

GAO

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POSTAL REFORM LAW

Early Transition Is Promising, but Challenges to Successful Implementation Remain

Statement of Katherine Siggerud, Director
Physical Infrastructure Issues



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Accountability · Integrity · Reliability

Highlights

Highlights of [GAO-08-503T](#), a testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, U.S. House of Representatives

Why GAO Did This Study

In December 2006, Congress passed the first comprehensive postal reform legislation in over 30 years. The Postal Accountability and Enhancement Act (the act) provided opportunities to address many of the financial, operational, and human capital challenges facing the Postal Service (the Service), which contributed to GAO's decision to remove the Service's transformation efforts from its High-Risk List last year. Specifically, the act provides tools and mechanisms that can be used to establish an efficient, flexible, fair, transparent, and financially sound Postal Service—one that can more effectively operate in an increasingly competitive environment not anticipated under the Postal Reorganization Act of 1970.

This testimony focuses on (1) the actions to date resulting from implementing the act and how it affected the Service's 2007 financial condition, (2) the implementation challenges and areas for continued oversight, and (3) how information required under the law can contribute to future postal reform decisions. The testimony is based on GAO's past work; a review of the implementation of the postal reform law, including actions already taken; and updated information on the Service's financial and operational condition. The Postal Service had no comments on this testimony.

To view the full product, including the scope and methodology, click on [GAO-08-503T](#). For more information, contact Katherine Siggerud at (202) 512-2834 or siggerudk@gao.gov.

POSTAL REFORM LAW

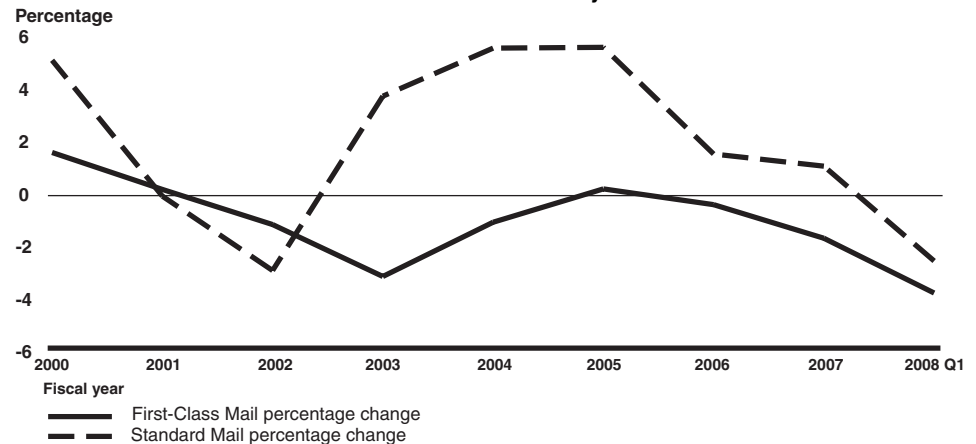
Early Transition Is Promising, but Challenges to Successful Implementation Remain

What GAO Found

Over the last 14 months, key actions have been taken to implement the act. For example, a new rate-setting system and regulatory agency were established, the Service began prefunding its retiree health benefit obligations, service standards were updated, and key reports were issued. These actions have required the collective efforts of many postal stakeholders including the Service and the Postal Regulatory Commission. The Service reported a \$5.1 billion net loss for fiscal year 2007. Some of the actions taken to implement the act, such as funding changes to its retiree health benefit obligations and pension requirements, directly impacted these results, as did other events such as the January 2006 and May 2007 rate increases.

The uncertain economic environment serves to exacerbate the challenges facing the Service and contributed to lower than expected mail volumes and revenues in the first quarter of fiscal year 2008. The Service projects a \$600 million net loss for 2008 as it faces challenges such as generating volumes (see figure) as rates increase again in May; managing its costs and improving operational efficiencies through accelerated cost reduction strategies; maintaining, measuring, and reporting service; and managing its workforce.

First-Class Mail and Standard Mail Volumes have Recently Declined



Some key areas for continued oversight include changes to mail volumes and revenues, efforts to control costs by optimizing the Service's infrastructure and workforce, transition to new automation and technology to enhance mail sorting and tracking, transparency in measuring and reporting delivery performance, and implementation of the new rate-setting regulations.

Information required under the act can be used to facilitate constructive dialogue about complex postal reform issues that may eventually need to be revisited by Congress. The act requires multiple reports and studies over the next 5 to 10 years that can be used to continually examine and assess the Postal Service's position in an environment of increasing competition and technological advances. Specifically, these reports and studies will provide key information on the Service's mission and role, monopoly protections, universal service requirements, rate-setting and other regulatory issues, oversight structure, competition issues, and consumer protection.

Chairman Davis, Representative Marchant, and Members of the Subcommittee:

I am pleased to be here today to participate in this oversight hearing for the U.S. Postal Service (the Service). At last year's oversight hearing, I testified that Congress's efforts to pass comprehensive postal reform provided opportunities to address many of the financial, operational, and human capital challenges facing the Service.¹ Specifically, the Postal Accountability and Enhancement Act (the act)² provided tools and mechanisms that can be used to establish an efficient, flexible, fair, transparent, and financially sound Postal Service—one that can more effectively operate in an increasingly competitive environment not anticipated when the Postal Service was created under the Postal Reorganization Act of 1970. These fundamental changes contributed to GAO's decision to remove the Postal Service's transformation efforts from our High-Risk list in January 2007.³

My remarks today will focus on (1) the actions to date resulting from implementation of the act, including how it affected the Service's 2007 financial condition,⁴ (2) the implementation challenges and areas for continued oversight, and (3) the way information required under the law can contribute to future postal reform decisions. My statement is based on work we conducted in January and February 2008, including reviewing such Postal Service documents as the 2007 Audited Annual Report and Comprehensive Statement, 2008 Integrated Financial Plan, the financial report for the first quarter of 2008, updated Strategic Transformation Plan; reports and information related to the act; and our past work. We also interviewed Postal Service officials. We conducted this performance audit in accordance with generally accepted government auditing standards.

¹GAO, *U.S. Postal Service: Postal Reform Law Provides Opportunities to Address Postal Challenges*, [GAO-07-684T](#), (Washington, D.C.: April 17, 2007).

²Pub. L. No. 109-435: The Postal Accountability and Enhancement Act, enacted Dec. 20, 2006.

³In GAO, *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D.C.: January 2007), we determined that sufficient progress had been made to warrant removing the Postal Service's transformation efforts and outlook from our high-risk list. We had originally made this designation in April 2001 to reflect its growing financial, operational, and human capital challenges.

⁴Unless otherwise noted, all references to specific years refer to the Postal Service's fiscal year, which ends on September 30.

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

The Postal Service, the Postal Regulatory Commission (PRC),⁵ and other postal stakeholders have worked cooperatively to date to meet their responsibilities in fulfilling the requirements of the act. Some of the key actions include establishing

- regulations for a new rate-setting system and the Service's decision not to implement another rate increase under the old system,
- the new PRC and its Office of Inspector General (OIG),
- a retiree health benefits fund, held by the U.S. Treasury for prefunding retiree health insurance premiums, and transferring into this fund the surplus for postal employees under the Civil Service Retirement System (CSRS), and
- modern service standards for the Service's products covered by the postal monopoly.

In addition, several reports required under the act have been issued, and the PRC has solicited public comments and held meetings to stimulate constructive dialogue on some of the complex issues involved in establishing the new regulatory framework. The Service reported a \$5.1 billion net loss for 2007. Some of the actions taken to implement the act, such as funding changes to its retiree health obligations and pension requirements, directly impacted these results, as did other events such as rate increases in January 2006 and May 2007.

The financial, operational, human capital, and regulatory challenges facing the Service and other stakeholders as they take actions to continue implementing the act are exacerbated by the current uncertain economic environment. A slowing economy, recent rate increases, and other factors

⁵The Postal Regulatory Commission was previously named the Postal Rate Commission. Section 604 of the act redesignated the Postal Rate Commission as the Postal Regulatory Commission.

have negatively impacted the Service's financial performance in the first quarter of 2008—its mail volumes and revenues were both lower than planned. The Service was able to mitigate these impacts by managing cost growth while achieving record service delivery performance for the segment of First-Class Mail⁶ that is currently measured.⁷ In response to concerns about challenges to its financial outlook, the Service filed its first rate increase for its market-dominant products⁸ under the act on February 11, 2008. This rate increase, which averages about 2.9 percent for the majority of its products, is scheduled to take effect on May 12, 2008. Service officials stated this increase is expected to contribute an additional \$700 million in revenues for 2008, and will need to be supplemented by accelerated cost reduction strategies totaling \$2 billion for the year to achieve its year-end target of a \$600 million net loss. The Service has also updated its strategies for addressing challenges related to achieving efficiencies through automation and improving service. Some key areas for continued oversight include changes in mail volumes and revenues, efforts to control costs by modernizing and optimizing the Postal Service's infrastructure and workforce, the transition to new automation and mail-tracking systems, the level of transparency in measuring and reporting delivery performance, and the implementation of the new rate-setting processes and regulations.

Information required under the act can be used to facilitate constructive dialogue about postal reform issues related to universal service, the postal monopoly, fair competition, consumer protection, and transparency and accountability. Specifically, the act included provisions for reports required over the next 5 to 10 years related to examining and reporting on the Postal Service's mission, role, and oversight structure in an

⁶First-Class Mail includes single-piece mail (e.g., bill payments and letters) and bulk mail (e.g., bills and advertising).

⁷This segment of mail is measured using the External First-Class Measurement System (EXFC). The EXFC system is not a system wide measurement of all First-Class Mail performance. According to the Service, EXFC continually tests mail deposited in collection boxes in 463 three-digit zip code areas selected for geographic and volume density.

⁸The act created different pricing mechanisms for the Service's competitive and market-dominant products. Market-dominant products include those products protected by the postal monopoly, such as First-Class Mail letters, Standard Mail (mainly bulk advertising and direct mail solicitations), and Periodicals (mainly magazines and local newspapers) and competitive products are not protected by the postal monopoly and include Priority Mail and Expedited Mail. Sections 201 and 202 of the act list which products are market-dominant and competitive.

increasingly competitive environment.⁹ This work was to be performed by multiple stakeholders, including the Postal Service, PRC, the Postal Service OIG, the Office of Personnel Management (OPM), Treasury, and GAO, with a wide range of deadlines. We look forward to reviewing this information as part of the evaluation we are required to conduct under the act of various options and strategies for long-term structural and operational reforms to assure that the Postal Service can continue providing affordable universal postal service.

Key Actions Have Been Taken to Implement the Act

Several key actions have been taken to implement the law since it was enacted over 14 months ago. Some of the actions taken to implement the act had a direct impact on the Service's 2007 financial condition, while others facilitated the transition to a new financial, operating, and regulatory environment. Specific actions in the act that have affected the Service's 2007 financial condition include:

- prefunding the Service's significant unfunded retiree health obligations. While this change results in significant retiree health benefit cost increases for a decade, over the long term this action improves the fairness and balance of the cost burdens for current and future ratepayers. The Service's 2007 payment of \$5.4 billion was the first of 10 annual payments required under this change.¹⁰
- expensing almost \$3 billion in funds previously set aside in escrow (transferring them to the Treasury) and eliminating future escrow payments, including an estimated \$3.3 billion payment that had been scheduled for 2007.¹¹
- transferring the estimated \$27 billion funding obligation for selected military service benefits back to the Treasury.
- eliminating certain annual CSRS pension funding requirements, thereby saving the Service approximately \$1.6 billion in 2007.

⁹For a listing of these reports and actions, see Congressional Research Service, *The Postal Accountability and Enhancement Act*, RS22573 (Washington: D.C.: Jan. 22, 2007).

¹⁰These payments go into the newly created Postal Service Retiree Health Benefit Fund (PSRHBF).

¹¹The Postal Civil Service Retirement System Funding Reform Act of 2003 required the Postal Service to escrow the reduction in its civil service pension expenses that resulted from changes to how the Service funded these pensions.

The effects of these changes, however, must be put into context with other actions and events during this time to gain a comprehensive understanding of the Service's financial and operating condition. For example,

- Mail volumes and revenues: Total revenues of nearly \$75 billion dollars in 2007 represented an increase of 3 percent from 2006. This revenue increase, however, was largely attributable to the January 2006 and May 2007 rate increases—not mail volume increases.¹² In particular, the Service experienced an overall decline in mail volume from 2006 of over 900 million pieces (a 0.4 percent decline), largely due to a decrease of 1.7 billion pieces of First-Class Mail and the smallest increase in Standard Mail volumes since 2001.
- Operating costs: Total operating expenses of over \$80 billion in 2007 represented an increase of nearly 12 percent from 2006. This increase was largely due to a net increase of \$6.8 billion in expenses that resulted from requirements of the act described earlier.¹³ The Service was also affected by increases in postal wage rates; rising fuel costs (its transportation costs grew by almost 8 percent); and the extension of mail service to an additional 1.8 million delivery points.
- Productivity and cost control: The Service was able to partially mitigate these cost pressures by improving productivity for an eighth consecutive year. The Service reported a 1.7 percent increase in productivity, which is equivalent to \$1.2 billion in cost savings. The Service reduced over 36 million workhours, partly by downsizing its career workforce by over 11,000 employees.

¹²The January 2006 rate increase was on average, 5.4 percent, and the First-Class stamp rate went from 37 cents to 39 cents. The May 2007 rate increase was, on average, 7.6 percent and the First-Class stamp rate increased to 41 cents. As part of this rate change, the Service sought to align postal rates with the respective mail handling costs. Some rate increases recommended by the PRC and implemented by the Service were particularly large, including some catalog rates that increased by 20 to 40 percent. The new rate structure is aimed at providing greater incentives for more efficient mailing practices (e.g., shape, weight, handling, preparation, and transportation) and thereby encouraging smaller rate increases in the longer run.

¹³The \$6.8 billion net increase in expenses as a result of changes in the act consists of the new retiree health benefit payment (\$5.4 billion) and the expensing of escrow monies (\$3.0 billion), being offset by the \$1.6 billion reduction in CSRS expenses.

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- **Labor agreements:** The Service negotiated agreements with 3 of its 4 major unions on wages, many benefits, and conditions of employment in 2007.¹⁴
 - **Debt:** The Service's outstanding debt increased \$2.1 billion in 2007, doubling its 2006 debt balance to \$4.2 billion.¹⁵ These increases were primarily used to finance year-end worker compensation and retiree health payments.
 - **Capital:** The Service reported a slight increase in capital cash outlays of \$2.6 billion in 2006 to \$2.7 billion in 2007. These funds were used for such projects as new facilities, automation equipment, and carrier vehicles.
 - **Service performance:** According to the Service, it reported record annual on-time performance for First-Class Mail measured by the EXFC system. The Service reported on-time performance for 2007 of 96 percent for its 1-day mail, 93 percent for its 2-day mail, and 90 percent for its 3-day mail.

The net income reported for 2007 was a \$5.1 billion loss. Removing the financial impact of the new law, the Postal Service's net income would have been \$1.6 billion (which was \$100 million less than the \$1.7 billion originally budgeted for the year). Because of the new law, however, the Service required an additional \$500 million in cash to cover the differences between the net increase in retirement-related expenses of \$3.8 billion¹⁶ and the expected \$3.3 billion escrow payment that was avoided.

Aside from its direct financial impact, the act required other actions to facilitate the transition to a new financial, operating, and regulatory environment. Table 1 summarizes key actions.

¹⁴The agreement with the fourth major union resulted from a binding arbitration decision issued in December 2007.

¹⁵The Service's annual debt limit is \$3 billion, and its total debt limit is \$15 billion.

¹⁶The \$3.8 billion net increase in retirement-related expenses is comprised of the \$5.4 billion retiree health payment due in 2007 and the \$1.6 billion reduction in the Service's pension expenses in 2007.

Table 1: Summary of Selected Key Actions Taken to Implement Postal Reform Law

| Date | Party responsible | Action taken |
|---------------|---|--|
| May 2007 | The Service's Office of the Inspector General (OIG) | Issued a report on workplace safety that found the Service exceeded its workplace safety goals for 2005 and 2006, but also recommended that the Service monitor costs associated with accidents. |
| June 2007 | The Office of Personnel Management (OPM) | Determined the Postal Surplus/Supplemental Liability as of September 30, 2006, regarding the Civil Service Retirement System. |
| November 2007 | The Postal Regulatory Commission (PRC) | Issued regulations that established the new rate-making system. The regulations consist of three parts: (1) regulations related to rate adjustments for market-dominant products, including the formula for calculating the price cap; (2) regulations related to competitive products; and (3) a Mail Classification Schedule, which categorizes products as either market dominant or competitive. |
| | The Postal Service's OIG | Issued a report on the adequacy and fairness of the process for assessing certain rate deficiencies. This report found the assessments and appeals process was adequate and fair, and that there was no compelling reason for Congress to assign an outside body a role in this process. It did identify issues with the Service's monitoring of revenue deficiencies and updating of procedures. It determined that a statute of limitations on the assessment of revenue deficiencies was not necessary. |
| December 2007 | The Postal Service Board of Governors: | Issued <i>Board of Governors' Report to the President and Congress on the Representation of Women and Minorities in Supervisory and Management Positions in the United States Postal Service</i> . This report included diversity information for both supervisory and management positions, as well as for the workforce as a whole. |
| | The Postal Service: | Issued <i>Board of Governors' Report to the President and Congress on United States Postal Service Contracts with Women, Minorities and Small Businesses</i> . This report stated the Service exceeded its annual goals by almost 12 percent for contracts issued by minority-owned and almost 22 percent for women-owned businesses in 2007. |
| | The Postal Service: | Filed its 2007 Annual Compliance Report on the costs, revenues, rates, and quality of service associated with its products to the PRC for its evaluation. The PRC stated this report did not contain all of the information that normally would be provided, noting that it was the Service's first report under the act's tight deadline for filing within 90 days after the end of the fiscal year. The PRC also has stated that the report was prepared without the guidance of PRC regulations governing its form and content, which were under development at the time. PRC solicited public comment on the report, including on the degree to which the Service's operations and financial results complied with the policies of title 39 of the U.S. Code (i.e., the nation's postal laws). |
| | The Department of Treasury | Published regulations to establish modern service standards for its market-dominant products, including mail covered by the postal monopoly. Issued a report with recommendations on accounting practices and principles that should be followed by the Service. The PRC is soliciting public comment on the report, including what financial transparency and oversight are appropriate for the Service's Competitive Products Fund and who should conduct such oversight. |

| Date | Party responsible | Action taken |
|------------------------------------|-------------------|---|
| GAO | | Issued an interim report: <i>Postal Service and Mailing Industry Mail-Related Recycling: Accomplishments and Postal Opportunities</i> . This report found that postal stakeholders have undertaken numerous mail-related recycling initiatives, but the extent to which these initiatives have been adopted is unknown. Additionally, stakeholders identified opportunities for the Service to engage in, or encourage others to engage in, mail-related recycling. The full report will be issued later this year. |
| The Federal Trade Commission (FTC) | | Issued the <i>Accounting for Laws That Apply Differently to the United States Postal Service and Its Private Competitors</i> which identified and analyzed laws that apply differently to the Service's competitive products and similar products provided by private competitors, and estimated the Service's economic burdens and advantages due to these legal differences. The report discussed ways that the PRC or Congress may be able to minimize or eliminate marketplace distortions. |

Source: GAO analysis of Pub. L. 109-435.

As indicated in table 1, multiple stakeholders have taken actions to implement the requirements of the act. While each of these actions is important, I would like to highlight the efforts of the Postal Service and other stakeholders in modernizing service standards and of the PRC in transitioning to its new regulatory responsibilities.

- Service standards:** The Service has made important progress in implementing the act's requirements to establish modern service standards for market-dominant products. The Service's approach to developing these standards incorporated a high level of collaboration with mailers, consultations with the PRC, and comprehensive review of its network capabilities. A workgroup involving nearly 200 representatives from the Service, mailing organizations and mailers, and other members of the mailing industry was particularly noteworthy for its efforts to identify issues and build consensus in this area. The result was the most sweeping update in delivery performance standards in many years. In particular, standards for Periodicals, Package Services, and Standard Mail that dated back many years were realigned with current postal operations.¹⁷
- Regulation:** A key tenet of the act was to provide the Postal Service with more flexibility to set prices and introduce new products. The act, however, balanced this flexibility by granting the PRC enhanced regulatory authority to regulate these activities, and to, among other things,

¹⁷Package Services include parcels, merchandise, catalogs, media mail, library mail, and books.

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- regulate rates for market-dominant products and services;
 - monitor financial and service performance;
 - ensure financial transparency and data quality; and
 - act on complaints against the Postal Service.

The PRC has made good progress in its transformation, particularly in establishing a new ratemaking system. The PRC issued its first set of rate regulations almost 8 months ahead of the statutory deadline, and the Postal Service recognized this achievement and chose not to file another rate case under the old system. The PRC set up its new organizational structure, including the new PRC Inspector General, as well as revising key rules and regulations to reflect implementation of the act. The PRC has also taken an active role in consulting with the Service on its service standards and performance measures, solicited public comments, and held hearings and meetings to stimulate constructive dialogue among the parties.

Remaining Implementation Challenges Exacerbated by Economic Uncertainty

The financial, operational, human capital, and regulatory challenges facing the Service and other stakeholders as they take actions to continue implementing the act are exacerbated by the current uncertain economic environment. The Service noted in its 2008 budget that it expected a net increase in costs of \$1 billion net for 2008 from changes in the law.¹⁸ In addition, a slowing economy has negatively affected the Service's financial performance in the first quarter of 2008—its mail volumes and revenues were both below planned amounts. The Service was able to mitigate these challenges by managing cost growth while achieving record service delivery performance for the segment of First-Class Mail that is currently measured. To address concerns about its challenged financial outlook, the Service filed a rate increase February 11, 2008, averaging about 2.9 percent for the majority of its products. This increase is scheduled to take effect on May 12, 2008, and is the first of its type under the new law. According to Service officials, this increase is expected to contribute an additional \$700 million in revenues for 2008, but will need to be supplemented by

¹⁸This negative \$1 billion impact in 2008 is based on the difference between eliminating \$5.1 billion in costs (\$1.5 billion in CSRS contribution and \$3.6 billion that was to be placed into escrow) being offset by \$6.1 billion in additional payments and lost interest income on the escrow monies.

accelerated cost reduction strategies to achieve its year-end target of a \$600 million net loss. The Service has updated its strategies for addressing challenges under the new law related to generating sufficient revenues, achieving efficiencies through automation, and improving service. In particular, to help address its revenue challenges, the Service has indicated that it plans to fully use its pricing authority under the rate-setting cap to implement smaller, more frequent, predictable rate increases, as well as work with its customers to develop new products and services. It also plans for \$2 billion in cost reduction efforts in 2008. Some of the key areas for continued oversight include changes in mail volumes in response to more frequent, predictable rate increases; efforts to control costs by modernizing and optimizing the Postal Service's infrastructure and workforce; the transition to new automation and mail-tracking systems; the level of transparency in measuring and reporting delivery performance; and the implementation of the new rate-setting processes and regulations.

Generating Sufficient Revenues as Mail Volumes Decline and the Mail Mix Changes

The Service continues to face challenges in generating sufficient revenue as mail volumes are declining and the mail mix is changing. This challenge became more evident after the Service's revenue and volume results for the first quarter of 2008 were released. Volumes were down 1.7 billion pieces (3 percent) compared with quarter 1 in 2007 (see table 2), with notable declines in the two major mail classes: First-Class Mail and Standard Mail. These results are of particular concern because they occurred during a typically strong volume quarter that includes the holiday mailing season.

Table 2: First Quarter Volumes for the Service's Major Mail Categories

| Class | 2008 quarter 1 | Percent change from quarter 1 2007 |
|-----------------------|-----------------------|---|
| First-Class Mail | 24.4 billion | -3.9% |
| Standard Mail | 27.7 billion | -2.6 |
| Periodicals | 2.2 billion | 1.2 |
| Express Mail | 12.3 million | -10.9 |
| Priority Mail | 240.4 million | -4.9 |
| Package Services | 318.2 million | -3.4 |
| Total all mail | 55.4 billion | -3.0% |

Source: U.S. Postal Service data.

Key declines during this time took place within the two largest categories, First-Class Mail and Standard Mail. In particular, volumes declined for flat-sized Standard Mail (e.g., catalogs) by 13 percent; for flat-sized First-Class Mail (e.g., large envelopes) by 15 percent; and single-piece First-Class Mail by nearly 7 percent. As a result of the overall declines in mail volume, revenues were \$500 million less than planned. The Service attributed these volume declines and revenue shortfalls to multiple factors, including the effects of the May 2007 rate increase; a slowing economy with declines in the financial and housing industries, business and consumer confidence, and rising fuel and paper prices; increasing competition from other advertising media; and the continued diversion of single-piece First-Class Mail to electronic alternatives such as Internet bill payment and direct deposit.

The declines in First-Class Mail volume in the first quarter of 2008 parallel the ongoing trends of First-Class Mail in general. This class of mail, once with the largest volumes and revenues, saw volumes decline by more than 7 percent between 2001 and 2007. The Service's First-Class Mail volume estimate of 95.4 billion pieces built into its 2008 budget would be a slight decline from 2007 levels and would be the lowest volume level since 1994. These declines in First-Class Mail were mitigated in past years by growth in Standard Mail volumes and revenues. Standard Mail volumes exceeded those for First-Class Mail for the first time in 2005. This change was significant, in part because Standard Mail is more sensitive to prices and economic conditions and it takes about two pieces of Standard Mail to make the same contribution to the Service's overhead costs as one piece of First-Class Mail. The Service's 2008 budget planned a modest 1.1 percent growth in Standard Mail volumes because of such factors as the effects from the May 2007 rate increase and a projected slowness in the economy. The Service stated in its first quarter report for 2008 that these factors, among others, had an adverse impact on volumes as Standard Mail volumes declining by 2.6 percent compared to the first quarter of 2007. For the remainder of 2008, mail volumes and revenues will continue to face many of the same challenges that affected its first quarter results, particularly economic uncertainty and the impacts of rate increases.

The Service recognizes that the law provides opportunities to address the revenue challenges it faces and that "cost cutting alone cannot sustain the business." The act specifically provides tools and mechanisms to help promote revenue generation and retention of revenues. The act established more timely, flexible pricing mechanisms for the Service's competitive and market-dominant products. For example, it allows the Service to use a streamlined process for raising the rates for its market-

dominant classes, such as First-Class Mail, Standard Mail, and Periodicals, up to a defined price cap; to exceed the price cap should extraordinary or exceptional circumstances arise; and to use any unused rate authority within 5 years. For its competitive products, such as Priority Mail or Expedited Mail, the Service may raise rates as it sees fit, as long as each competitive product covers its costs and competitive products as a whole cover their attributable costs and make a PRC-specified contribution to overhead. The act also allows for new, customized products and services, as well as for the Service to retain any earnings, which may help finance capital investment and increase financial stability. In its updated Strategic Transformation Plan, the Service states that it plans on taking advantage of these new flexibilities through such actions as

- improving the value of its market-dominant products through such tools as Intelligent Mail,¹⁹
- tailoring competitive products to market requirements,
- enhancing online postal services, and
- streamlining acceptance of mail at postal facilities for commercial mailers.

The Postal Service applied its new rate-setting flexibilities when, on February 11, 2008, it announced its first rate increases under the act for its market-dominant products, including an increase in the cost of a First-Class stamp from 41 to 42 cents. The Service intends to raise the rates for each class,²⁰ on average, close to the maximum allowed by the price cap (2.9 percent). Within each class, scheduled rate increases will vary for specific mailing services. For example, the rates for Standard Mail Flats are scheduled to increase 0.9 percent, compared with a 3.4 percent increase for Standard Mail Letters. These variable increases reflect the Service's decision to moderate the increases for catalogs and other flats because of the large rate increases they experienced in May 2007. Furthermore, the Postal Service has recently notified the PRC of rate-

¹⁹According to the Plan, Intelligent Mail is a comprehensive term that describes the integration of electronic mailing documentation, intelligent mail barcodes, and scans to track mail at all points in the postal processing system.

²⁰The major mail classes include First-Class Mail, Standard Mail, Periodicals, Package Service, and special services (e.g., Post Office boxes, Delivery Confirmation, and money orders).

setting initiatives for two of its competitive products. One notice pertained to establishing a premium for guaranteed delivery of Express Mail on Sunday and holidays, while the other notice pertained to establishing prices for a Priority Mail large-sized Flat Rate Box.

Continued congressional oversight will be needed of the Service's actions under the act to address its volume and revenue challenges. Particular attention should be paid to monitoring how the Service and mailers respond to a slowing economy and the implementation of the new rate process. Questions to address include the following:

- How will mailers and volume respond to changes in rates in the short term, as well as the Service's intent to fully use its pricing authority under the rate-setting cap? To what extent will these changes affect the mail mix, including the type, size, and weight of mail?
- What types of innovative pricing methods will the Service offer?
- To what extent will customers' desire for mail be affected by privacy concerns, environmental concerns, preference for electronic alternatives, or efforts at the state level to establish Do Not Mail lists?
- How will the Service be able to enhance the value of the mail (e.g., by providing more predictable and consistent service, tracking and tracing capabilities)?
- What will the Service do with any retained earnings (e.g., expand its capital program, save to weather downturns in the economy)?

Controlling Costs and Improving Operational Efficiency

The Service faces multiple pressures in the short and long term associated with controlling costs and improving productivity while experiencing above-inflation cost growth in certain categories, revenue challenges, and an inflation-based price cap. In the first quarter of 2008, the Service reported responding to revenue shortfalls by cutting more than \$300 million in costs compared to plan, including reducing over 10.5 million workhours compared to the first quarter of 2007. The Service indicated that continued vigilance on cost will be needed for the rest of the year, and it will prove increasingly difficult to reduce workhours at the same pace if revenue challenges continue. The Postal Service budgeted for a \$1 billion reduction in expenses for 2008, to be achieved in part by reducing 28 million workhours and increasing productivity by 1 percent. Based on the first quarter's performance, the Postal Service recognizes that it needs to

more aggressively reduce expenses to mitigate the financial impact of the economic slowdown, and it has identified an additional \$1 billion in cost reduction efforts, many of which are tied to reduced volumes. While actions taken to implement the reform act put pressure on costs—the Service expects a net increase of \$1 billion in costs in 2008—the act also eliminates other payments and provides opportunities to offset some of these cost pressures through efficiency gains that could restrain future rate increases. It will be crucial for the Service to take advantage of this opportunity and achieve sustainable, realizable cost reductions and productivity improvements throughout its networks.

Personnel expenses (which include wages, employee and retiree benefits, and workers' compensation) have consistently accounted for nearly 80 percent of annual operating expenses. Growth in such expenses has exceeded inflation in each of the last 4 years, and the expenses are budgeted to increase by almost \$660 million in 2008. The major drivers of the personnel expense increase include cost of living adjustments (COLA), general wage increases, and health benefit expense increases. For example, retirement health benefit costs have tracked well above the rate of inflation, and will remain high because of the new multibillion dollar payments required by the law.

Another cost pressure the Service faces is to modernize and maintain its vast infrastructure and transportation system that supports its expanding delivery network—projected to increase by 1.9 million delivery points in 2008. The Service's transportation costs have grown faster than the rate of inflation for the past 3 years and were budgeted to increase by 5.4 percent (\$350 million) in 2008. The Service attributes these increases in part to contractual rate increases and rising fuel costs. We noted the Service's vulnerabilities to rising fuel prices in a report issued last year.²¹ We have also reported on the challenges facing the Service in managing its 34,000 facilities nationwide, including the need to capture and maintain accurate facility data, adequately maintain facilities, address deferred maintenance issues, and align retail access with customer needs.²²

²¹GAO, *U.S. Postal Service: Vulnerability to Fluctuating Fuel Prices Requires Improved Tracking and Monitoring of Consumption Information*, [GAO-07-244](#) (Washington, D.C.: Feb. 16, 2007).

²²GAO, *U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services*, [GAO-08-41](#) (Washington, D.C.: Dec. 10, 2007).

The act provides an opportunity for the Service to address its cost challenges by establishing an inflation-based price cap for market-dominant products, which provides an incentive for the Postal Service to operate more efficiently. The act also requires the Service to develop a plan by June 2008 that includes its strategy for rationalizing the postal facilities network and removing excess processing capacity from the network. As part of this plan, the Service is to identify cost savings and other benefits associated with network rationalization alternatives. This plan provides an opportunity for the Service to make its case that realignment is needed to address infrastructure issues (e.g., excess capacity, maintenance needs, and facility locations) and reduce costs. It can also address concerns raised by Congress and the public about how decisions related to planned network changes are made and communicated to affected parties. We have reported our concerns that the Service's strategy for realigning its processing and distribution network and workforce was not clear, and that its strategy lacked sufficient transparency and accountability, adequate stakeholder input, and performance measures for results and we have recommendations outstanding related to these concerns.²³

The Service recognizes these cost challenges and plans to build on its progress in this area. We have reported on the Service's progress in containing cost growth by reducing workhours, downsizing its workforce and improving productivity, and the Service's ability to control cost growth during the first quarter was encouraging. Furthermore, the Service should benefit from agreeing with its four major labor unions reducing its future share of the contributions to the cost of health benefit premiums for many of its employees. The Service is planning to continue its cost cutting efforts as part of its Strategic Transformation Plan and is seeking efficiency gains from a variety of sources including

- more fully automating the sorting of flat mail—in 2008, the Service will deploy 100 machines to automate flat sorting in 30 to 35 facilities as part of its Phase One of the Flats Sequencing System (FSS);

²³GAO, *U.S. Postal Service: Progress Made in Implementing Mail Processing Realignment Efforts, but Better Integration and Performance Measurement Still Needed*, [GAO-07-1083T](#) (Washington, D.C.: July 26, 2007); *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability*, [GAO-05-261](#) (Washington, D.C.: Apr. 8, 2005); and *U.S. Postal Service: Mail Processing Realignment Efforts Under Way Need Better Integration and Explanation*, [GAO-07-717](#) (Washington, D.C.: June 21, 2007).

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- outsourcing certain activities, such as expanding contract delivery service;²⁴
 - consolidating mail processing operations;
 - optimizing retail resources using two scheduling tools to help managers align staffing to changes in customer demand; and
 - working with members of the mailing industry to optimize mailer preparation requirements, including the use of Intelligent Mail Barcodes on mailpieces, to facilitate achieving the lowest combined mailing cost for all parties.

Making progress in addressing cost challenges will be important as the Service is required to operate under the new price cap, particularly if the economy continues to weaken. Progress will also be needed in areas where it has been difficult to achieve. For example, we reported last summer that progress in consolidating mail processing operations among facilities has been slow due to several factors.²⁵ In some cases, the Service was not ready to proceed with the consolidation, and other external factors have slowed the process, including union and community resistance. In addition, language in recent Senate Appropriations Committee reports has directed the Service not to implement consolidation decisions in certain locations until specific requirements have been met.²⁶ Furthermore, in its first quarter financial report, the Service stated that if proposed legislation limiting its ability to contract out mail delivery and other postal activities is enacted, it would place significant restraints on its ability to achieve cost reductions. As actions are carried out to control costs in the future, continued oversight will be needed to ensure that the Service's cost reduction strategies achieve their goals, without negatively affecting service. Specific oversight questions include the following:

²⁴We are currently performing work related to the Service's outsourcing activities and plan to issue a report this summer.

²⁵[GAO-07-717](#).

²⁶Senate Report No.109-293, at 228 (2006) directed that consolidation decisions pertaining to three locations not be implemented until the Postal Service received a GAO report, which was completed in July 2007. Senate Report No. 110-129, at 108 (2007) directed the Postal Service not to implement certain Area Mail Processing Facility consolidations until the Postal Service fully implements GAO's recommendations from its July 2007 report and develops a mechanism to evaluate potential and actual impacts on delivery.

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- If volume shortfalls persist, will the Service be able to implement corresponding cost controls?
 - If the economy continues to worsen and/or certain key costs continue to increase at levels above inflation (e.g., health benefit costs), how can the Service still meet its service goals and manage its costs under the rate cap?
 - How will the new rate structure lead to efficiency improvements throughout the mail system?
 - Will the Service's implementation of its network realignment result in greater cost savings and improved efficiency?
 - How do external constraints limit the Service's ability to achieve cost savings through network optimization and what can be done to alleviate these constraints?
 - Would the Service achieve its expected return on investment and improvements in operational performance in a second phase of automated flat sorting equipment?

Managing Its Workforce

The Service will be challenged to manage its workforce as it transitions to operating in a new postal environment. The Service is one of the nation's largest employers, with almost 786,000 full- and part-time employees at the end of 2007. As the Service continues to improve its operational efficiencies (i.e., rationalize its facilities, expand service measurement, increase automation, improve retail access, and streamline its transportation network), it will be challenged to realign its workforce in accordance with these changes. These challenges may be compounded by such factors as (1) changes in mailers' behavior in response to the new rate structure and economic uncertainty that may reduce the level of processing needed at Postal Service facilities and (2) the expected retirement of a significant portion of its workforce, particularly at the executive level, within the next 5 years. These actions will require a different mix in the number, skills, and deployment of its employees, and may involve repositioning, retraining, outsourcing, and further reducing its workforce. The Service must describe, as part of the Facilities Plan required by the act, its long-term vision for realigning its workforce and how it intends to implement that vision. This plan is to include a discussion of what impact any facility changes may have on the postal workforce and whether the Postal Service has sufficient flexibility to make needed workforce changes.

The Service recognizes the challenges in aligning its workforce with changing customer needs, new technologies, and emerging markets. In its updated Strategic Transformation Plan, the Service includes specific actions aimed at improving workforce flexibility, succession planning, and staffing efficiency. As it takes actions in this area, oversight will be important in several areas including:

- How will the Service’s workforce be affected by the implementation of new automation equipment that supports such initiatives as FSS or Intelligent Mail?
- How will the Service balance the varying needs of diverse customers when realigning its delivery and processing networks?
- How will employees and employee organizations be affected and informed of network changes and how will the Service monitor the workplace environment?
- How will the Service take advantage of flexibilities to deal with peak operating periods?

Maintaining, Measuring, and Reporting Service

The Service faces continued challenges in further updating its delivery performance standards, implementing representative measures of delivery performance, setting appropriate goals for delivery speed and reliability, and reporting results in a transparent and accessible manner. This information is critical for stakeholders to understand how the Service is fulfilling its mission of providing affordable, high-quality universal service on a self-financing basis—it would assist the Service and its customers in identifying and addressing delivery problems, and help Congress, the PRC, and others to hold management accountable for results and conduct independent oversight.

In July 2006, we reported that the Service’s delivery performance standards, measurement, and reporting needed improvement.²⁷ Among other things, we found that delivery standards for major types of mail had not been updated in a number of years and did not reflect current operations, including how mail is prepared and delivered. We also found that the Service does not measure the delivery performance of most types

²⁷GAO, *U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement*, [GAO-06-733](#) (Washington, D.C.: July 27, 2006).

of mail, which limits transparency. Based on these and related findings, we recommended the Service take actions to modernize its delivery service standards, develop a complete set of delivery service measures, more effectively collaborate with mailers, and improve transparency by publicly disclosing delivery performance information.

The act provided an opportunity to address these issues by requiring the establishment of modern delivery standards, the setting of goals for these standards, and annual progress reports. The act also established other requirements:

- The Service must issue modern service standards by December 2007 (these standards were issued);
- Within 6 months of issuing service standards the Service must, in consultation with the PRC, develop and submit a plan, with performance goals, to Congress for meeting those standards.
- Within 90 days after the end of each fiscal year, the Service must report to PRC on the quality of service for each market-dominant product in terms of speed of delivery and reliability, as well as the degree of customer satisfaction with the service provided.

The act also identified four objectives for modern service standards:

- Enhance the value of postal services to both senders and recipients.
- Preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining.
- Reasonably assure Postal Service customers delivery reliability, speed, and frequency consistent with reasonable rates and best business practices.
- Provide a system of objective external performance measurements for each market-dominant product as a basis for measurement of Postal Service performance.

The Postal Service has taken an active role to address this challenge, including collaborating with mailers and the PRC on issuing the new service standards. The Service submitted to the PRC a proposal on service measurement using Intelligent Mail and is planning to expand the geographic coverage of its External First-Class Measurement System, and the PRC has put this proposal out for comment. The Service is also consulting with the PRC about other reporting issues.

We are encouraged by the Service's progress to date as well as its performance during the first quarter of 2008 for the segment of First-Class Mail that it currently measures. The delivery performance for mail measured by the Service's EXFC system reported on-time deliveries for 96 percent of 1-day mail, 93 percent of 2-day mail, and 88 percent of 3-day mail, all of which were improvements over the first quarter of 2007. We continue to believe that the key principles of completeness, availability, and usefulness should guide future actions related to updating service standards and implementing performance measurement and reporting systems. Continued collaboration and oversight will be critical to making further progress as the system becomes more and more developed. In particular, questions will need to be asked, including the following:

- How should the standards and goals reflect different operational capabilities that affect the speed and reliability of delivery, such as presorting and separate processing streams?
- Given the different information needs of the various stakeholder groups—e.g., the Service, PRC, Congress, mailers, the American public—what are appropriate levels of transparency for each of the key groups?
 - What level of detail should be available to each group? For example, some mailers have said they need detailed, real-time information to help identify and address delivery problems.
 - In what format should information be available, and how should privacy be protected?
 - How frequently should information be reported and/or accessible (e.g., quarterly, annually, or in real-time)?
 - Should mailers pay for some of the information?
- How should mailer issues regarding the implementation of Intelligent Mail be addressed?
- What exclusions, if any, should be allowed under the Service's reporting of annual results (e.g., exclusions for the holiday mailing period and incorrectly addressed and/or prepared mail)?

Implementing New Regulatory Frameworks

The Postal Service and PRC will continue to be challenged to successfully implement the extensive regulatory changes required by the act. Currently, the PRC is reviewing the May 2008 rate increases filed by the Service and has asked for public comment on this filing. In addition to the PRC's regulatory responsibilities for rate setting and monitoring service performance discussed earlier, these parties will be challenged to implement other requirements related to postal costing, accounting, and financial reporting. We have reported on specific challenges the Postal Service has faced in these areas. With respect to its financial reporting, the Service has made significant improvements in the frequency, content, and availability to address our earlier recommendations.²⁸ Furthermore, in 2005 we reported on the long-standing issues of ratemaking data quality, many of which persist today.²⁹

The act establishes new reporting and accounting requirements that should help to address these challenges. The major change is the establishment of, and authority provided to the new PRC to help enhance the collection and reporting of information on the Service's postal rates and financial performance. The PRC has oversight responsibilities in such areas as:

- **Market-dominant products:** The PRC must prescribe by regulation the form and content of annual Service reports that analyze costs, revenues, and rates, using methods that PRC must also prescribe; specify which reported information shall be made public; initiate proceedings as necessary to improve the quality, completeness, or accuracy of this information; and assess compliance and complaints.
- **Competitive products:** The PRC must establish regulations that ensure that each competitive product covers its attributable costs, prohibit the cross-subsidization of competitive products by market-dominant products, and ensure that competitive products collectively cover what PRC determines to be an appropriate share of the Service's institutional costs (overhead costs), as well as to assess complaints.

²⁸GAO-07-684T; GAO-01-598T; GAO, *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation*, GAO-02-355 (Washington, D.C.: Feb. 28, 2002); *U.S. Postal Service: Accounting for Postretirement Benefits*, GAO-02-916R (Washington, D.C.: Sept. 12, 2002); *U.S. Postal Service Actions to Improve Its Financial Reporting*, GAO-03-26R (Washington, D.C.: Nov. 13, 2002).

²⁹GAO, *U.S. Postal Service: Improving Ratemaking Data Quality through Postal Service Actions and Postal Reform Legislation*, GAO-05-820 (Washington, D.C.: July 28, 2005).

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- **Financial reporting:** The PRC must (1) review annual, quarterly, and other periodic reports from the Service that contains information required by the Securities and Exchange Commission (SEC) for registrants,³⁰ (2) review reports, due in 2010, on the Service's compliance with rules prescribed by the SEC for registrants in implementing section 404 of the Sarbanes-Oxley Act of 2002, and (3) by December 2008, establish the accounting principles and practices that the Service must follow related to its competitive products, and in doing so, consider Treasury recommendations.

The Service recognizes these challenges and the potential costs associated with meeting the new requirements. In its updated Strategic Transformation Plan, it laid out a timeline for implementing the Sarbanes-Oxley section 404 requirements and noted that it must manage the uncertainties related to the implementation of the new ratemaking process, the extent to which the PRC incorporates recommendations from the Treasury report, and any developments from the FTC report. The Service has not yet estimated the additional costs associated with these new regulatory requirements. We have reported that other federal agencies and smaller public companies have incurred significant costs associated with complying with SEC's implementing regulations for section 404 of the Sarbanes-Oxley Act, but have also reported that costs are expected to decline in subsequent years given the first-year investment in documenting internal controls.³¹

In sum, these changes can help provide accurate and timely data on the Service's costs, revenues, and mail volumes. This information can be used to enhance transparency and accountability for all postal stakeholders so that they have a comprehensive understanding of the Service's financial condition and outlook and of how postal rates are aligned with costs. As the new regulatory framework is implemented, continued oversight may be required in several areas:

³⁰The Postal Service is deemed the "registrant" by the reform act; however, the Service is not a registrant for the purposes of submitting reports to the SEC.

³¹GAO, *Internal Control: Analysis of Joint Study on Estimating the Costs and Benefits of Rendering Opinions on Internal Control over Financial Reporting in the Federal Environment*, [GAO-06-255R](#) (Washington, D.C.: Sept. 6, 2006); *Sarbanes-Oxley Act: Consideration of Key Principles Needed in Addressing Implementation for Smaller Public Companies*, [GAO-06-361](#) (Washington, D.C.: Apr. 13, 2006).

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- How will the PRC use its discretion to continue defining and implementing the new regulatory structure?
 - How effectively is the PRC carrying out its regulatory responsibilities regarding rate setting and monitoring service performance?
 - Given the complexity of regulatory changes, how can the PRC balance the interests of all stakeholders, particularly those with less expertise and resources?
 - What criteria will the PRC use for evaluating the quality, completeness, and accuracy of ratemaking data, including the underlying accounting data and additional data used to attribute costs and revenues to specific types of mail? Looking forward, how will the PRC, the Service, and other stakeholders consider and implement improvements to data quality over time?
 - How will the PRC balance the need for high-quality ratemaking data with the time and expense involved in obtaining the data?
 - How will PRC structure any proceedings to improve the quality of ratemaking data and enable the Service and others to participate in such proceedings? What proceedings might PRC initiate to address data quality deficiencies and issues that PRC has raised in its recent decision on the rate case?
 - How will the Service be affected by the costs associated with complying with the SEC rules for implementing section 404 of the Sarbanes-Oxley Act, as well as the need for separate information on competitive and market-dominant products?

Required Information Can Guide Future Postal Reform Discussions

Information required under the act can be used to facilitate constructive dialogue and debate about postal reform issues related to universal service, the postal monopoly, fair competition, consumer protection, and transparency and accountability. Specifically, the act included provisions for reports required over the next 5 to 10 years related to key postal reform issues aimed at continually examining and reporting on the Postal Service's mission, role, and oversight structure in an increasingly competitive environment. The act required multiple stakeholders, including the Postal Service, PRC, Postal Service OIG, OPM, Treasury, and GAO, to issue these reports, and established a wide range of deadlines for this work. The information can be useful to Congress when it is considering key postal reform issues including:

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- What universal postal service will be needed in the future and how should it be defined, given past changes and future challenges?
 - To what extent should certain monopoly provisions be maintained or narrowed?
 - What role should the Service play in providing universal postal services vis-à-vis its competitors?
 - What are appropriate legal standards for fair competition in areas where the Service competes with private-sector providers?
 - What transparency, oversight, and accountability are needed for the Service, particularly as long as it remains a federal entity with a monopoly to deliver letter mail?
 - How appropriate are the new regulatory structure and rate-setting system?
 - What barriers, if any, have prevented progress under the act (e.g., in optimizing the Service's infrastructure network), and how can they be addressed?

As outlined earlier, information related to some of these issues has already been published from the Treasury and FTC. Treasury issued a report on the accounting principles and practices that should be followed by the Service, and the FTC issued a report that analyzed laws that apply differently to the Service's competitive products and similar products provided by private competitors, and estimated the economic burdens on, and advantages to, the Service due to these legal differences. This information provides a good starting point for discussions on broader reform topics such as the following:

- Universal postal service and the postal monopoly: The mission of the Postal Service revolves around providing affordable, high-quality universal postal services on a self-financing basis. While the act requires the PRC to provide annual reviews of service quality and the estimated costs of providing universal service, the act requires a more comprehensive study from the PRC on the scope and standards of universal postal service and the postal monopoly. This report, due by December 2008, is to describe any deficiencies in universal service and can include recommendations on future changes. The PRC is required to obtain public comments and consult with the Service in preparing this report.

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- Accounting, financial transparency, and oversight: The PRC solicited public comments on Treasury's report. In addition, the PRC raised questions about what financial transparency and oversight are appropriate for the Service's competitive products fund and whether a public or private entity should conduct such oversight. These comments will assist the PRC in fulfilling the act's requirement to establish accounting practices and principles for the Service to follow, and issue regulations for the Service's reporting of its costs, revenue, rates, and volumes.
 - Regulation of postal rates: The act requires the PRC to annually report to the President and Congress on the extent to which postal regulations, including those related to postal rates, achieve statutory objectives. Looking forward, the PRC is required to assess ratemaking and other provisions of the act every 5 years (with the first report due by December 2011), and review the system for regulating the rates and classes for market-dominant products by December 2016. At that point, the act empowers PRC to make changes to the system for regulating market-dominant rates.
 - Future business model: GAO is required to issue a report by December 2011 that evaluates various options and strategies for the long-term structural and operational reforms of the Service. The requirement states that we may include, among other things, recommendations on how the Service's business model can be maintained or transformed to assure continued availability of affordable universal postal service.

We are encouraged by the early implementation steps that the Service, the PRC, the Department of the Treasury, FTC, and other stakeholders have taken. The Service, the PRC, mailers, and other stakeholders have found new ways to engage in constructive dialogue and debate and in some cases, reach consensus on how best to proceed. These actions—which contrast sharply with the adversarial ratemaking process abolished by the act—hold promise for future progress across a broad range of postal reform issues. Such progress will remain necessary as the Service, the mailing industry, and competitors transform themselves in response to the rapidly changing communications and delivery marketplace.

Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or the Members of the Subcommittee may have.

Contact and Acknowledgment

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