



U.S. POSTAL SERVICE

Postal Reform Law Provides Opportunities to Address Postal Challenges

Highlights of [GAO-07-685T](#), a testimony for the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security, Senate Committee on Homeland Security and Governmental Affairs

Why GAO Did This Study

When GAO originally placed the U.S. Postal Service's (the Service) transformation efforts and long-term outlook on its high-risk list in early 2001, it was to focus urgent attention on the Service's deteriorating financial situation. Aggressive action was needed, particularly in cutting costs, improving productivity, and enhancing financial transparency. GAO testified several times since 2001 that comprehensive postal reform legislation was needed to address the Service's unsustainable business model, which assumed that increasing mail volume would cover rising costs and mitigate rate increases. This outdated model limited its flexibility and incentives needed to realize sufficient cost savings to offset rising costs, declining First-Class Mail volumes, unfunded obligations, and an expanding delivery network. This limitation threatened the Service's ability to achieve its mission of providing affordable, high-quality universal postal services on a self-financing basis.

This testimony will focus on (1) why GAO recently removed the Service's transformation efforts and outlook from GAO's high-risk list, (2) the Service's financial condition in fiscal year 2007, (3) the opportunities and challenges facing the Service, and (4) major issues and areas for congressional oversight. This testimony is based on GAO's past work, review of the postal reform law, and updated information on the Service's financial condition.

www.gao.gov/cgi-bin/getrpt?GAO-07-685T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine Siggerud at (202) 512-2834 or siggerudk@gao.gov.

What GAO Found

Key actions by both the Service and Congress have led GAO to remove the Service's transformation efforts and long-term outlook from its high-risk list in January 2007. Specifically, the Service developed a Transformation Plan and achieved billions in cost-savings, improved productivity, downsized its workforce, and improved its financial reporting. Congress enacted a law in 2003 that reduced the Service's annual pension expenses, which enabled it to achieve record net incomes, repay debt, and delay rate increases until January 2006. Finally, as illustrated in the table, the postal reform law enacted in December 2006 provides tools and mechanisms that can be used to address key challenges facing the Service as it moves into a new regulatory and increasingly competitive environment.

The two key factors that will affect the Service's financial condition for this fiscal year are the new reform law and new postal rates that go into effect in May. The reform law increases the costs of funding retiree health benefits but provides opportunities to offset some of these cost pressures through efficiency gains and eliminating certain pension payments. For the rest of the year, Service officials do not expect significant changes from its projected expenses and revenues. Other factors, such as costs for fuel or labor resolutions varying from plan, could affect the Service's projected outcome for this fiscal year.

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Challenges facing the Service	Opportunities to address challenges
Generating sufficient revenues to cover costs as the mail mix is changing.	Provides price-setting flexibility and allows the Service to retain earnings.
Controlling costs, particularly for compensation and long-term health benefits, and improving productivity.	Encourages the Service to reduce costs and operate more efficiently in areas such as realigning its network and workforce.
Maintaining affordable, reliable service and establishing reliable mechanisms to measure and report service performance.	Establishes service standards and monitoring by the new Postal Regulatory Commission (PRC).
Providing useful and reliable financial data to assess performance.	Establishes new reporting, accounting, and ratemaking data requirements.
Managing its workforce to respond to operational changes.	Requires a plan with the Service's vision for realigning its infrastructure and workforce, and the resulting impacts on its workforce.

Source: GAO.

Congress's continued oversight of the Service's transformation is critical at this time of significant changes for the Service, PRC, and mailing industry. Also, key to a successful transformation is innovative leadership by the Postmaster General and the PRC Chairman and their ability to work effectively with stakeholders to realize new opportunities provided under the postal reform law. GAO has identified key issues and areas for oversight related to implementing the reform law and new rate-setting structure, as well as other challenges to ensure the Service remains financially sound.