



Highlights of [GAO-09-790T](#), a testimony before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

The U.S. Postal Service's (USPS) financial condition has worsened this year, with the recession and changing mail use causing declines in mail volume and revenues despite postal rate increases. GAO testified in May to this subcommittee that USPS expects these declines to lead to a record net loss and an unprecedented cash shortfall even if ambitious cost cutting is achieved. GAO reported that 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 cost and size of its workforce, which generates about 80 percent of its costs. Today GAO is releasing its report on USPS efforts to improve the efficiency of delivery. Delivery accounts for nearly half of USPS salary and benefit costs.

This testimony (1) updates USPS's financial condition and outlook and explains GAO's decision to place USPS's financial condition on the High-Risk List and (2) discusses the need for USPS to restructure its mail processing, retail, and delivery networks and its efforts to improve their efficiency. It is based on GAO's past and ongoing work and updated USPS information.

View [GAO-09-790T](#) or [key components](#). For more information, contact Phillip Herr at (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov).

## U.S. POSTAL SERVICE

### Broad Restructuring Needed to Address Deteriorating Finances

#### What GAO Found

USPS's financial condition and outlook continue to deteriorate with a worsening outlook for mail volume and revenue. USPS now projects mail volume to decline by about 28 billion pieces to about 175 billion pieces in fiscal year 2009, a decline of 13.7 percent. As a result, USPS projects

- a net loss of about \$7 billion even with record savings of about \$6 billion;
- an increase in outstanding debt by the annual \$3 billion limit; and,
- despite this borrowing, an unprecedented \$1 billion cash shortfall.

Thus, USPS recently reported to Congress that, due to the need to maintain sufficient cash to cover costs, it will not fully make its mandated payment of \$5.4 billion for future retiree health benefits due by September 30, 2009, even if it receives \$2 billion in relief under pending House legislation.

GAO added USPS's financial condition to the High-Risk List this week. GAO reported USPS urgently needs to restructure to address its current and long-term financial viability. Accordingly, GAO calls for USPS to develop and implement a broad restructuring plan—with input from the Postal Regulatory Commission and other stakeholders, and approval by Congress and the administration—that includes key milestones and time frames for actions, addresses key issues, and identifies what steps Congress and other stakeholders may need to take.

USPS needs to optimize its retail, mail processing, and delivery networks to eliminate growing excess capacity and maintenance backlogs, reduce costs, and improve efficiency. USPS has a window of opportunity to reduce the cost and size of its workforce through attrition and the large number of upcoming retirements to minimize the need for layoffs. Although USPS has begun efforts to realign and consolidate some mail processing, retail, and delivery operations, much more is urgently needed. GAO recognizes that USPS would face formidable resistance to restructuring with many facility closures and consolidations because of concerns that these actions would affect service, employees, and communities. USPS management will need to provide leadership and work with stakeholders to overcome resistance for its actions to be successfully implemented. USPS must use an open, transparent, fair, and consistent process; engage with its unions, management associations, the mailing industry, and political leaders; and demonstrate results. In turn, these stakeholders and Congress need to recognize that major restructuring is urgently needed for USPS to be financially viable.

To its credit, USPS recently began a national initiative to consolidate some of its 3,200 postal retail stations and branches in urban and suburban areas. USPS has begun efforts to consolidate some mail processing operations but has closed only 1 of 400 major mail processing facilities. USPS is realigning city carrier routes to remove excess capacity and improve efficiency, which is expected to save nearly \$1 billion annually; has begun to install automated equipment to reduce costly manual sorting of flat-sized mail; and is studying how it could shift to 5-day delivery and the potential savings.