

090695
3.37.08



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

113-6361

RELEASED

28

DEC 13 1972

B-114874

C
- R Dear Senator Bible:

In response to your request of October 11, 1972, we have reviewed the comments of Mr. John F. Stephenson regarding the authority given to the Postal Service by the Postal Reorganization Act (39 U.S.C. 2005) to borrow up to \$10 billion to make capital improvements and to defray operating expenses.

Mr. Stephenson contended that (1) postal revenues and receipts will be insufficient to redeem the bonds that are issued and that this burden will fall on the taxpayers and (2) neither the Securities and Exchange Commission (SEC) nor the General Accounting Office (GAO) has any meaningful supervision over the manner in which the bond proceeds are obtained and spent.

BACKGROUND

The Postal Reorganization Act authorized the Postal Service to issue and sell bonds. Under this authority, the aggregate amount of any such outstanding obligations cannot exceed \$10 billion. Also, in any one fiscal year, the net increase in the amount of outstanding obligations issued to make capital improvements cannot exceed \$1.5 billion and the net increase in the amount of outstanding obligations issued to defray operating expenses cannot exceed \$500 million.

The Postal Service utilized its borrowing authority on February 1, 1972, when it issued and sold \$250 million of series A bonds, bearing interest at 6-7/8 percent, to help finance the Postal Service's capital expenditure program. The bonds, which are due in 1997, are secured as to payment of principal and interest by a first lien on, and pledge of, the revenues and receipts of the Postal Service. These obligations are not guaranteed by the United States Government.

904301 090695

POTENTIAL FOR BOND REDEMPTION

Mr. Stephenson noted that on March 28, 1972, the Postmaster General predicted that the Postal Service would have an accumulated deficit of at least \$20 billion by 1984. In view of this anticipated deficit, Mr. Stephenson expressed the opinion that revenues and receipts will apparently be insufficient to redeem the Postal Service bonds and that the taxpayers will end up footing the bill.

We believe that consideration should be given to the context of the Postmaster General's projection. Our examination of the text of the Postmaster General's March 28th speech showed that he did not say that the Postal Service would inevitably incur a deficit of \$20 billion. Rather, he stated that such a deficit was possible unless the Postal Service could reduce costs or obtain additional income.

It is conjectural whether the Postal Service will be successful in eliminating the projected deficit. The Postal Service may be able to achieve this objective, however, through some combination of cost reductions and revenue increases.

Also, under the terms of the trust indenture on the series A bonds, the Postal Service is required to establish a sinking fund to retire the bonds. Each year, beginning in 1978, the Postal Service will deposit \$10 million into the fund. Accordingly, the impact of repayment will be spread over a number of years. Further, even if the Postal Service should accumulate a sizable deficit through 1984, the situation could right itself by 1997 when the first issue of bonds becomes due.

POSTAL SERVICE'S RELATIONSHIP
WITH SEC AND GAO

SEC has agreed with the Postal Service's General Counsel that bonds issued by the Postal Service are Government securities and are exempt from SEC requirements.

B-114874

The Postal Reorganization Act authorized GAO to audit the accounts and operations of the Postal Service. Under this authority, GAO is reviewing postal operations and programs, including those programs financed by proceeds from the sale of bonds.

We hope this information will be helpful.

Sincerely yours,


Comptroller General
of the United States

The Honorable Alan Bible
United States Senate