United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
Wednesday, May 20, 2009

U.S. POSTAL SERVICE

Network Rightsizing Needed to Help Keep USPS Financially Viable

Statement of Phillip Herr, Director
Physical Infrastructure Issues

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GAO-09-674T

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

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.
For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

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Network Rightsizing Needed to Help Keep USPS Financially Viable

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.

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 U.S. Postal Service's (USPS) operations and network. My statement addresses the following questions:

- How is USPS's financial viability challenged given current economic conditions and can USPS cover its expenses and financial obligations?
- What opportunities does USPS have to rightsize its retail and mail processing networks?
- What options and trade-offs need to be considered to address significant mail volume and revenue declines?

My statement is based on our continuing monitoring of USPS's financial condition and outlook, and our past and continuing work on USPS network operations. We obtained updated information on USPS results for this fiscal year through the second quarter and USPS's outlook for fiscal years 2009 and 2010. 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 Financial Viability Is Threatened by Declining Mail Volume and Revenues

As of the end of the second quarter, USPS projects a mail volume decline of 10 to 12 percent for fiscal year 2009, more than double the 4.5 percent total volume decline in fiscal year 2008 and the largest decline since the Great Depression. As a result, USPS is projecting the following:

- a potential financial gap of about $12 billion between revenues and expenses, which USPS projects will be diminished by achieving cost savings of $5.9 billion—leading to a net loss of over $6 billion;[1]

- an increase in outstanding debt by the annual statutory limit of $3 billion; and, despite this borrowing,

- an unprecedented $1.5 billion cash shortfall. USPS has reported that it does not expect to generate sufficient cash from operations to fully fund its fiscal year 2009 obligations for workers' compensation (about $1.1 billion), due in September 2009, and future retiree health benefits ($5.4 billion) that is due by September 30, 2009.

Fiscal year 2010 is also likely to be challenging. USPS is currently projecting 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. Under this scenario, USPS may increase its outstanding debt by an additional $3 billion, which would bring its total debt to $13.2 billion at the end of fiscal year 2010—only $1.8 billion less than its $15 billion statutory limit. See appendix I for more detailed financial information.

USPS's $5.9 billion cost-cutting target for this fiscal year is unusually ambitious in that it exceeds annual cost-cutting targets it has set since 2001, which ranged from nearly $900 million to $2 billion. However, even if it achieves its cost-cutting target for fiscal year 2009, USPS projects cash shortfalls because it does not expect its cost-cutting efforts and rate increases will fully offset the impact of mail volume declines and other factors that increase costs—notably semiannual cost-of-living allowances (COLA) for postal employees covered by union contracts. Compensation and benefits constitute close to 80 percent of USPS costs—a percentage that has remained similar over the years despite major advances in technology and automating postal operations. Also, USPS continues to pay a higher share of employee health benefit premiums than other federal agencies. Further, USPS has high overhead (institutional) costs that are hard to change in the short term, such as providing universal service that includes 6-day delivery and a network of close to 37,000 post offices and retail facilities.

[1]USPS lost $2.8 billion in fiscal year 2008—its second-largest annual loss since 1971.

Proposed legislation could help to maintain USPS's short-term solvency by reducing USPS payments for retiree health benefits by $2.0 billion in fiscal year 2009 and $2.3 billion in fiscal year 2010.[2] As in prior testimony, we support providing 2 years of relief from these payments to assist USPS through its short-term difficulties while minimizing the impact on USPS's unfunded retiree health benefits obligation.[3] We do not support the additional 6 years of relief that the proposed legislation would also provide, because it would lead to an estimated $75 billion (rather than $43 billion) in unfunded obligations for USPS retirees' health benefits in 2017. Further, we believe the proposed legislation does not address USPS's long-term problems related to declining mail volume, particularly in First-Class Mail, which covers most USPS overhead costs.

Maintaining USPS's financial viability as the provider of affordable, high-quality universal postal service will require actions in a number of areas. The Postal Accountability and Enhancement Act of 2006 (PAEA) enabled USPS to retain earnings that can finance needed capital investments and repay debt. Although USPS is developing revenue initiatives from new flexibilities provided in the 2006 act, it does not expect these initiatives to generate much net revenue in the short term. Further, USPS has curtailed capital spending to conserve cash, an action that may be a necessary stopgap measure. However, this is not a sustainable long-term strategy because USPS will need to continue making investments to maintain and modernize its infrastructure, address its maintenance backlog, automate postal operations, replace aging vehicles, and cover expenses to consolidate operations and rightsize its retail and mail processing networks.

Action Is Needed to Rightsize USPS Networks and Workforce

Network rightsizing by consolidating operations and closing unnecessary facilities is likely to be only one of many steps that USPS will need to take to remain financially viable in the long run. Rightsizing USPS's retail and mail processing networks is needed to eliminate excess capacity, improve efficiency that is critical to maintaining affordable postal rates, and facilitate streamlining USPS's workforce, which generates close to 80

[2] H.R. 22, 111th Cong.

[3] GAO, *U.S. Postal Service: Escalating Financial Problems Require Major Cost Reductions to Limit Losses*, GAO-09-475T (Washington, D.C.: Mar. 25, 2009); *U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs*, GAO-09-332T (Washington, D.C.: Jan. 28, 2009).

percent of its costs. Excess capacity has grown with unprecedented declines of mail volume, which are projected to continue through fiscal year 2010. As we recently testified, as its mail volumes decline, USPS does not have sufficient revenues to cover the growing costs of providing service to new residences and businesses while also maintaining its large network of retail and processing facilities.[4]

We have reported since 2003 that USPS needs to realign its retail and processing networks and rightsize its workforce.[5] In 2005, when mail volume was 212 billion pieces, we reported that excess capacity in USPS's retail and mail processing networks created opportunities for it to increase efficiency and reduce costs.[6] The recession has accelerated the decline in mail volume and revenues so that dramatic action—beyond USPS's incremental streamlining efforts—is needed. Closing postal facilities is often controversial but is necessary to streamline costs and eliminate excess capacity.

USPS has made some limited progress in streamlining its mail processing network by closing smaller facilities such as Airport Mail Centers and Remote Encoding Centers and consolidating some operations through Area Mail Processing consolidations.[7] However, USPS has closed only 1 of its approximately 400 major mail processing facilities. USPS has often faced resistance from employees, affected communities, and Members of Congress when it has attempted to consolidate its operations and networks. In enacting PAEA, Congress recognized USPS had more facilities than it needs and strongly encouraged streamlining its networks, noting this can pave the way for eliminating excess costs. Continued congressional support for necessary closures would be helpful to facilitate progress in this area. USPS has taken steps to address our recommendations that it enhance the transparency and strengthen the

[4] GAO-09-332T.

[5] GAO, *U.S. Postal Service: Key Postal Transformation Issues*, GAO-03-812T (Washington, D.C.: May 29, 2003); *U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation*, GAO-04-108T (Washington, D.C.: Nov. 5, 2003).

[6] GAO, *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).

[7] Remote encoding centers are separate plants established to apply address barcodes on letters that could not be read by the automated equipment in the mail processing plants.

accountability of its realignment efforts and thus should be positioned to take action.

Rightsizing postal retail and mail processing networks can eliminate costly excess capacity and enable USPS to continue streamlining its workforce through attrition. About 160,000 USPS employees will be eligible for retirement in fiscal year 2009 (not counting the 150,000 employees offered early retirement). Further, nearly 130,000 additional USPS employees are expected to become newly eligible for retirement in fiscal years 2010 through 2013—including more than 30,000 employees in each of these fiscal years. As USPS consolidates its operations, it can reduce costs and operate more efficiently with fewer employees. Network rightsizing is likely to be only one of many steps that USPS will need to take to remain financially viable in the long run. Nevertheless, network rightsizing and reducing the size of its workforce are necessary to address the unprecedented declines in mail volume and help close the large and growing gap between USPS revenues and expenses.

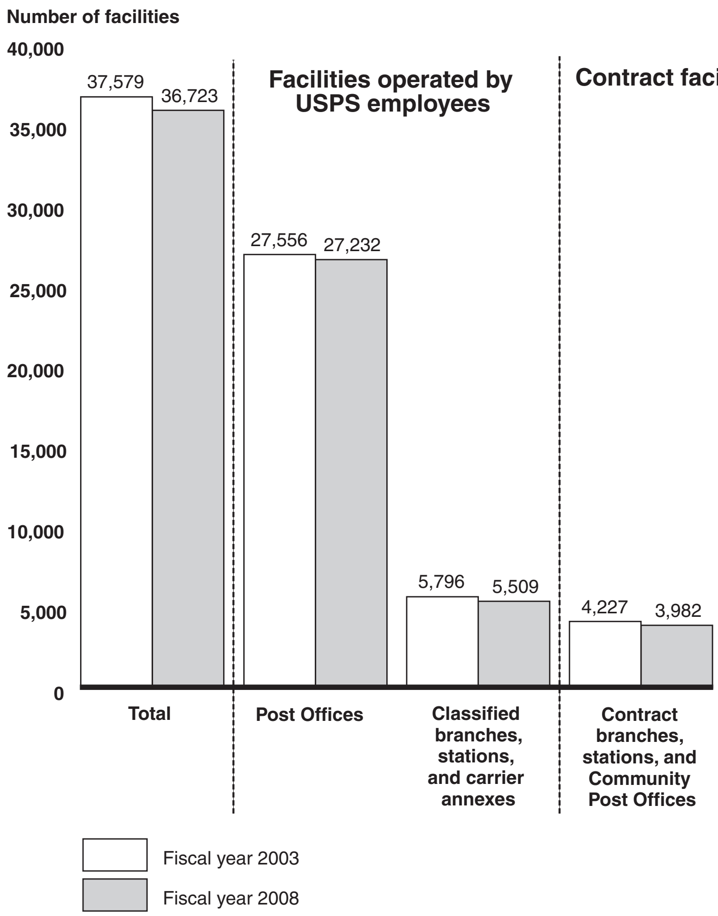
We recognize that USPS faces formidable resistance to closing and consolidating facilities because of concerns about the effects of such actions on service, employees, and local communities. Retail alternatives may be more convenient and cost-effective, but customers could resist changing long-standing habits. However, other businesses have successfully shifted many customer activities to self-service, including check-in at airports, checkout at grocery stores, self-service at gas stations, and automated teller machines at financial institutions. It is preferable for USPS to take action now rather than hoping that mail volume will revive sufficiently when the economy recovers. The outlook for USPS's core business of First-Class Mail—which covered nearly two-thirds of USPS overhead costs in fiscal year 2008—is for declines to continue for the foreseeable future as communications and payments continue to shift to electronic alternatives.

USPS senior management will need to provide leadership and work with stakeholders to overcome resistance to streamlining its retail and mail processing facilities for such actions to be successfully implemented. USPS must explain its plans in an open and transparent manner; engage with its unions, management associations, the mailing industry, and political leaders; and then demonstrate results of actions. In turn, these stakeholders need to recognize that major change is urgently needed if USPS is to remain financially viable.

USPS Can Streamline Its Retail Network while Improving Access

USPS can streamline its retail network while improving access by closing unnecessary retail facilities and promoting lower-cost alternatives such as purchasing stamps by mail, telephone, and the Internet, as well as carrier pickup of packages. USPS has long recognized the need to adjust its retail network to provide optimal service at the lowest possible cost and has worked to expand low-cost alternatives. Alternative retail options currently generate about a quarter of USPS's retail revenue. USPS continues to rely on providing service at traditional post offices, branches, and stations and has not significantly downsized its retail operations in recent years (see fig. 1). Opportunities to reduce retail facilities are particularly evident in urban and suburban areas, where USPS retail locations are close to one another, customers have more options, and facilities are expensive to operate and maintain.

Figure 1: USPS Retail Facilities, Fiscal Years 2003 and 2008



Source: USPS.

Retail Alternatives Have Expanded but Generate Only a Quarter of Retail Revenue

USPS has made progress in expanding the alternatives to traditional post offices and postal retail facilities. In 2008, customers could access postal services at more than 70,000 physical locations as well as other options to purchase stamps and mail packages (see table 1). Some postal services, such as stamp sales, are provided at alternative locations (e.g., drug stores and supermarkets). In addition, self-service options such as Automated Postal Centers are located in postal retail facilities.

Table 1: Alternative USPS Retail Options and Number of Locations, February 2008

Alternative retail options	Description	Number of locations
Partner programs		
Stamps on Consignment	Grocery and convenience stores and bank automated teller machines that sell stamps	53,196
Contract Postal Units	Contracted locations that offer full-service retail, but are not owned or staffed by USPS	4,510
Approved Shipper	Independent companies that offer USPS services along with competitor products	1,914
Self-service		
Automated Postal Centers	Kiosks that support the majority of transactions of a full-service retail counter	2,496
Vending machines	Machines that allow purchase of stamps for cash, which are being removed from many locations	9,439
Stamps by mail and telephone	Customers can order stamps that are delivered to their address	Not applicable
The Postal Store (USPS Web site)	Customers can purchase stamps and postal-related merchandise and online postage for Express Mail and Priority Mail at a reduced rate	Not applicable
Click-N-Ship	Online service enables customers to print postage labels and arrange to send packages	Not applicable
Total locations		**71,555**

Source: USPS.

USPS has also been expanding its self-service options to provide customers access to its services without visiting a physical location. For example, USPS has sold stamps by phone and mail for several years, and customers can purchase stamps at the USPS Web site. Further, USPS has introduced Click-N-Ship, which enables customers to use its Web site to print postage labels, including for Priority Mail, Express Mail, and international mail, and schedule package pickup, saving a trip to a post office. USPS has reported that use of its Web site continues to grow, both in number of transactions and revenue generated, and has plans to continue upgrading its Web site.

USPS Needs to Rightsize Its Network of Postal Retail Facilities

USPS can streamline its network of close to 37,000 post offices, branches, and stations—a network that has remained largely static despite expanding use of retail alternatives and shifts in population. In December 2007, we reported that USPS had not achieved a goal established in its 2002 Transformation Plan of proactively identifying unneeded retail facilities in overserved areas consistent with leading federal practices.[8] USPS actions to align retail access were limited to closing some vacated facilities through "emergency suspensions" and reducing staff by curtailing operations at some other facilities.[9] We noted in our 2007 report that leading federal practices identify criteria for rightsizing facility networks—such as considering facilities' importance and utilization—but USPS did not consider these criteria. Our analysis showed wide variation in the number of postal retail facilities among comparable counties in urban areas, and a number of facilities we visited for that work appeared to merit consideration for closure based on one or more of the federal criteria.

We also found that USPS has a maintenance backlog for its retail facilities, including facilities that we visited which had chronically leaking roofs and visible interior and exterior damage. USPS officials stated that USPS has historically underfunded its maintenance needs and insufficient funding has caused USPS to focus on reactive maintenance—that is, "emergency" and "urgent" repairs—at the expense of routine maintenance to prevent problems. Since our 2007 report was issued, USPS has limited its capital expenditures to help conserve cash, an action that may affect its ability to make progress on its maintenance backlog. One way to minimize maintenance costs is to reduce the number of facilities that must be maintained.

[8]GAO, *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).

[9]USPS is required to consider specific factors in making a determination to close a post office and to give persons served the opportunity to present their concerns regarding such proposals. 39 U.S.C §404(d). USPS also cannot close a small post office solely because it operates at a deficit. 39 U.S.C. §101(b).

USPS Needs to Streamline Its Mail Processing Network to Reduce Excess Capacity

We reported in 2005 that USPS had substantial excess capacity in its mail processing network.[10] Long-term trends have further increased excess capacity in the processing network such as continuing automation, declining volume of single-piece First-Class Mail (e.g., bill payments and personal correspondence), and destination entry of Standard Mail (e.g., mail that is transported by mailers to USPS facilities that are generally closer to where the mail is delivered) that reduces the need for USPS mail processing and long-distance transportation of mail. Trends contributing to excess capacity in the USPS processing and transportation networks include the following:

- *Advances in automation*—New automation equipment enables USPS to sort mail faster and more efficiently, a development that, with declining mail volumes, has resulted in more equipment downtime. In addition, new equipment, referred to as the Flats Sequencing System, will sort flat-sized mail (e.g., large envelopes, catalogs, and magazines) into delivery order, which is expected to reduce the need for space-intensive manual sorting at delivery units. Because delivery units are often colocated with post offices, branches, and stations, eliminating the excess space could involve relocating or consolidating retail activities.

- *Decline in single-piece First-Class Mail*—The volume of this mail has declined from about 60 billion pieces in fiscal year 1990 to about 38.6 billion pieces in fiscal year 2008, and is projected by USPS to decline to about 34.5 billion pieces in fiscal year 2009. Thus, there is less mail that is processed end to end through USPS's processing network.

- *Increases in destination-entered Standard Mail*—Destination entry of Standard Mail has increased from 26 percent in fiscal year 1991, when destination entry discounts were introduced, to 80 percent in fiscal year 2008. About half of Standard Mail is destination-entered at the USPS processing facility closest to the final destination of the mail, thus entirely bypassing USPS's network of Bulk Mail Facilities. Conversely, Standard Mail entered at "origin" mail processing facilities has declined from 74 to 20 percent.

The shift in how mailers use the USPS mail processing network provides opportunities to eliminate growing excess capacity. Last summer, we testified that USPS had taken steps to strengthen its processes for

[10] GAO-05-261.

consolidating its Area Mail Processing (AMP) operations.[11] Since then, USPS has initiated additional studies of proposed AMP consolidations, and the status of 33 recent AMP proposals is detailed in appendix II. Another major mail processing consolidation initiative that USPS has begun this year is realignment of its 21 Bulk Mail Centers and its Surface Transfer Centers into what is now referred to as Network Distribution Centers. It is important for USPS to make significant progress in consolidating its networks and reducing excess capacity or it may face more drastic cost-cutting options and have less time to achieve necessary cost reductions.

Other Options to Help USPS Remain Financially Viable Involve Difficult Trade-offs

Besides the option to defer payments for retiree health benefits discussed earlier, there are other options, all of which are difficult and require trade-offs, including

- reducing the frequency of delivery from 6 days,
- downgrading delivery standards,
- allowing USPS to accumulate additional debt by raising statutory debt limits, and
- reverting to direct appropriations to help finance postal operations.

Cutting delivery frequency would affect a key aspect of universal postal service and could further accelerate the decline in mail volume, thereby wiping out much or all of the potential savings from reducing delivery costs. Although USPS asked Congress in January 2009 to eliminate the long-standing appropriation provision mandating 6-day delivery, it has provided little information on how it would reduce delivery frequency and the potential impact on cost, volume, revenues, and customers. USPS estimated in 2008 that a year-round reduction in delivery frequency to 5 days a week could save $3.5 billion annually, assuming this reduction would have no effect on mail volume. The Postal Regulatory Commission (PRC) estimated in 2008 that USPS could annually save $1.9 billion by reducing delivery to 5 days, making some different assumptions, including assuming this would lead to a 2 percent volume decline. Thus, the USPS

[11] GAO, *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).

and PRC studies suggest that the potential savings from reducing delivery frequency is potentially sensitive to mailer response. Congress should have a more complete analysis of the trade-offs involved as it considers potential statutory changes in this area.

Although USPS has the authority to downgrade delivery standards for timely delivery of mail, this could affect time-sensitive payments, correspondence, advertising, or packages. Should USPS downgrade standards on a nationwide or substantially nationwide basis, it would be required to request an advisory opinion from the PRC, which would lead to a public proceeding.[12] This mechanism could also be used to explore the broader implications of reducing delivery frequency.

An option that would provide USPS with stopgap relief would be to raise the statutory debt limits to keep USPS financially solvent. However, this could further exacerbate USPS's financial difficulties in the future, when USPS and its customers may have difficulty repaying a larger amount of debt through higher postal rates. Direct appropriations, another option, would be contrary to the fundamental principle that USPS remain financially self-supporting through efficient, businesslike operations.

Finally, it is possible that USPS cost-cutting could affect service, particularly if USPS continues its incremental approach of reducing work hours through attrition while attempting to retain all of its major mail processing facilities. As USPS's Inspector General recently testified before this subcommittee, "if staff reductions are not coordinated with facility reductions, the Postal Service runs the risk of having protracted anemic staffing within an oversized network."[13] To its credit, USPS has recently reported high levels of service performance for single-piece First-Class Mail despite its financial difficulties and cost-cutting efforts. However, it will be important for USPS to continue making progress on measuring and reporting the delivery performance for its major types of mail, as well as the effects of network changes.

In closing, we are closely monitoring USPS's financial viability as USPS responds to unprecedented declines in mail volume and revenues. In 2001, when we designated USPS's transformation efforts and long-term outlook

[12]39 U.S.C. §3661.

[13]USPS Office of the Inspector General, *Oral Statement on the Financial Stability of the Postal Service* (Arlington, Va.: Mar. 25, 2009).

as high-risk, USPS's financial outlook had deteriorated significantly and we were concerned that USPS had no comprehensive plan to address its financial, operational, and human capital challenges.[14] In 2007, we removed this high-risk designation because USPS had developed and was implementing a Transformation Plan that addressed many of its challenges, and Congress had enacted comprehensive postal reform legislation giving USPS additional pricing flexibility and other mechanisms to help USPS remain competitive.[15] At this point, it is not clear to what degree USPS's current financial difficulties are primarily tied to the current economic downturn—versus long-term trends such as changing use of the mail—and to what degree USPS's financial condition will improve when the economy recovers. Depending on how effectively USPS responds to mail volume and revenue trends, removes costs, and manages its cash flow, we may consider adding USPS's financial viability and need to restructure its operations to our High-Risk List.[16]

In commenting on a draft of this 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, Keith Cunningham, Kenneth John, Emily Larson, Hannah Laufe, Susan Ragland, and Crystal Wesco.

[14] GAO, *U.S. Postal Service: Transformation Challenges Present Significant Risks*, GAO-01-598T (Washington, D.C.: Apr. 4, 2001).

[15] GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007).

[16] Since 1990, GAO has identified federal programs and operations as "high risk" that, in some cases, need broad-based transformations to address major economy, efficiency, or effectiveness challenges. See GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

Appendix I: USPS Mail Volumes and Revenues

Table 1: USPS Mail Volume: Results for Fiscal Year 2008 and Current USPS Projections for Fiscal Years 2009 and 2010

	Mail volume (millions of pieces)			Mail volume (percentage change from previous fiscal year)		
	Actual 2008	Projected 2009	Projected 2010	Actual 2008	Projected 2009	Projected 2010
First-Class Mail[a]	91,697	83,649	78,029	-4.8	-8.8	-6.7
Domestic: single-piece	38,558	34,455	31,140	-8.8	-10.6	-9.6
Domestic: bulk	52,719	48,831	46,560	-1.7	-7.4	-4.7
Standard Mail	99,084	85,820	82,468	-4.3	-13.4	-3.9
Periodicals	8,605	7,785	6,847	-2.2	-9.5	-12.0
Package Services	846	765	723	-7.5	-9.6	-5.5
Subtotal: Market-Dominant Mail[b]	201,128	178,637	168,719	-4.5	-11.2	-5.6
Competitive Mail	1,575	1,363	1,282	-3.4	-13.5	-5.9
GRAND TOTAL	**202,703**	**180,000**	**170,000**	**-4.5**	**-11.2**	**-5.6**

Source: USPS.

[a]First-Class Mail includes domestic and international First-Class Mail.

[b]Volume is not shown for small categories of market-dominant mail, including single-piece international First-Class Mail, USPS mail, and Free Mail for the Blind.

Table 2: USPS Revenues: Results for Fiscal Year 2008 and Current USPS Projections for Fiscal Years 2009 and 2010

	Revenue (millions of dollars)			Revenue (percentage change from previous fiscal year)		
	Actual 2008	Projected 2009	Projected 2010	Actual 2008	Projected 2009	Projected 2010
First-Class Mail[a]	$38,179	$35,824	$34,036	-0.6	-6.2	-5.0
Domestic: single-piece	19,396	17,878	16,592	-3.8	-7.8	-7.2
Domestic: bulk	17,880	16,963	16,526	-2.7	-5.1	-2.6
Standard Mail	20,586	18,183	17,843	-0.9	-11.7	-1.9
Periodicals	2,295	2,114	1,917	4.9	-7.9	-9.3
Package Services	1,845	1,743	1,662	1.8	-5.5	-4.6
Subtotal: Market-Dominant Mail[b]	62,906	57,864	55,457	-0.4	-8.0	-4.2
Market-Dominant Special Services	2,814	2,805	2,634	5.4	-0.3	-6.1
Competitive Mail and Services	8,382	7,986	7,544	6.4	-4.7	-5.5
GRAND TOTAL	**$74,968**	**$69,623**	**$66,652**	**0.0**	**-7.1**	**-4.3**

Source: USPS.

[a]First-Class Mail includes domestic and international First-Class Mail.

[b]Revenue is not shown for small categories of market-dominant mail, including single-piece international First-Class Mail and First-Class Mail fees. Revenue other than revenue for market-dominant and competitive products and services is not shown, such as nonpostal products and services, real estate, appropriations, and investment income.

Appendix II: Status of 2008-2009 Proposed Area Mail Processing Consolidations as of May 15, 2009

	Area Mail Processing (AMP) study initiated	Public meeting held	AMP not approved	AMP approved
	Total AMP proposals: 33	12	4	4
1.	Aberdeen, SD, to Dakota Central, SD		X	
2.	Athens, GA, to North Metro, GA	X		
3.	Binghamton, NY, to Syracuse, NY			
4.	Bloomington, IN, to Indianapolis, IN			
5.	Bronx, NY, to Morgan, NY		X	
6.	Canton, OH, to Akron, OH			X
7.	Cape Cod, MA, to Brockton, MA			
8.	Dallas, TX, to North Texas, TX			
9.	Detroit, MI, to Pontiac, MI	X		
10.	Flint, MI, to Pontiac, MI	X		
11.	Hattiesburg, MS, to Gulfport, MS	X		
12.	Industry, CA, to Santa Ana, CA and/or Santa Clarita, CA			
13.	Kansas City, KS, to Kansas City, MO			X
14.	Lakeland, FL, to Tampa, FL			X
15.	Long Beach, CA, to Santa Ana, CA and/or Los Angeles, CA			
16.	Manasota, FL, to Tampa, FL			X
17.	Mansfield, OH, to Akron, OH	X		
18.	New Castle, PA, to Pittsburgh, PA			
19.	Oxnard, CA, to Santa Clarita, CA			
20.	Plattsburgh, NY, to Burlington, VT		X	
21.	Portsmouth, NH, to Manchester, NH	X		
22.	Queens, NY, to Brooklyn, NY	X		
23.	Quincy, IL, to Springfield, IL			
24.	Sioux City, IA, to Sioux Falls, SD		X	
25.	South Florida, FL, to Ft. Lauderdale, FL, and Miami, FL	X		
26.	Springfield, MA, to Hartford, CT			
27.	Staten Island, NY, to Brooklyn, NY	X		
28.	Utica, NY, to Syracuse, NY			
29.	Watertown, NY, to Syracuse, NY			
30.	Western Nassau, NY, to Mid-Island, NY			
31.	Wilkes Barre, PA, to Scranton, PA, and Lehigh Valley, PA	X		
32.	Winchester, VA, to Dulles, VA	X		
33.	Zanesville, OH, to Columbus, OH	X		

Source: USPS. See http://www.usps.com/all/amp.htm for the current status of all proposed AMP consolidations.

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