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U.S. Postal Service to default on second \$5B payment

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WASHINGTON — The U.S. Postal Service, on the brink of default on a second multibillion-dollar payment it can't afford to pay, is sounding a new cautionary note that having squeezed out all the cost savings within its power, the mail agency's viability now lies almost entirely with Congress.

In an interview, Postmaster General Patrick Donahoe said the mail agency will be forced to miss the \$5.6 billion payment due to the Treasury on Sunday, its second default in as many months. Congress has left Washington until after the November elections, without approving a postal fix.

For more than a year, the Postal Service has been seeking legislation that would allow it to eliminate Saturday mail delivery and reduce its \$5 billion annual payment for future retiree health benefits. Since the House failed to act, the post office says it's been seeking to reassure anxious customers that service will not be disrupted, even with cash levels running perilously low.

"Absolutely, we would be profitable right now," Donahoe told The Associated Press, when asked whether congressional delays were to blame for much of the postal losses, expected to reach a record \$15 billion this year.

He said the two missed payments totaling \$11.1 billion for future retiree health benefits — payments ordered by Congress in 2006 that no other government agency or business is required to make — along with similar expenses make up the bulk of the annual loss. The remainder is nearly \$3 billion in losses, he said, which would have been offset by savings if the service had been allowed to move to five-day mail delivery.

Donahoe said the post office will hit a low point in cash next month but avert immediate bankruptcy due to a series of retirement incentives, employee reductions and boosts in productivity among remaining staff that saved nearly \$2 billion over the past year.

But the post office has few tools left to build its revenue, he said, without either having to pay upfront money it lacks or get approval from postal unions or Congress.

"We've done a lot to reduce cost out of our system," Donahoe said. "The problem now is this: There's nowhere to go."

Postal unions also say Congress is mostly to blame for losses, but disagree that a reduction to five-day delivery is an answer.

"What is needed is for Congress to undo the harm it has done with the prefunding mandate and for the Postal Service to develop a balanced plan moving forward," said Fredric Rolando, president of the National Association of Letter Carriers. He said cutting Saturday delivery would in particular hurt rural residents and the elderly who depend more heavily on the mail for prescription drugs and other goods.

The Postal Service last month failed to pay \$5.5 billion, its first default ever on a payment. While it will miss a second payment Sunday, it expects to make a \$1.4 billion payment due to the Labor Department on Oct. 15 for workers' compensation. Cash levels are expected to hit a low after that labor payment before rising again due to increased volume from holiday and election mail, including ballots for early voting.

The mail agency said the two payment defaults will not affect day-to-day operations. Post offices will stay open, and suppliers and employees will get paid. Longer term, however, Donahoe has cautioned that a "crisis of confidence" over postal solvency could damage growth.

The post office also remains vulnerable to shifts in the economy that could suppress mail volume. Both FedEx Corp. and UPS recently have cut their earnings forecasts, citing in part slow global economic growth.

"The key thing is Congress must act during the lame-duck session and get this whole thing behind us," said

Donahoe, referring to the few weeks lawmakers will be in session after the election before a new Congress takes office in January. "We can't have a Postal Service where customers are constantly worried about our ability to make payments."

"That's no way to run a business," he said.

Congress will have a full agenda of pressing fiscal issues when it returns in November, and some lawmakers have raised the possibility that postal legislation will get pushed over to the next Congress. Rep. Darrell Issa, R-Calif., who chairs the House Oversight and Government Reform Committee and is a sponsor of the House bill, has said he believes some kind of legislation can be passed in the lame-duck session, although it may not be as comprehensive as initially sought.

The Senate passed a postal bill in April that would have provided financial relief in part by reducing the annual health payments and providing an \$11 billion cash infusion, basically a refund of overpayments the Postal Service made to a federal pension fund. The House, however, remains stalled over a separate bill that would allow for aggressive cuts, including an immediate end to Saturday delivery. Rural lawmakers in particular worry about the impact of post office closures in their communities.

The Postal Service originally planned to close low-revenue post offices in rural areas to save money, but after public opposition it now is moving forward with a new plan to keep 13,000 of them open with shorter operating hours. The Postal Service also will begin closing more than 200 mail processing centers next year, but the estimated annual savings of \$2.1 billion won't be realized until the full cuts are completed in late 2014.

"Once again, we are watching the days slip away before the U.S. Postal Service faces the second default of its history. Republican leaders in the House of Representatives have now had 11 months to do the right thing and fix the serious, but solvable, financial challenges," said Sen. Tom Carper, D-Del., a co-sponsor of the Senate bill. "Every day Congress delays fixing this problem, the financial challenge grows more difficult and the potential solutions become more expensive."

The Postal Service, an independent agency of government, does not receive tax dollars for its day-to-day operations but is subject to congressional control.

Art Sackler, co-coordinator of the Coalition for a 21st Century Postal Service, a group representing the private-sector mailing industry, said many businesses are preparing their budgets for next year and have no idea whether to expect disrupted service or higher postage costs.

"Congress needs to act quickly on comprehensive postal reform," he said. "These defaults, mounting debts and declining revenues aren't just going to hurt the Postal Service; they're going to hurt the 8 million Americans whose jobs depend on the mail."

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