Service, Subcommittee on Postal Operations and Services, *Postal Revenue Foregone (sic) Subsidy*, hearings, 98th Cong., 1st sess., Apr. 6, 1983 (Washington: GPO, 1983), p. 48. This was the only time USPS raised rates because of a failure of appropriations, but it was not the only such failure.

particularly sensitive that year, because it pushed USPS from a narrow profit into an overall loss for the year. The reason USPS did not take advantage of the “fail-safe” provisions of 39 U.S.C. § 3627, by raising rates for non-profits, was that it was expressly forbidden to do so in the appropriations acts. Much of the discussion in the FY1994 appropriations hearings was devoted to the shortfall, which seemed likely to grow by another half-billion dollars in that year.⁴

Revenue Forgone Reform Act of 1993

Part of the rationale for not appropriating full revenue forgone amounts under then current law was that the Bush Administration proposed in the FY1991 and FY1992 budget submissions to permanently change the eligibility of certain non-profit mailers for preferred rates, particularly classes with major advertising or commercial content. The FY1992 budget submission also proposed that charitable, educational, and benevolent groups would continue to receive reduced rates, but they would be required to pay about 60% of the overhead cost share for their mail, with the revenue forgone appropriation covering the other 40%. Non-profit mailers objected strongly, and no action was taken other than a cut in the appropriation. President Clinton’s first budget proposal, released February 17, 1993, likewise termed the revenue forgone mail subsidy an “inefficient means of supporting charitable and non-profit organizations” and asserted that “many loopholes exist that allow some mailers to take advantage of the system.”

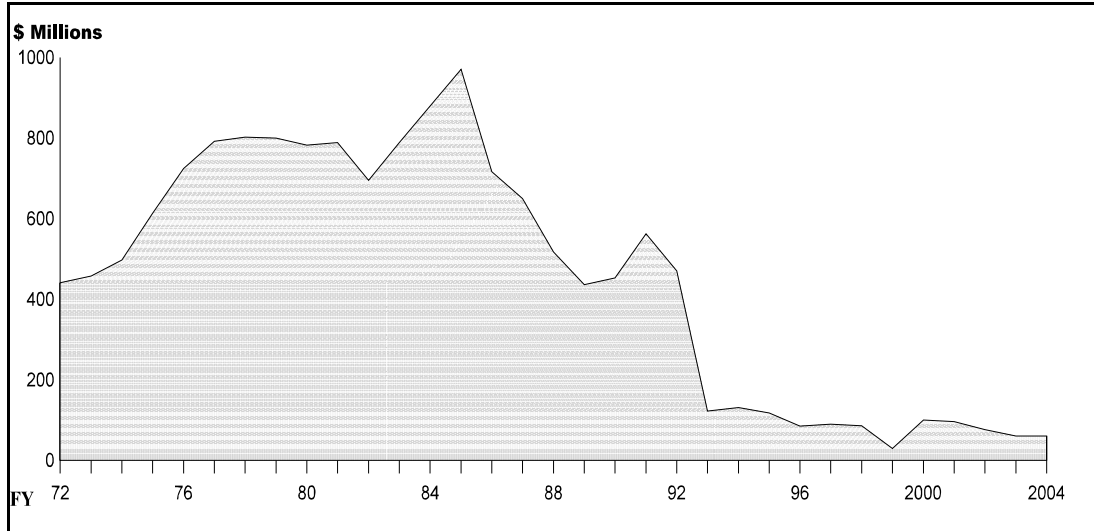
In a compromise brokered by the House Committee on Post Office and Civil Service, this proposal eventually resulted in the Revenue Forgone Reform Act of 1993 (Title VII of the Treasury, Postal Service, and General Government Appropriations Act, 1994, P.L. 103-123; 107 Stat. 1267). The act entirely eliminated the authorization of appropriations for preferred rates for any class of mail. In its place, the act created a mechanism to continue preferred postage rates for restricted categories of non-profits by phasing in higher rates and having other mail classes bear the remaining institutional costs that had previously been covered by appropriations. Non-profits gradually went from a situation where they paid none of the institutional costs attributable to others in their class in FY1993, to one-twelfth in FY1994, then in annual steps to one-half in FY1998 and beyond. The remaining half is absorbed within rates charged other mailers. (P.L. 106-384 (114 Stat. 1460) modified the formula, but not in a way that affected appropriations.)

The Revenue Forgone Reform Act did preserve one appropriated subsidy, however — free mailing privileges for the blind and visually impaired, for voting materials under the Uniformed and Overseas Citizens Absentee Voting Act, and for certain consular and diplomatic officials on a reciprocal basis. (The latter sub-category has been too minor to warrant mention in subsequent appropriations requests or hearings.) Because USPS was owed substantial amounts for the failure of appropriations in FY1991-FY1993, and because it would have additional costs during the phase-in period for the non-profits, the act also authorized the appropriation of \$29 million each year from 1994 through 2035. This was a gradual payment to “reimburse the Postal Service for losses which it incurred” as a result of insufficient appropriations for FY1991, FY1992, and FY1993, and for

⁴ Ibid., pp. 4-6, 10-12, 27, 46, 51-52, 66-67.

anticipated expenditures through 1998 relating to non-profits.⁵ Interest on the debt was not provided. **Figure 1** shows the entire history of revenue forgone appropriations since FY1972, when USPS was established.

**Figure 1. Revenue Forgone
Appropriation Fiscal Years 1972-2004**



Sources: U.S. Postal Service, *Comprehensive Statements on Postal Operations, 1980-1990*. U.S. Office of Management and Budget, *Budget of the United States Government: Appendix* (Washington, GPO, 1990-2005.) Note: Since USPS uses accrual rather than cash accounting, figures in its *Annual Reports* do not match these data. USPS has recognized revenues forgone in 1991-1998 as earned revenues in those years and accounts receivable, even though the Revenue Forgone Reform Act of 1993 does not provide for final payment of the debt until 2035.

Current Appropriations and Issues

In the years since 1994, Congress has regularly appropriated the requested amounts for revenue forgone in providing free mail for the blind and for overseas voters, including the \$29 million due each year for the 1991-1993 shortfall. Because only the blind, overseas voters, and a few diplomatic officials are still eligible for subsidy, amounts are only a fraction of what they were before enactment of the Revenue Forgone Reform Act.⁶ For example, the FY2004 appropriation was \$60 million, including \$31 million for revenue forgone in FY2003, and \$29 million due annually under the 1993 Reform Act.

Some issues remain, however. First, beginning in FY1999, Congress has made the revenue forgone appropriations payment not in the year during which the expenses were incurred, but in the following fiscal year. Thus, the FY1999 appropriation was made payable October 1, 1999, after FY1999 had ended, as an “advance appropriation.” This meant that only \$29 million was scored in FY1999. The George W. Bush Administration, in its FY2002 budget, proposed to “reverse the misleading budget practice of using advance appropriations simply to avoid [annual] spending limitations,” by providing the FY2002 funds on a current basis. The FY2002 Treasury, Postal Service, and General

⁵ 39 U.S.C. 2401 (d).

⁶ The cost of free mail for the blind is well over 90% of the total appropriation, even in an election year.

Government Appropriations Act (P.L. 107-67; 115 Stat. 514) maintained the practice of advance appropriations. The Bush Administration's next three budgets did not renew the recommendation; the \$61,709,000 request for FY2005 revenue forgone would not be payable until FY2006. The postmaster general, in his House Appropriations Subcommittee statement on February 26, 2004, complained about the "financial burden" USPS bears by not being paid for a year after mailings have been handled and delivered.

An issue arose in 2004 about the annual payment schedule for revenue forgone in past years that is set forth in the Revenue Forgone Reform Act. As explained above, the act authorized annual payments to USPS of \$29 million through the year 2035. For 11 years, the payment was provided as a matter of course. In its FY2005 budget, however, the Bush Administration proposed to provide no funds for the payment, and included it in the list of 65 "terminations to discretionary programs" in the budget. In response to questions, OMB pointed out that the Revenue Forgone Reform Act of 1993 only authorized the appropriations, and many programs across government are not funded at the levels contemplated in authorization acts. It also mentioned that Congress and the Administration had relieved USPS of the obligation (in P.L. 108-18) to pay \$3 billion per year for pension costs, and that as a result, USPS had \$3.8 billion in net income in 2003.

USPS complained to Congress about this "dramatic departure from past Presidential budget submissions." The postmaster general has warned that since USPS booked the obligations as "accounts receivable" in the years in which Congress subsidized non-profit mailers, the whole amount due might have to be charged to current ratepayers in the next rate case. "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."⁷ Thus while the Administration's budget proposal would have saved the taxpayer \$29 million in FY2005, it could wind up costing postal ratepayers \$899.5 million in the 2006 rate case.

Finally, the FY2005 budget requested \$14.2 million less for revenue forgone in providing free mail for the blind and overseas voting than USPS had estimated these subsidies would cost. This is not as serious a matter for USPS as the annual \$29 million payment of past debt, because both the amount requested by USPS for FY2005 (\$75,881,000), and the amount in the FY2005 budget (\$61,709,000), are both estimates of the actual expense. It has always been the case that when final audited mail volumes are available, a reconciliation adjustment is made in the budget to bring the actual payment into line with past estimates. For example, the \$61,709,000 budget request for FY2005 includes a \$6,078,000 reconciliation adjustment reflecting that use of the subsidy in FY2002 was underestimated by that amount. Presumably, if the Administration's request is below actual usage in FY2005, a future adjustment will make up the difference.

In the end, the FY2005 omnibus appropriations measure (P.L. 108-447, Division H) did provide the Administration's requested figure — \$61,709,000 — as an advance appropriation for 2006, and, in accordance with the Senate report, restored the \$29 million that the Administration had proposed (and the House had agreed) to terminate.

⁷ Letter from the postmaster general to the Honorable Ted Stevens, Chairman, Senate Committee on Appropriations, Feb. 2, 2004, and Feb. 26, 2004 House Appropriations testimony.