

FY 2008 Integrated Financial Plan (IFP)

**Board of Governors Meeting
Open Session
September 26, 2007**

Financial Impacts from Postal Act of 2006

Impact from Legislation on FY 2007 Financials

	<u>Impact</u>
• Payment of restricted cash from FY 2006 into Retiree Health Benefit Fund (2007 Expense for GAAP reporting)	-3.0B
• Payment on September 30, 2007 into Retiree Health Benefit Fund (2007 Expense for GAAP reporting)	-5.4B
• No longer required to pay employer's share of CSRS contributions (Reduction to 2007 Expense)	<u>+1.5B</u>
• Total Impact	-6.9B

FY 2007 Cash Flow Changes

Use of Cash:

Sept 2007 Retiree HB Fund	\$5.4
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Sources of Cash:

Planned 2007 Escrow	\$3.3
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Planned CSRS Contributions	<u>\$1.5</u>
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<u>\$4.8</u>

Net Cash Outflow	\$0.6
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(\$ Billions)

Summary of Costs From New Law – FY 2008

Eliminate CSRS Contribution	\$1.5
Eliminate Escrow Payment	3.6
Scheduled Payment to RHBF (includes extra \$0.2 for PRC & OIG)	(5.6)
Removal of Interest Income on Escrow	(0.3)
Additional SOX and Administrative	<u>(0.2)</u>
Direct Impact on Net Income	\$(1.0)

(Compared to assumptions in R2006-1 Rate Case)

Operating Plan

Capital Plan

Financing Plan

FY 2008 Planning Assumptions

- **Economy**
 - **Gross Domestic Product = 2.6%**
 - **Consumer Price Index = 2.0%**
 - **Employment Cost Index -1% = 2.0%**
 - **Retail Sales = 1.9%**
- **No Rate Change Assumed – Decision Pending**

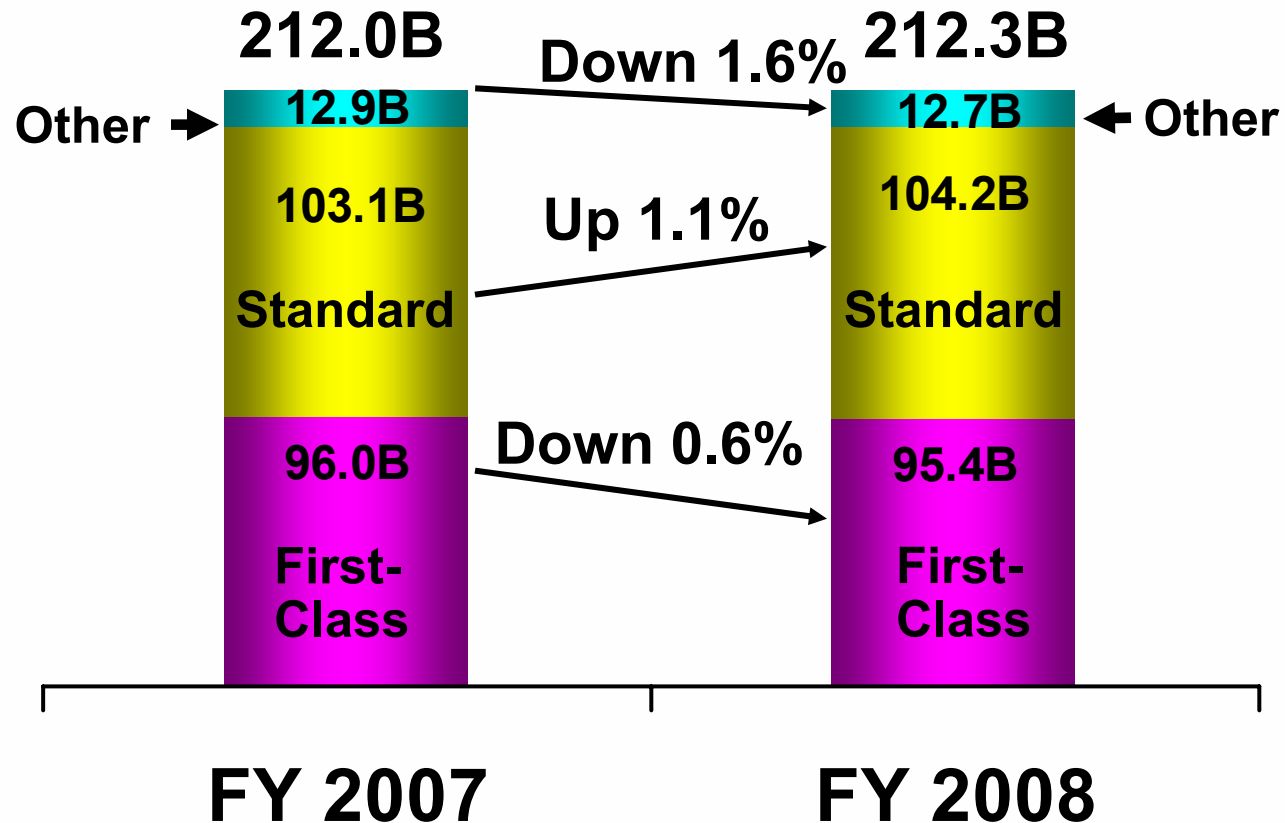
FY 2008 IFP Summary

- **Revenue (+4.3% to FY 2007)**
- **Volume (+0.1% to FY 2007)**
- **Cost Reductions of \$1 Billion**
- **Expense Growth below CPI**
- **Payment of \$5.6 Billion to Postal Service Retiree Health Benefit Fund (PSRHBF)**
- **Ninth Consecutive Year of TFP Growth**

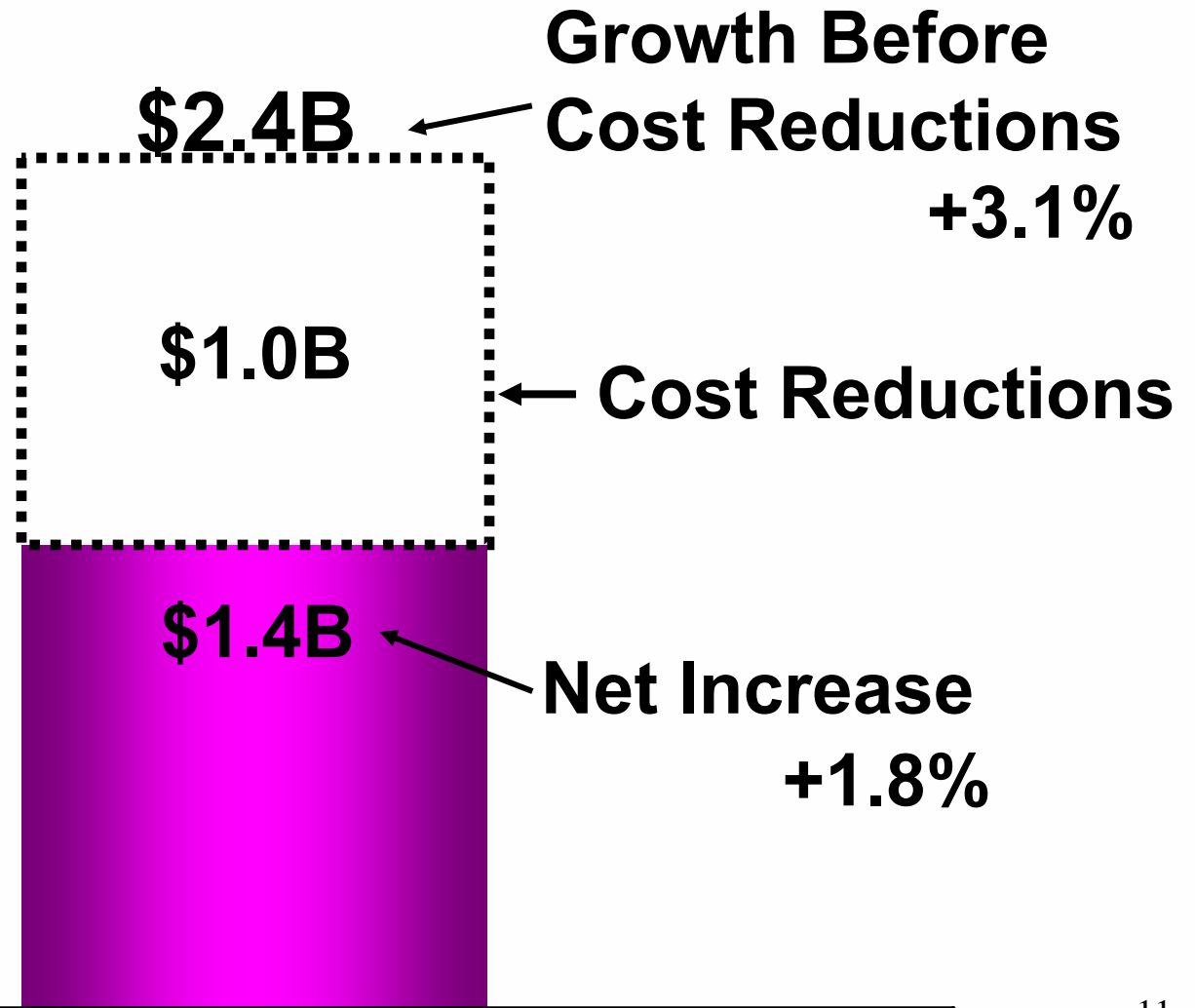
FY 2008 IFP vs. Projected FY 2007

	FY 2007	2008	
	<u>Estimate</u>	<u>IFP</u>	<u>% Chg</u>
Volume (pieces)	212.0B	212.3B	+0.1%
Revenue	\$ 75.0B	\$ 78.2B	+4.3%
Expense	<u>77.4B</u>	<u>78.8B</u>	+1.8%
Net Loss before Escrow	-\$ 2.4B	-\$ 0.6B	
2006 Escrow	<u>3.0B</u>	<u>--</u>	
Net Loss	-\$ 5.4B	-\$ 0.6B	

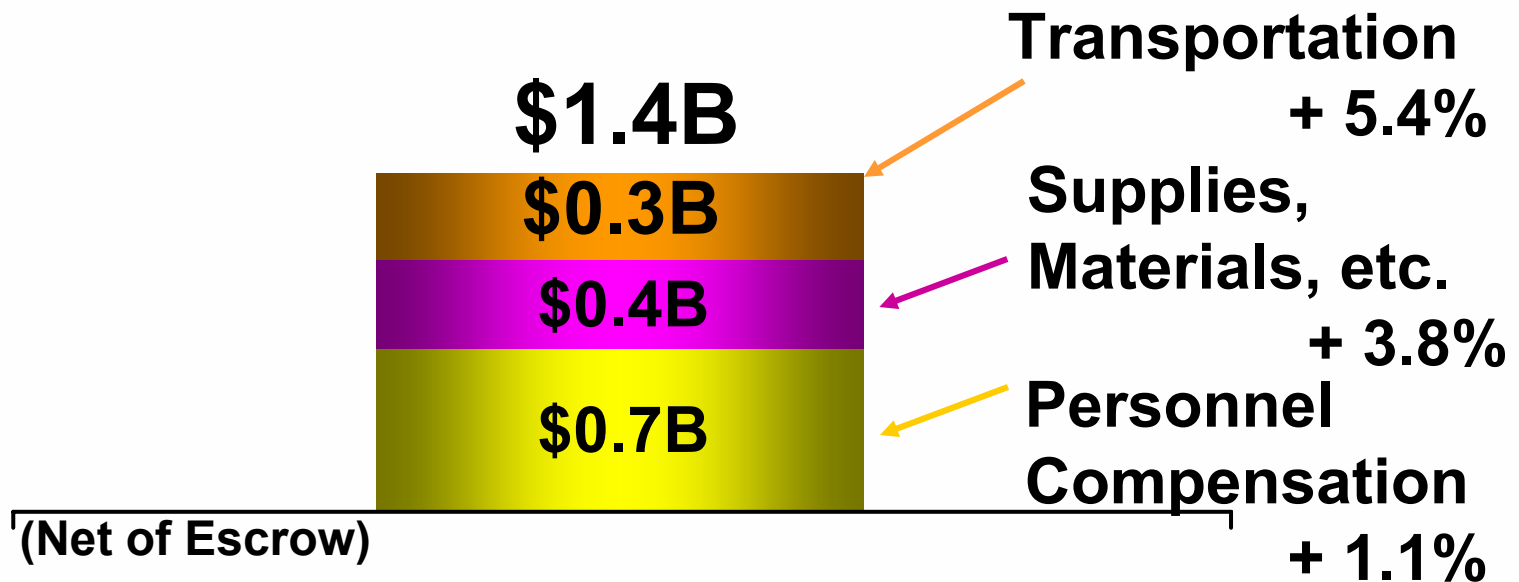
Volume Change



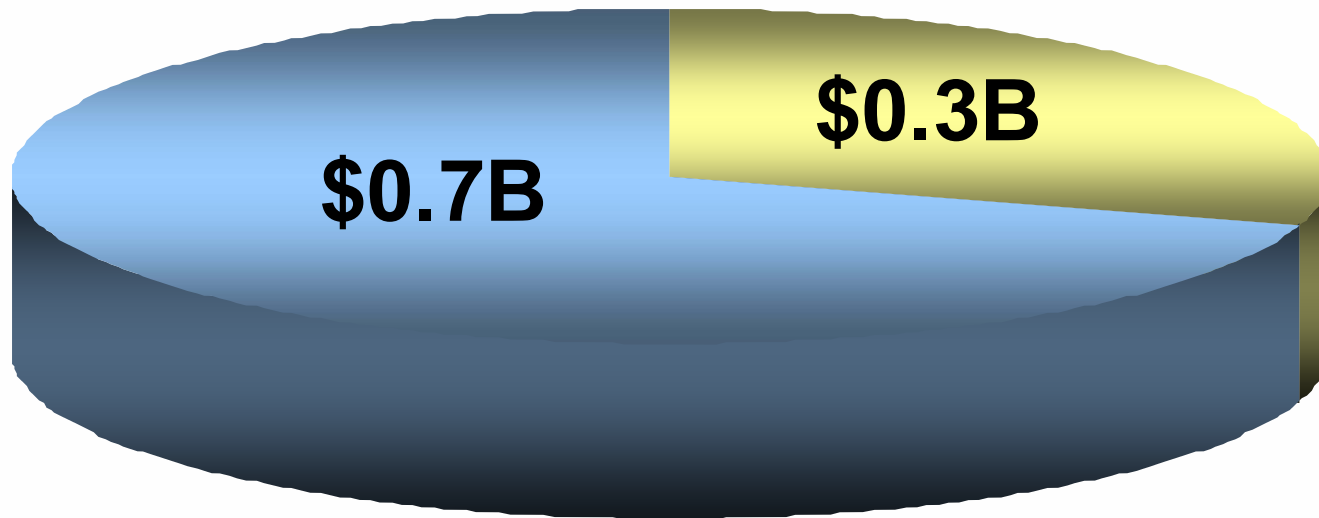
Expense Growth – FY 2008 vs. FY 2007



Expense Growth – FY 2008 vs. FY 2007



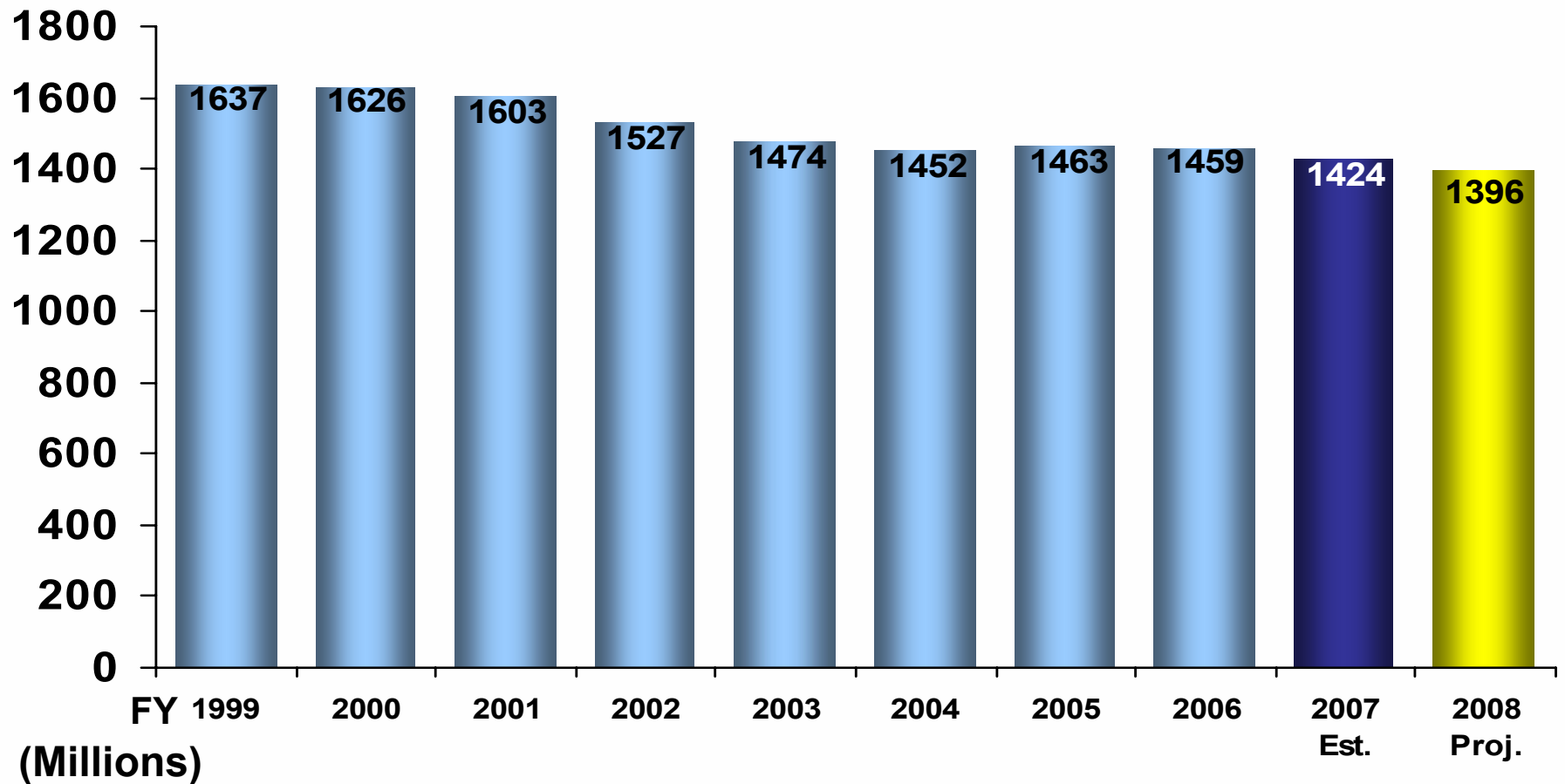
FY 2008 Cost Reductions



Total = \$1.0B

-  **Capital Investments**
-  **Process Improvements**

Total Workhours



Projected Total Factor Productivity


FY 2007


 -0.5% Workload

 -1.5% Resources

 +1.0% Total Factor Productivity

FY 2008

 -0.3%

 -1.3%

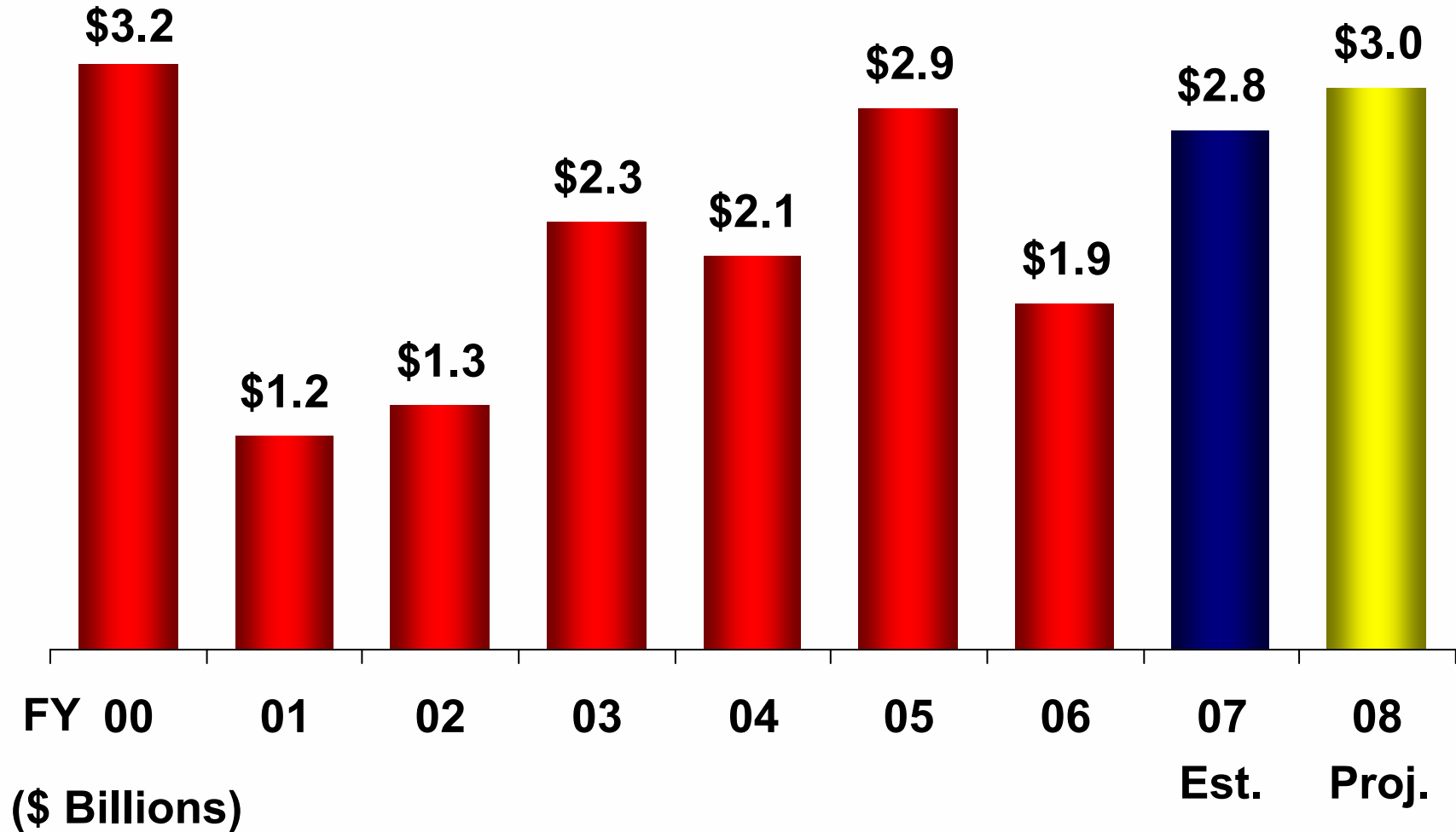
 +1.0%

Operating Plan

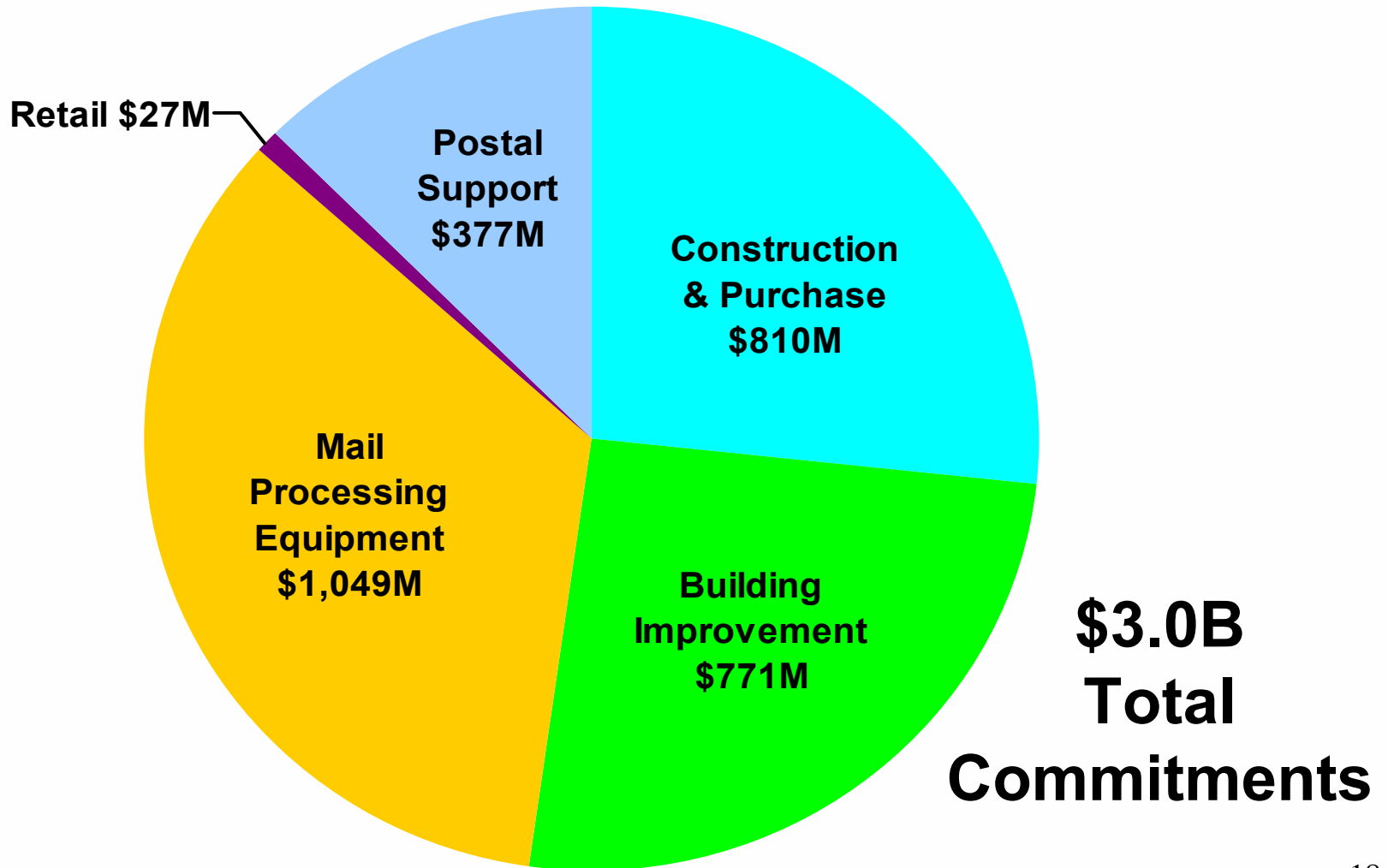
Capital Plan

Financing Plan

Capital Commitments



Capital Commitments – FY 2008 Components



Operating Plan

Capital Plan

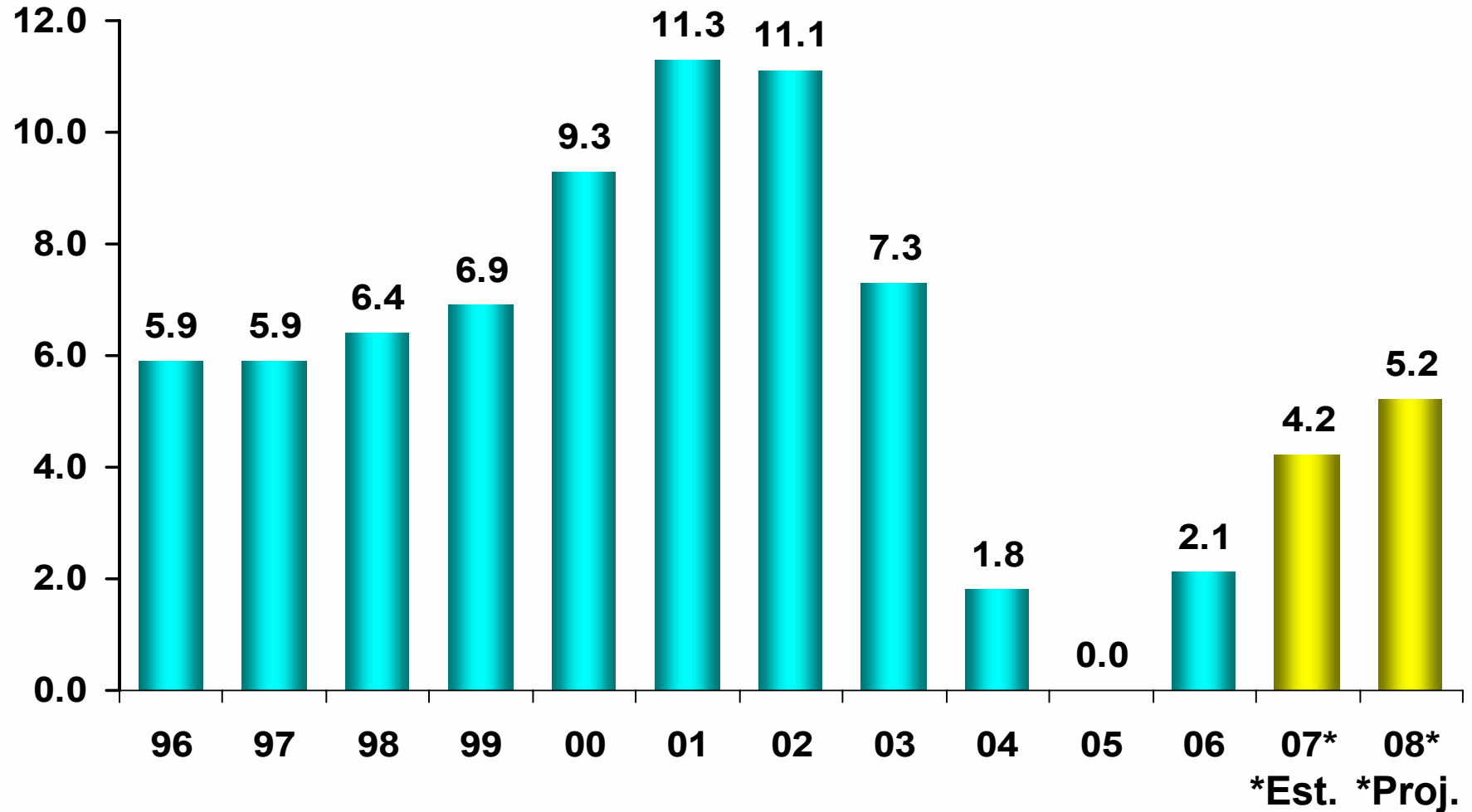
Financing Plan

Financing Plan

(\$Billions)	<u>FY 2007 Estimate</u>	<u>FY 2008 Plan</u>
Beginning Year:		
Unrestricted Cash	\$ 1.0	\$ 0.7
Restricted Cash	3.0	0.0
Cash Flow from Operations (Before HB Payment)	\$ 5.5	\$ 6.9
Payment to HB Fund	-8.4	-5.6
Capital Cash Outlays	<u>-2.5</u>	<u>-2.3</u>
= Free Cash Flow	-\$ 5.4	-\$ 1.0
Cash From Financing (U.S. Treasury)	<u>2.1</u>	<u>1.0</u>
= Change In Cash	-\$ 3.3	\$ 0.0
End of Year Cash	\$ 0.7	\$ 0.7
Average Debt	\$ 0.1	\$ 0.6
Debt Outstanding at Year End	\$ 4.2	\$ 5.2

Year-End Debt

(\$ in Billions)



FY 2008 Risks and Opportunities

- **Economy**
- **Do Not Mail List**
- **Volume Impact from May 2007 Rate Increase**
- **Managing Workforce Flexibility**
- **Continuing Work Hour Reductions**
- **Benefits/Costs from Postal Act of 2006**

Management's Recommendation:

**Board approval of the FY 2008 Operating Plan
(Board Vote)**

Management's Recommendation:

**Board approval of the FY 2008 Capital Plan
(Board Vote)**

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