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Highlights

Highlights of GAO-09-674T, a hearing before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

May 20, 2009

U.S. POSTAL SERVICE

Network Rightsizing Needed to Help Keep USPS Financially Viable

Why GAO Did This Study

The recession accelerated declines in mail volume in fiscal year 2008 and flattened revenues despite postal rate increases. That year, mail volume fell by 9.5 billion pieces, or 4.5 percent, and resulted in a net loss of $2.8 billion as the U.S. Postal Service's (USPS) cost-cutting did not close the gap between revenues and expenses. We testified this March before this subcommittee that USPS's financial condition has continued to deteriorate in the first 5 months of fiscal year 2009, with accelerating declines in mail volume and financial losses. USPS projected its financial condition to continue deteriorating for the rest of the fiscal year and to result in an unprecedented cash shortfall of $1.5 billion, assuming that ambitious cost-cutting targets are achieved.

This testimony updates that information and focuses on (1) how USPS's financial viability is challenged given current economic conditions and whether USPS can cover its expenses and financial obligations, (2) USPS's opportunities to rightsize its retail and mail processing networks, and (3) what options and trade-offs need to be considered to address mail volume and revenue declines. It is based on GAO's past work and updated information on USPS's finances and networks. We asked USPS for comments on our statement. USPS generally agreed with the accuracy of our statement and provided technical comments, which we incorporated where appropriate.

View GAO-09-674T or key components.
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What GAO Found

USPS continues to project a mail volume decline of 10 to 12 percent for fiscal year 2009. As a result, USPS projects

- a financial gap of about $12 billion, which despite planned cost cuts of $5.9 billion, would result in a record annual loss of over $6 billion, and
- an increase in outstanding debt by the annual statutory limit of $3 billion, and, despite this step, an unprecedented $1.5 billion cash shortfall.

For fiscal year 2010, USPS currently projects that mail volume will decline by an additional 10 billion pieces, leading to a financial loss similar to the loss in fiscal year 2009 and another possible cash shortfall.

Maintaining USPS's financial viability as the provider of affordable, high-quality universal postal service will require actions in a number of areas, such as (1) rightsizing its retail and mail processing networks by consolidating operations and closing unnecessary facilities and (2) reducing the size of its workforce. USPS has made limited progress in rightsizing its networks, an action that is often controversial but necessary to address the unprecedented declines in mail volume and help close the large and growing gap between USPS revenues and expenses. Further, rightsizing USPS's retail and mail processing networks is needed to eliminate growing excess capacity and improve efficiency—action that is critical to maintaining affordable postal rates and streamlining USPS's workforce, which generates close to 80 percent of its costs. USPS has consolidated operations through attrition and currently has about 160,000 employees eligible for retirement. USPS can streamline its retail network by closing unnecessary facilities and promoting lower-cost alternatives such as purchasing stamps by mail, telephone, and the Internet, as well as at drug stores and supermarkets. USPS also has substantial excess capacity in its mail processing network and has proposed consolidating some processing operations at its 21 Bulk Mail Centers and other facilities. In the Postal Accountability and Enhancement Act of 2006, Congress recognized USPS has more facilities than it needs and strongly encouraged streamlining its networks. Rightsizing will require continued congressional support for necessary closures and USPS leadership to address resistance to change.

Other options that could help USPS remain financially viable involve difficult trade-offs, including

- deferring USPS payments for retiree health benefits, which would increase the unfunded retiree health benefit obligation;
- reducing the frequency of 6-day delivery, which would affect a key aspect of universal service and could further accelerate mail volume decline;
- downgrading delivery standards, which could affect time-sensitive mail;
- raising statutory debt limits, which could further exacerbate USPS's financial difficulties in the future; and
- providing direct appropriations, which would be contrary to the fundamental principle that USPS remain financially self-supporting.

Finally, GAO is closely monitoring USPS's financial viability to determine whether to add USPS's need for restructuring to GAO's High-Risk List.