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U.S. POSTAL SERVICE

**Escalating Financial
Problems Require Major
Cost Reductions to Limit
Losses**

Statement of Phillip Herr, Director
Physical Infrastructure Issues



GAO

Accountability * Integrity * Reliability



Highlights of [GAO-09-475T](#), a hearing 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

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 financial condition has deteriorated. Mail volume declined by a record 9.5 billion pieces (4.5 percent) in fiscal year 2008, leading to a loss of \$2.8 billion—the second largest since 1971. According to USPS, this was largely due to declines in the economy, especially in the financial and housing sectors, as well as shifts in transactions, messages, and advertising from mail to electronic alternatives. Declining mail volume flattened revenues despite rate increases, while USPS's cost-cutting efforts were insufficient to offset the impact of declining mail volume and rising costs in fuel and cost-of-living allowances for postal employees. USPS's initial fiscal year 2009 budget expected that the turmoil in the economy would result in more mail volume decline and a loss of \$3.0 billion.

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 comments, which we incorporated where appropriate.

To view the full product, including the scope and methodology, click on [GAO-09-475T](#). For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

U.S. POSTAL SERVICE

Escalating Financial Problems Require Major Cost Reductions to Limit Losses

What GAO Found

USPS's financial condition has continued to deteriorate in the first 5 months of fiscal year 2009 and USPS expects its financial condition to continue deteriorating for the rest of the fiscal year. Key results include:

- accelerating declines in mail volume after the first quarter, with a total decline of about 11 billion pieces, and
- accelerating losses after the first quarter, with a total loss of about \$2 billion.

USPS's updated fiscal year 2009 projections suggest the magnitude of the challenges it faces:

- mail volume will decline by a record 22.7 billion pieces (11.2 percent),
- a record \$6.4 billion net loss and an unprecedented cash shortfall of \$1.5 billion, assuming that cost-cutting targets of \$5.9 billion are achieved, and
- plans to increase outstanding debt by \$3 billion (the annual statutory limit) to \$10.2 billion, or two-thirds of the \$15 billion statutory limit.

In addition, USPS projects its financial difficulties will continue in fiscal year 2010 and result in an even greater cash shortfall. USPS's most immediate challenge is to dramatically reduce costs fast enough to meet its financial obligations. USPS has proposed that Congress give it financial relief of \$25 billion over 8 years by changing the statutory mandate for funding its retiree health benefits. GAO recognizes the need for immediate financial relief, but prefers 2-year relief so that Congress can determine what further actions are needed. It is not clear that either option would be sufficient because USPS projects it will operate on a thin margin, risking a larger cash shortfall if it does not meet its ambitious cost-cutting goals, mail volume declines more than projected, or unexpected costs materialize, such as fuel cost increases.

Although USPS is taking unprecedented actions to cut costs, comprehensive action beyond USPS's current effort is urgently needed to maintain financial viability. Given the growing gap between revenues and expenses, USPS's business model and its ability to remain self-financing may be in jeopardy. Action is needed to streamline costs in two difficult areas: (1) compensation and benefits, which generate close to 80 percent of costs and (2) mail processing and retail networks, which have growing excess capacity. Closing postal facilities is controversial, but necessary, because the declining mail volume and growing deficits indicate that USPS cannot afford to maintain such an extensive network. Information will be critical to determine what other actions are needed, including options to cut costs as well as their impact on mail volume and mail users. It is also imperative to review mail use, what future postal services will be needed, and what options are available in many areas, including universal service, workforce costs, retail services, mail processing, delivery, transportation, and USPS's business model.

Chairman Lynch, Ranking Member Chaffetz, and Members of the Subcommittee:

I am pleased to be here today to participate in this oversight hearing on the financial stability of the U.S. Postal Service (USPS). As requested, my statement addresses the following:

1. USPS's financial condition and outlook.
2. Options and actions to help USPS remain financially viable in the short and long term.

My statement is based on our testimony in January on USPS's financial condition,¹ other prior work, and updated information on USPS's financial condition and outlook. We reviewed USPS's budget for fiscal year 2009 and information on results for the fiscal year to date, including preliminary data for January 2009, and met with senior USPS officials. We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

USPS's Financial Condition and Outlook Are Deteriorating

USPS's financial condition has continued to deteriorate in the first 5 months of fiscal year 2009 and USPS expects its financial condition to continue deteriorating for the rest of the fiscal year, including:

- accelerating declines in mail volume after the first quarter, with a total decline of about 11 billion pieces; and
- accelerating losses after the first quarter, with a total loss of about \$2 billion.

USPS has updated its projections for fiscal year 2009, projecting

- a mail volume decline by a record 22.7 billion pieces (11.2 percent) from fiscal year 2008;

¹GAO, *U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs*, [GAO-09-332T](#) (Washington, D.C.: Jan. 28, 2009).

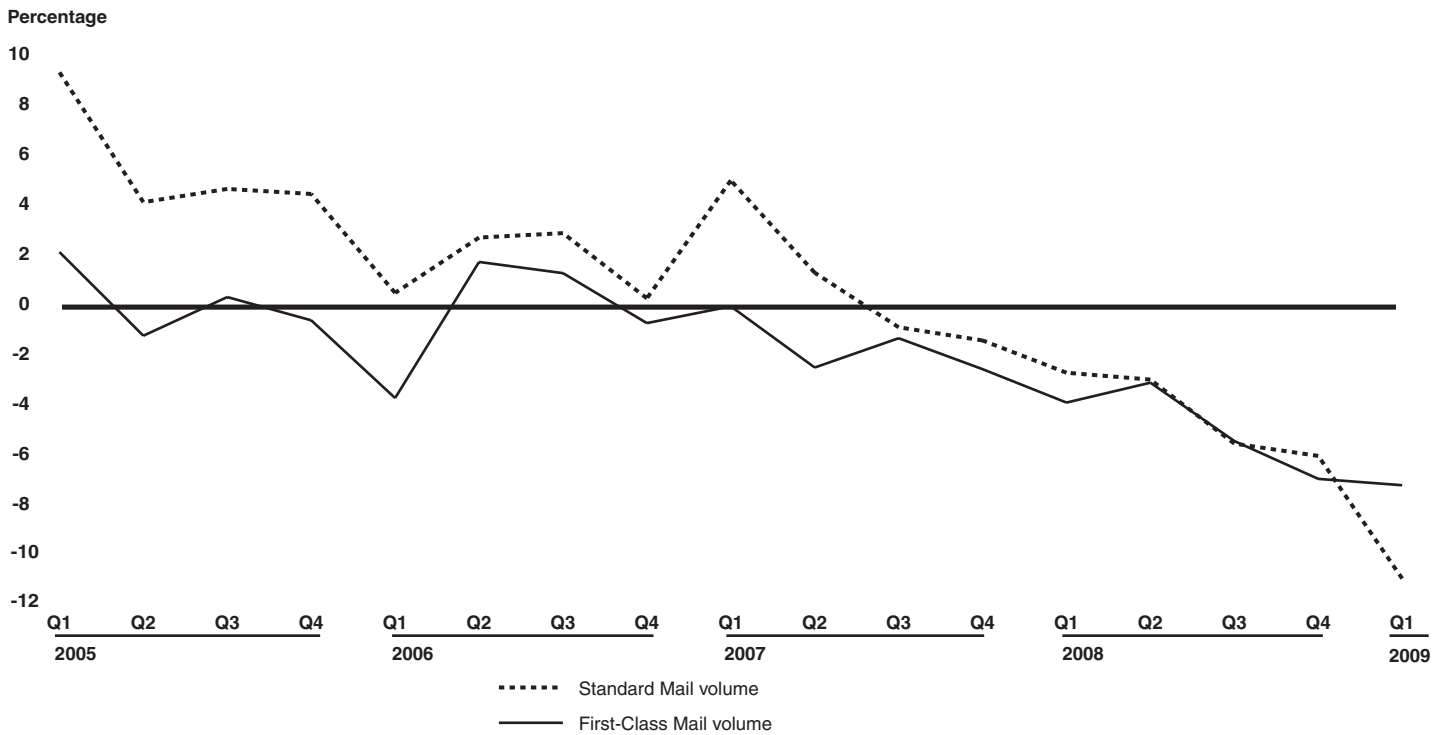
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- a record \$6.4 billion net loss,² and an unprecedented \$1.5 billion cash shortfall (i.e., insufficient cash to cover expenses and obligations), assuming cost-cutting targets of \$5.9 billion³ are achieved; and
 - plans to increase outstanding debt by \$3 billion (the annual statutory limit) to \$10.2 billion, or two-thirds of the total \$15 billion statutory limit.

USPS attributes much of its net loss this fiscal year to the economic recession that has resulted in unprecedented declines in mail volume and decreased revenues. Thus far in fiscal year 2009, First-Class Mail volume (e.g., correspondence, bills, payments, and statements) dropped about 9 percent, while Standard Mail volume (primarily advertising) dropped about 15 percent. According to USPS, the housing market downturn, the credit crisis, and lower retail sales have contributed to these volume declines. The financial and housing sectors are major mail users, mailing bills, statements, and advertising such as credit card, mortgage, and home equity solicitations. Volume declines have accelerated for both First-Class Mail and Standard Mail, as shown by quarterly data (see fig. 1) and results for January 2009 (see app. I).

²USPS lost \$2.8 billion in fiscal year 2008—its second-largest annual loss since 1971.

³USPS previously reported on Feb. 23, 2009, that it had set a cost-cutting target of \$5.9 billion over 2 years (fiscal years 2009 and 2010).

Figure 1: Quarterly Changes in the Volume of First-Class Mail and Standard Mail, Fiscal Year 2005 through the First Quarter of Fiscal Year 2009



Source: USPS.

Note: Quarterly changes are from the same quarter of the prior fiscal year. First-Class Mail volume does not include international First-Class Mail.

In addition, USPS projects its financial difficulties will continue in fiscal year 2010 and result in an even greater cash shortfall at the end of that fiscal year, despite plans for additional cost-cutting and additional borrowing of \$3 billion, which would bring USPS's total debt to \$13.2 billion. Thus, USPS's immediate problem is to generate sufficient cash to remain financially viable in fiscal years 2009 and 2010.

Cost-Cutting Efforts and Rate Increases Have Not Fully Offset the Impact of Volume Declines and Other Factors that Increased Costs

USPS reports reducing expenses by \$773 million in the first 5 months of fiscal year 2009 (compared to the first 5 months of fiscal year 2008), primarily through reductions of 50 million work hours that USPS made as it adjusted to declining mail volumes and workload. USPS reduced overtime and captured additional work hour savings as it reduced the size of its workforce through attrition and implemented other cost-saving initiatives. However, these savings and added revenue from rate increases

were insufficient to fully offset the impact of declines in mail volume and rising costs from cost-of-living allowances (COLA) provided to postal employees covered by union contracts, as well as rising workers' compensation and retirement costs. Also, although almost 8,500 employees accepted USPS's early retirement offer during the first quarter of fiscal year 2009, the resulting savings to date have been limited because the effective dates for the majority of these retirements were December 31, 2008 or later.

USPS has high overhead (institutional) costs that are hard to change in the short term, including providing 6-day delivery and retail services at close to 37,000 post offices and retail facilities. Compensation and benefits for USPS's workforce, which included about 646,000 career employees⁴ and about 98,000 noncareer employees in February 2009, generate close to 80 percent of its costs. Collective bargaining agreements with USPS's four largest unions include layoff protections and work rules that constrain USPS's flexibility, as well as semiannual COLAs linked to the Consumer Price Index (CPI) and employee benefits including health and life insurance premium payments. Under these agreements, which expire in 2010 or 2011:

- USPS paid 85 percent of employee health benefit premiums in fiscal year 2007, about 13 percent more than the share for other federal agencies. USPS's share is decreasing annually to 81 percent in 2011 or 80 percent in 2012, depending on the agreement.
- USPS pays 100 percent of employee life insurance premiums, about 67 percent more than most other federal agencies.

USPS pays 100 percent of both employee health benefit premiums and life insurance premiums for its Postal Career Executive Service, which included 724 executives in fiscal year 2008. Executives at comparable grades in most other federal agencies do not receive such benefits.

USPS's Outlook Is Worsening, and USPS Projects a Cash Shortfall at the End of the Fiscal Year

USPS's financial outlook has continued to deteriorate during fiscal year 2009. USPS has increased its estimate of losses in total mail volume in fiscal year 2009 to 22.7 billion pieces (11.2 percent). As a result, USPS now projects a net loss of \$6.4 billion for fiscal year 2009, despite increasing its cost-cutting target to \$5.9 billion for the fiscal year. Based on these projections, USPS expects cash from operations and borrowing will be

⁴USPS career employees, most of whom are full-time, have permanent positions.

insufficient to cover expenses at the end of the fiscal year, with the shortfall projected to be \$1.5 billion. This projected net loss and cash shortfall assumes USPS will meet its cost-cutting target and factors in USPS's plans to borrow \$3 billion.

USPS's Chief Financial Officer told us on March 16 that achieving USPS's target to eliminate 100 million work hours this fiscal year will be critical to achieving its goal of reducing costs by \$5.9 billion. He expressed guarded optimism that USPS can reach this ambitious cost-cutting target, explaining that the target is difficult, but achievable. He noted that USPS plans to continue efforts to reduce work hours as it responds to mail volume declines, including reductions in overtime and additional work hour savings achieved through attrition and other initiatives. Additional USPS cost-saving efforts include:

- Implementing a service-wide hiring freeze and reducing staffing levels for managers and other employees not covered by union agreements by 15 percent at headquarters and 19 percent at the nine Area offices.
- Evaluating more than 93,000 city delivery carrier routes (more than half of all city routes), eliminating about 2,500 city routes, and adjusting many other city routes, which USPS expects will result in saving about 3.2 million work hours in fiscal year 2009. An agreement between USPS and the National Association of Letter Carriers to expedite evaluation and adjustment of city delivery routes enabled this progress.
- Consolidating excess capacity in mail processing and transportation networks, including consolidating operations at some mail processing facilities, moving some mail processing employees from the day shift to evening hours, and streamlining transportation.
- Halting construction starts of new postal facilities.

To increase its revenues, USPS has increased rates, including a January 2009 increase for competitive products (e.g., Priority Mail and Express Mail), and a planned May 2009 increase for market-dominant products (e.g., First-Class Mail, Standard Mail, Periodicals, and some types of Package Services). USPS has also introduced volume discounts, negotiated service agreements, and added some enhancements to competitive products since the Postal Accountability and Enhancement Act of 2006 (PAEA) was enacted in 2006. However, these products generated only about 11 percent of USPS's revenues and covered about 6 percent of its overhead costs in fiscal year 2008. USPS is considering alternatives to try to increase First-Class Mail and Standard Mail revenues.

**USPS Recently Reported
on the Service Quality of
Many Market-Dominant
Products**

USPS will be challenged to achieve and maintain high-quality service as it works to implement unprecedented cost-cutting measures. USPS recently reported for the first time on the service quality of many market-dominant postal products; thereby making important progress in improving transparency and meeting the requirements of PAEA. USPS has cautioned that limitations have affected the quality of new measurement data and said that it will work to improve data quality. As table 1 shows, on-time delivery of all major types of market-dominant products in the first quarter of fiscal year 2009 fell short of USPS's targets for the full fiscal year.

Table 1: USPS Service Results Did Not Meet Targets in the First Quarter of Fiscal Year 2009

Type of market-dominant mail	Percentage on time		Shortfall
	Target	Result	
First-Class Mail: single piece ^a			
1-day delivery standard	96.5	95.6	0.9
2-day delivery standard	94.0	91.9	2.1
3- to 5-day delivery standard	92.7	85.7	7.0
First-Class Mail: bulk ^b			
1-day delivery standard	96.5	91.2	5.3
2-day delivery standard	94.0	87.8	6.2
3- to 5-day delivery standard	92.7	84.2	8.5
International First-Class Mail: single piece ^c	94.0	86.2	7.8
Standard Mail ^d			
Destination entry	90.0	87.4	2.6
End-to-end (i.e., not destination entered)	90.0	77.2	12.8
Periodicals ^e	91.0	69.8	21.2
Package Services ^f	90.0	64.7	25.3

Source: USPS.

^aSingle-piece First-Class Mail was primarily measured by the External First-Class Measurement System (EXFC), administered by a USPS contractor. EXFC measures when test mail pieces (including letters, postcards, and large envelopes) are deposited in collection boxes and post office lobby chutes and received at various addresses. EXFC has been expanded to cover the entire country but does not cover remittance mail.

^bBulk First-Class Mail (i.e., mailings of at least 500 mail pieces sent via First-Class Mail) was primarily measured by scanning barcodes on letters deposited at some USPS mail processing facilities and received at various addresses.

^cSingle-piece international mail, including outbound and inbound mail, was primarily measured by an outside entity.

^dStandard Mail was primarily measured by scanning barcodes on letters deposited at some USPS mail processing facilities and received at various addresses. Destination entry mail was entered at a USPS mail processing facility that was generally closer to where the mail was delivered.

^eMeasured periodicals included 46 publications that were mainly weekly publications.

^fMeasured package services included single-piece Parcel Post, Media Mail, library mail, and bound printed matter.

Note: For more information on the data and its limitations, see USPS targets at <http://ribbs.usps.gov/index.cfm?page=targets> and USPS results at <http://www.usps.com/serviceperformance/>.

To put these results into context, the timeliness of mail delivery is an important part of USPS's mission of providing affordable, high-quality universal postal services on a self-financing basis. USPS has stated that service is at the heart of its brand and the key to increasing its competitiveness and profitability.

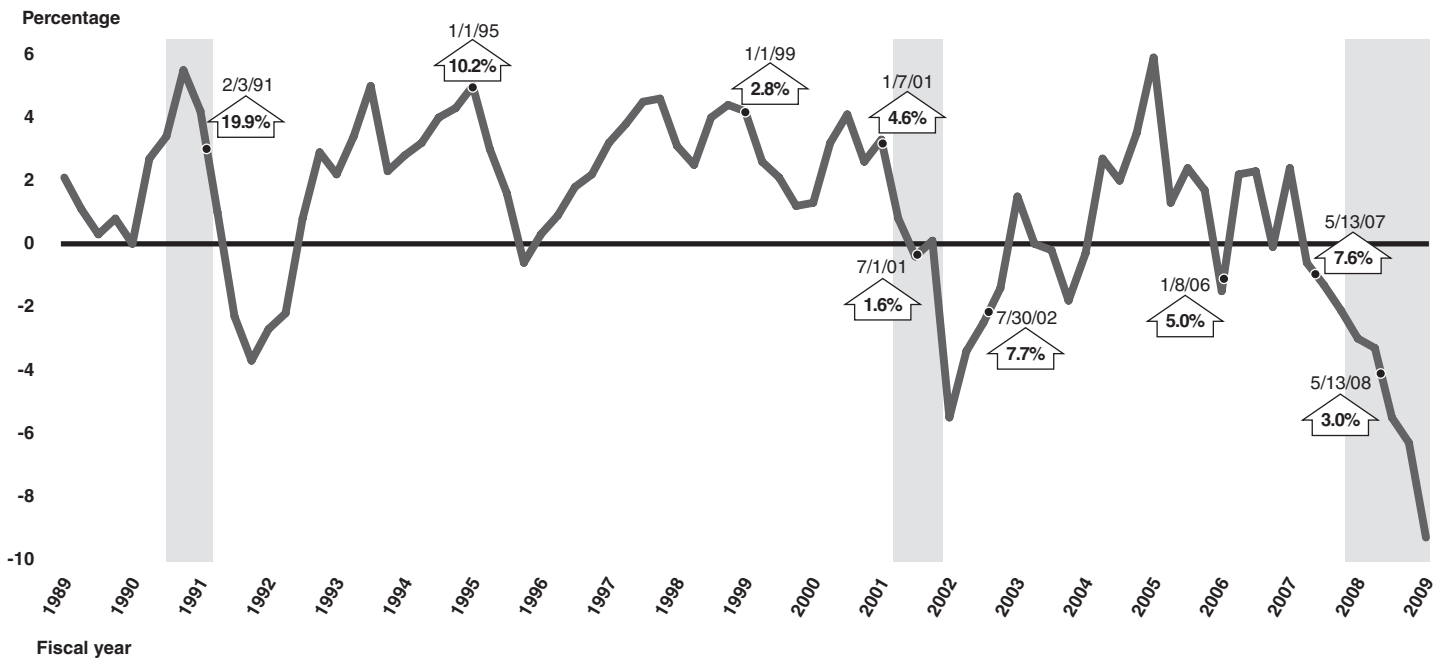
Action Is Needed on Options to Preserve USPS's Financial Viability

Action is needed on various options, as no single action will be sufficient for USPS to remain financially viable in the short and long term. The short-term challenge for USPS is to cut costs quickly enough to offset the unprecedented volume and revenue declines so that it does not run out of cash this fiscal year. The long-term challenge is to restructure USPS's entire operations and networks to reflect the changes in mail volume, mailer preferences, and USPS's capacity to cover its costs. Based on USPS's poor financial condition and outlook, the time to take action is relatively short, and USPS's business model⁵ and its ability to remain self-financing may be in jeopardy.

A key factor in determining USPS's financial viability is whether mail volume will rebound sufficiently once the economy improves, as volume has done in the past, so that USPS revenues will cover costs (see fig. 2).

⁵Under its current business model, USPS can earn profits to remain self-supporting from postal revenue, which historically has grown with rising mail volume to help offset rising costs and help keep postal rates affordable. Mail volume has declined since fiscal year 2006, calling into question the assumption that volume growth and productivity increases will help sustain USPS's business model.

Figure 2: Quarterly Changes in Total Mail Volume, Fiscal Years 1989 through 2009



Recession periods
 Rate increase

Sources: USPS (mail volume); Postal Regulatory Commission (average rate increase); National Bureau of Economic Research (recession periods).

Note: Quarterly changes are from the same quarter of the prior fiscal year.

As the Postal Regulatory Commission (PRC) noted in December 2008, current pressures from declining volume and revenue do not appear to be abating, but rather, seem to be increasing. During the economic downturn, there has been accelerated diversion of business and individual mail to electronic alternatives, and some mailers have left the mail entirely. An economic recovery may not stimulate the same rebound in mail volume as in the past, because of changes in how people communicate and use the mail. Specifically:

- First-Class Mail volume has declined in recent years and is expected to decline for the foreseeable future as businesses, nonprofit organizations, governments, and households continue to move to electronic alternatives, such as Internet bill payment, automatic deduction, and direct deposit. USPS's analysis has found that electronic diversion is associated with the growing adoption of

broadband technology. As PRC reported, the availability of alternatives to mail eventually impacts mail volume.

- It is unclear whether Standard Mail will grow with an economic recovery. Standard Mail now faces growing competition from electronic alternatives, such as Internet-based search engine marketing, e-mail offers, and advertisements on Web sites. The average rate increase for Standard Mail is limited by the price cap to the increase in the Consumer Price Index, but future rate increases will likely have some impact on volume.

Options to Assist USPS through Its Short-Term Difficulties

Options to assist USPS through its short-term difficulties—some of which would require congressional action—include:

- *Reduce USPS payments for retiree health benefits for 8 years:* USPS has proposed that Congress change the statutory obligation to pay retiree health benefits premiums for current retirees from USPS to the Postal Service Retiree Health Benefits Fund (Fund) for the next 8 years. This proposal would also reduce USPS's expenses through 2016 by an estimated \$25 billion—with \$2 billion in fiscal year 2009, \$2.3 billion in fiscal year 2010, and the remaining annual expenses increasing from \$2.6 billion to \$4.2 billion over the remaining 6 years. This proposal is poorly matched to alleviate USPS's immediate projected cash shortfalls. In addition, this proposal would reduce the Fund balance by an estimated \$32 billion (including interest charges) by 2016,⁶ so that in 2017, the remaining current unfunded obligation would be an estimated \$75 billion (rather than \$43 billion) to be amortized for future payments. This large obligation would create the risk that USPS would have difficulty making future payments, particularly considering mail volume trends and the impact of payments on postal rates if volume declines continue. USPS's proposal also would shift responsibility for these benefits from current to future rate payers.
- *Reduce USPS payments for retiree health benefits for 2 years:* Another option would be for Congress to revise USPS's statutory obligation so that the Fund, not USPS, would pay for current retiree health benefits for only 2 years (fiscal years 2009 and 2010), which

⁶ USPS would continue making required annual payments of \$5.4 billion to \$5.8 billion for future retiree health benefits for fiscal years 2009 to 2016. For the schedule of retiree health benefit payments for current and future retirees, see table 1 of [GAO-09-332T](#).

would provide USPS with \$4.3 billion in relief. We support this option because it would have much less impact on the Fund and it would allow Congress to revisit USPS's financial condition to determine if further relief is needed and review actions USPS has taken in 2009 and 2010 to improve its viability. Relief from retiree health premium costs is no substitute for aggressive USPS action—beyond current efforts—to dramatically reduce costs and improve efficiency.

It is not clear that either of these options would be sufficient, because USPS projects it will operate on a thin margin. This means that even if such relief is provided, a cash shortfall could develop in either fiscal year 2009 and/or 2010 if USPS does not meet its ambitious cost-cutting goals, mail volume declines more than projected, or unexpected costs materialize, such as unexpected increases in fuel costs.

One option that would not require congressional action would be for USPS and its unions to continue their dialogue and agree on ways to achieve additional short-term savings, such as by modifying rules to facilitate reducing work hours. Such labor-management cooperation is critical to USPS's ability to make immediate changes in order to achieve cost reductions.

Other available options, based on statutory provisions, could include (1) seeking PRC approval for an exigent rate increase⁷ and (2) increasing USPS's annual borrowing limit. First, USPS could request PRC approval for an exigent rate increase that would increase rates for market-dominant classes of mail above the statutory price cap. Mailers have voiced strong concern about the potential impact of such a rate increase on their businesses. In our view, this option should be a last resort. It could be self-defeating for USPS in both the short and long term because it could increase incentives for mailers to further reduce their use of the mail. Second, Congress could temporarily raise the statutory \$3 billion annual limit on increases in USPS's debt, which would provide USPS with funding if needed. This option would be preferable to an exigent rate increase. However, it is unclear when USPS would repay any added debt, which would quicken USPS's movement toward its \$15 billion statutory debt limit. In our view, this option should be regarded only as an emergency stop-gap measure.

⁷An exigent rate increase is a rate increase for market-dominant products that exceeds the price cap due to extraordinary or exceptional circumstances.

Comprehensive Action Is Urgently Needed on Options to Keep USPS Viable

Although USPS is taking unprecedented actions to cut costs, comprehensive action beyond USPS's current efforts is urgently needed to maintain financial viability. Given the growing gap between revenues and expenses, USPS's business model and its ability to remain self-financing may be in jeopardy. Progress in many areas will be needed so that USPS can cover operating expenses and maintain and modernize its infrastructure.

I want to emphasize that action is urgently needed to streamline USPS's costs in two areas where it has been particularly difficult—compensation and benefits and the mail processing and retail networks. We have reported for many years that USPS needs to right size its workforce and realign its network of mail processing and retail facilities. USPS has made some progress, particularly by reducing its workforce by more than 100,000 employees since 2000 with no layoffs and by closing some smaller mail processing facilities. Yet, as USPS recognizes, more needs to be done. USPS no longer has sufficient revenue to cover the cost of maintaining its large network of processing and retail facilities. Closing postal facilities would be controversial, but is necessary to streamline costs. Congress encouraged USPS to expeditiously move forward in its streamlining efforts in PAEA, and its continued support would be helpful to facilitate progress in this area. We recommended that USPS enhance the transparency and strengthen the accountability of its realignment efforts to assure stakeholders that realignment would be implemented fairly, preserve access to postal services, and achieve the desired results. USPS has taken steps to address our recommendations and, thus, should be positioned to take action.

In addition, it is imperative for USPS and Congress to take informed action to review mail use, what future postal services will be needed, and what operational and statutory options are available to provide those services. Key areas with options include:

- *Universal Postal Service*: A recently completed PRC study identified options for universal service and trade-offs involving quality and costs.⁸ When USPS asked Congress in January 2009 to eliminate the long-standing statutory provision mandating 6-day delivery, it provided little information on where it would reduce delivery frequency, and the

⁸PRC, *Report on Universal Postal Service and the Postal Monopoly* (Washington, D.C.: Dec. 19, 2008).

potential impact on cost, mail volume, revenue, and mail users. Because the number of delivery days is fundamental to universal service, Congress should have more complete information before it considers any statutory changes in this area. A mechanism to obtain such information would be for USPS to request an advisory opinion from PRC, which would lead to a public proceeding that could generate information on USPS's request and stakeholder input.⁹

- *USPS workforce costs:* USPS's ability to control wage and benefit costs will be critical to cost-saving efforts. One option would be for USPS and its unions to negotiate changes to wages and benefits that apply to employees covered by collective bargaining agreements. USPS will begin negotiating next year with two of its major unions, whose agreements will expire in November 2010, and the following year with its other two major unions, whose agreements expire in November 2011.
- *Retail postal service:* USPS has alternatives to provide lower-cost retail services than in traditional post offices, such as contract postal facilities, carrier pick-up of packages, and selling stamps at supermarkets, drug stores, and by telephone, mail, and the Internet. USPS's retail network has been largely static, despite the expansion of alternatives, population shifts, and changes in mailing behavior. We have reported that USPS could close unnecessary retail facilities and lower its network costs.¹⁰ It is important to note that large retail facilities—generally located in large urban areas where more postal retail alternatives are available—generate much higher costs than the smallest rural facilities and may, therefore, potentially generate more cost savings.
- *Mail processing:* USPS has several options for realigning its mail processing operations to eliminate growing excess capacity and associated costs, but has taken only limited action. In 2005, we reported that, according to USPS officials, declining mail volume,

⁹When USPS determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis, it is required to submit a proposal to the PRC that requests an advisory opinion on that change within a reasonable time period prior to the change. PRC is required to hold a hearing on the proposal before issuing its written opinion. 39 U.S.C. § 3661.

¹⁰GAO, *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).

worksharing, and the evolution of mail processing operations from manual to automated equipment has led to excess capacity that has impeded efficiency gains.¹¹ USPS has terminated operations at 58 Airport Mail Centers in recent years, but has closed only 1 of over 400 major mail processing facilities.¹² As USPS consolidates its operations, it needs to consider how it can best use its facilities, if it is cost effective to retain ones that are underutilized, and take the actions necessary to right size its network.

- *Transportation:* Various options exist for reducing USPS's transportation costs beyond its current streamlining efforts. For example, a joint USPS-mailer workgroup has identified a destination entry discount for First-Class Mail as an option that could reduce the need for USPS to provide long-distance transportation and some mail processing.¹³ USPS could publicly provide its analysis of the potential savings and the impact of such a discount.
- *Delivery:* USPS has various options for reducing delivery costs by continuing to realign delivery routes, implementing efficiency initiatives, and making more fundamental changes to delivery operations, such as delivering mail to more cost-effective receptacles, including cluster boxes.
- *USPS's business model:* We will discuss options to change USPS's business model in a report that PAEA requires us to issue by December 2011.

Given USPS's projection that it faces record losses and cash shortfalls, it is important for USPS to continue providing Congress and the public with timely and sufficiently detailed information to understand USPS's current financial situation and outlook. Such information is essential to help congressional policymakers understand USPS actions and plans to

¹¹GAO, *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).

¹²GAO, *U.S. Postal Service: USPS Has Taken Steps to Strengthen Network Realignment Planning and Accountability and Improve Communication*, [GAO-08-1022T](#) (Washington, D.C.: July 24, 2008).

¹³Destination entry involves mailers depositing mail at a USPS facility that is generally closer to the final destination of the mail, bypassing some USPS transportation and processing activities.

maintain its financial viability in both the short and long term, particularly in view of proposals to give USPS financial relief from some retiree health benefit costs. Recently USPS took steps in this direction by providing monthly financial information to the PRC, which then made this information publicly available.

We asked USPS to comment on a draft of our testimony. USPS generally agreed with the accuracy of our statement and provided technical comments, which we incorporated where appropriate.

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

Contact and Acknowledgments

For further information regarding this statement, please contact Phillip Herr at (202) 512-2834 or herrp@gao.gov. Individuals who made key contributions to this statement include Shirley Abel, Teresa Anderson, David Hooper, Kenneth John, Emily Larson, Joshua Ormond, Susan Ragland, and Crystal Wesco.

Appendix I: Preliminary U.S. Postal Service Mail Volume and Revenue for January 2009 and the First 4 Months of Fiscal Year 2009

(Volume and revenue data in thousands)						
Type of Mail	Jan. 2009	Jan. 2008	Percentage change	FY 2009 through Jan. 2009	FY 2008 through Jan. 2008	Percentage change
First-Class Mail						
Volume	7,641,364	8,546,159	-10.6%	30,350,690	33,030,574	-8.1%
Revenue	\$3,182,690	\$3,477,810	-8.5%	\$12,836,527	\$13,656,481	-6.0%
Standard Mail						
Volume	6,566,304	8,451,862	-22.3%	31,174,125	36,086,078	-13.6%
Revenue	\$1,374,231	\$1,749,154	-21.4%	\$6,501,587	\$7,493,397	-13.2%
Periodicals						
Volume	652,330	753,782	-13.5%	2,777,442	2,955,817	-6.0%
Revenue	\$160,629	\$193,016	-16.8%	\$725,531	\$796,818	-8.9%
Package Services						
Volume	69,018	80,885	-14.7%	284,318	316,020	-10.0%
Revenue	\$159,220	\$171,474	-7.1%	\$659,364	\$697,026	-5.4%
Subtotal, Market-dominant products^a						
Volume	14,968,479	17,880,497	-16.3%	64,771,862	72,790,013	-11.0%
Revenue	\$5,167,465	\$5,910,707	-12.6%	\$21,927,980	\$23,905,935	-8.3%
Competitive products^b						
Volume	112,015	131,041	-14.5%	512,535	578,773	-11.4%
Revenue	\$634,730	\$668,827	-5.1%	\$2,974,829	\$3,051,239	-2.5%
TOTAL						
Volume	15,080,494	18,011,538	-16.3%	65,284,397	73,368,786	-11.0%
Revenue	\$5,802,195	\$6,579,534	-11.8%	\$24,902,808	\$26,957,175	-7.6%

Source: U.S. Postal Service.

Note: January 2009 data are preliminary. For data limitations, see <http://www.prc.gov/Docs/62/62499/PFI-Jan2009-MV-MR-Jan2009-PE-Jan2009-PW-Jan2009.pdf>. Subtotals for market-dominant products are greater than the types of market-dominant mail in this table because data for some market-dominant mail (U.S. Postal Service mail and Free Mail for the Blind) are not shown.

^aMarket-dominant products primarily include First-Class Mail—domestic and international single-piece mail (e.g., bill payments and letters) and domestic bulk mail (e.g., bills and advertising); Standard Mail (mainly bulk advertising and direct mail solicitations), periodicals (mainly magazines and local newspapers), some types of package services (primarily single-piece Parcel Post, Media Mail, library mail, and bound printed matter). Market-dominant revenues also include revenues from services such as post office boxes and Delivery Confirmation.

^bCompetitive products primarily include Express Mail; Priority Mail; bulk Parcel Post, which the Postal Service calls Parcel Select; and bulk international mail. The Postal Service did not report separate data for each competitive product, which the Postal Service considers to be proprietary.

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