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Highlights

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.

March 2009

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.