



Highlights of [GAO-09-958T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

The U.S. Postal Service's (USPS) financial condition has worsened since GAO testified before this Subcommittee last January, with the recession and changing mail use causing dramatic declines in mail volume and revenues despite postal rate increases. USPS expects these declines to lead to losses and cash shortfalls even if ambitious cost-cutting is achieved.

Mail use has been changing over the past decade as businesses and consumers have moved to electronic communication and payment alternatives. Mail volume peaked in 2006, and USPS expects that much of the lost volume will not return after the recession is over.

USPS's business model has relied on growth in mail volume to cover costs, but USPS has not been able to cut costs fast enough to offset the accelerated decline in mail volume and revenue. Thus, GAO added USPS's financial condition to the High-Risk List in July 2009.

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 and presents options and actions that USPS can take. It is based on GAO's past and ongoing work.

View [GAO-09-958T](#) 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

### Restructuring Urgently Needed to Achieve Financial Viability

#### 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 to 175 billion pieces in fiscal year 2009, a 13.7 percent decrease from fiscal year 2008. As a result, USPS projects for fiscal year 2009:

- a net loss of \$7 billion, even if it achieves record savings of more than \$6 billion;
- an increase in outstanding debt to a total of \$10.2 billion; and,
- despite this borrowing, an unprecedented \$1 billion cash shortfall.

Thus, USPS expects to generate insufficient cash to fully make its mandated payment of \$5.4 billion for future retiree health benefits due by September 30, 2009.

When GAO added USPS's financial condition to its high-risk list, it reported that USPS urgently needs to restructure to address its current and long-term financial viability. The short-term challenge for USPS is to cut costs quickly enough to offset the unprecedented volume and revenue declines, so that it can cover its operating expenses. The long-term challenge is to restructure USPS operations, networks, and workforce to reflect changes in mail volume, use of the mail, and revenue. Accordingly, GAO called 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, time frames for actions, identifies what steps Congress and other stakeholders may need to take, and addresses how USPS plans to:

- realign postal services, such as delivery frequency, delivery standards, and access to retail services, with changes in the use of mail by consumers and businesses;
- better align costs and revenues, including compensation and benefit costs;
- optimize its operations, networks, and workforce;
- increase mail volumes and revenues; and
- retain earnings, so that it can finance needed capital investments and repay its growing debt.

To achieve financial viability, USPS must align its costs with revenues, generate sufficient earnings to finance capital investment, and manage its debt. Key restructuring actions that USPS could take include the following:

- reduce compensation and benefit costs,
- consolidate retail and processing networks and field structure, and
- generate revenue through new or enhanced products.

USPS has proposed two actions that would require congressional approval: 1) changing funding requirements for retiree health benefits and 2) reducing mail delivery from 6 to 5 days. USPS's financial viability is critical as it plays a vital role in the U.S. economy and in providing postal services to all communities.