



Highlights of [GAO-09-332T](#), a hearing before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

When Congress passed the Postal Accountability and Enhancement Act in December 2006, the U.S. Postal Service (USPS) had just completed fiscal year 2006 with its largest mail volume ever—213 billion pieces of mail and a net income of \$900 million. Two years later, USPS's mail volume dropped almost 5 percent—the largest single-year decline. The Postmaster General testified last March before this subcommittee that USPS was facing a potential net loss of over \$1 billion for fiscal year 2008. He noted that USPS anticipated continued deterioration due to the economic slowdown, as the financial, credit, and housing sectors are among its key business drivers. He also said that the shifts in transactions and messages from mail to electronic communications and from advertising mail to lower-cost electronic media have affected the USPS's financial situation.

This testimony focuses on (1) USPS's financial condition and outlook and (2) options and actions for USPS to remain financially viable in the short and long term. It is based on GAO's past work and updated postal financial information. We asked USPS for comments on our statement. USPS generally agreed with the accuracy of our statement and provided technical corrections and some additional perspective, which we incorporated where appropriate.

To view the full product, including the scope and methodology, click on [GAO-09-332T](#). For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

U.S. POSTAL SERVICE

Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs

What GAO Found

USPS has reported that the declining economy accelerated declines in mail volume in fiscal year 2008 and flattened revenues despite postal rate increases. In fiscal year 2008, mail volume fell by 9.5 billion pieces, fuel prices increased costs by over \$500 million, and cost-of-living allowances for postal employees increased costs by \$560 million. Cutting costs by \$2 billion—primarily by cutting over 50 million work hours—did not close the gap between revenues and expenses. Thus, USPS recorded a loss of \$2.8 billion for fiscal year 2008. Its debt increased by \$3 billion by the end of the year to \$7.2 billion. USPS's outlook for fiscal year 2009 has become more pessimistic. USPS projects a volume decline of 10 billion to 15 billion pieces, another loss, and \$3 billion more in debt. At this pace, USPS could reach its \$15 billion statutory debt limit by fiscal year 2011.

In the short term, several options could assist USPS through its difficulties, some of which would require congressional action. USPS has proposed that Congress give it immediate financial relief totaling about \$25 billion over the next 8 years by changing the funding of its retiree health benefits. Although GAO recognizes the need to provide USPS with immediate financial relief, such relief is no substitute for aggressive USPS action to preserve its long-term viability. USPS projects an improvement in its financial condition in fiscal year 2010. Therefore, GAO believes it would be preferable to provide 2-year relief totaling \$4.3 billion. This would have less impact on the retiree health benefits fund, and then Congress could revisit USPS's financial condition to determine whether additional relief is needed.

In the long term, USPS action beyond its current cost-cutting efforts is urgently needed to reduce costs and improve efficiency. GAO agrees with the Postal Regulatory Commission that unfavorable mail volume and revenue trends may imperil USPS's financial viability and that USPS must dramatically reduce its costs to remain viable. Two areas for further action to reduce costs include compensation and benefits, which is close to 80 percent of its costs, and mail processing and retail networks. GAO previously reported that excess capacity in USPS's mail processing infrastructure has impeded efficiency gains. USPS has considered several options to realign its facility network, such as outsourcing operations in some mail processing facilities, but has taken only limited action. Another option would be for USPS to close unnecessary retail facilities and thereby reduce its large maintenance backlog. While it has been difficult for USPS to take action in these areas, Congress encouraged USPS to expeditiously move forward in its streamlining efforts in the postal reform act of 2006. GAO recommended that USPS enhance transparency and strengthen accountability of its realignment efforts to assure stakeholders that realignment would be implemented fairly and achieve the desired results, and it has made improvements in this area. Accelerated volume declines and changes in the public's use of mail indicate that USPS needs to move beyond incremental efforts and take aggressive action to streamline its workforce and network costs to assure its long-term viability.