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REPORT TO THE CONGRESS

UNITED STATES
GENERAL ACCOUNTING OFFICE



JUN 5 1975

LIBRARY SYSTEM

\$100 Million Could Be Saved Annually In Postal Operations In Rural America Without Affecting The Quality Of Service

United States Postal Service

~~CONFIDENTIAL~~

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

GGD-75-87

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report describes how the Postal Service can economize postal operations in rural America without affecting the quality of service and suggests ways the Postal Service can improve the services provided by its rural carriers. Because the Postal Reorganization Act does not specifically authorize the Postal Service to close all small post offices if alternative services were equivalent, this report also offers specific legislative language to permit such closings.

We made our review pursuant to the Postal Reorganization Act of 1970 (39 U. S. C. 2008).

Copies of this report are being sent to the Director, Office of Management and Budget; the Postmaster General; and each member of the Board of Governors of the United States Postal Service.

A handwritten signature in black ink, reading "James P. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

CPO	community post office
GAO	General Accounting Office

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

\$100 MILLION COULD BE SAVED
ANNUALLY IN POSTAL OPERATIONS
IN RURAL AMERICA WITHOUT AF-
FECTING THE QUALITY OF SERVICE
United States Postal Service

D I G E S T

WHY THE REVIEW WAS MADE

In fiscal year 1974, Postal Service expenses exceeded revenues by about \$2.3 billion. Despite a Federal subsidy of \$1.75 billion, the Service had to borrow \$500 million to help meet current operating expenses. Because of such serious financial problems and the need to economize wherever possible, GAO made this review to reassess pros and cons of closing small offices as previously suggested in 1964 and 1967.

The Service responded it was reluctant to do so because experience had shown that such changes frequently resulted in vigorous public and congressional protests that mail service would suffer.

The need to economize is more urgent today. The Congress, in creating the U. S. Postal Service, gave it the independence necessary to operate as a business entity rather than as an ordinary executive department and, in the words of the Postal Service, "a mandate to be self-sustaining by 1984."

FINDINGS AND CONCLUSIONS

The financial situation has worsened in recent years. Although postage rates have increased significantly, labor and fuel costs have risen even faster.

The Service must trim costs wherever possible. In 1964 and again in 1967, GAO recommended closing certain small post offices and continuing mail service with the more economical alternatives of

- extensions of rural delivery routes or
- establishment of community post offices operated by private individuals under contract.

GAO found that:

- Quality of mail service given rural customers does not decline, in the opinion of the Postal Service and rural customers, when small post offices are closed.
- The Postal Service should more adequately inform customers of proposed changes in service.
- About 12,000 small post offices could be closed with an estimated annual savings of \$100 million.
- The Postal Service has been closing a limited number of these offices and believes it has legal authority to accelerate such closings. Because of congressional concern, however,

it is not likely to do so without clarifying legislation.

Service does not suffer

GAO interviewed citizens of 32 rural communities in 28 States where the Postal Service had recently closed small post offices and provided continued mail service under an alternative method.

Nine of every 10 citizens said that mail service was at least as good as, and in a number of instances, better than before the changes. Elderly customers who began to receive home delivery as a result of a change were especially pleased.

For those citizens with complaints, generally involving the services provided by rural route carriers, GAO found that in most instances remedial action was possible by tightening administration of mail routes and insuring that every contract carrier provides all rural mail services. Most rural patrons already received the types of service proposed for patrons of the remaining small post offices. (See p. 3.)

Postal Service should better inform customers

Complaints concerning proposed conversions were often generated because postal customers had not been adequately informed of alternative services to be provided with a change. The Postal Service minimized such complaints in one region, however, by writing each customer of the proposed conversion as well as the choices of alternative services available. The

Service should extend this approach to all postal regions. (See p. 6.)

Estimated savings

At the end of fiscal year 1974, there were 6,100 fourth-class and 12,190 third-class post offices. The Postal Service believes that about 12,000 of these offices, serving an estimated 1 million families, could be closed without affecting service.

Based on the savings the Postal Service has achieved on past closings, GAO estimates that closing these offices would reduce the Postal Service's annual costs by about \$100 million. (See p. 8.)

Clarifying legislation would aid in achieving savings

The Postal Reorganization Act (39 U. S. C. 101) provides in part that "No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities."

Because of congressional concern about such closings, the Postal Service has applied this provision restrictively, requiring stringent criteria in addition to economy to be met before an office can be considered for conversion.

This has precluded the Service from realizing substantial economies by converting all small post offices where service is expected to be at least as good after a change.

Existing legislation does not specify what additional noneconomic conditions must exist before the Postal Service is authorized to close a small post office. GAO believes the Postal Service should accelerate its program for conversions but, because of past congressional concern over such closings, the Service is not likely to do so.

Therefore, it would be helpful to amend existing legislation specifically to permit conversion of small post offices when alternative services will be equivalent to that provided previously.

RECOMMENDATIONS

The Postmaster General should:

- more adequately inform postal customers of services to be provided after the closing or conversion of a post office and
- assure that the full range of services available from rural route carriers is being provided to customers on rural delivery.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Postal Service concurred with GAO's recommendations and has initiated corrective actions

to avoid a repetition of customer complaints.

The Service said it could legally impose fewer restrictions to closing small offices but that such restrictions are observed primarily because of concern expressed by Members of Congress.

The Service also said that it would be helpful if the act were amended to specifically authorize the Service to close small offices if the alternative mail service would be at least as good. (See p. 14.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

Because the Postal Reorganization Act does not specifically authorize the Postal Service to close all small post offices if alternative services were equivalent, the Congress may wish to consider clarifying the act to read as follows:

Sec. 101. "(b) The Postal Service shall maintain effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed for operating at a deficit unless the quality of mail service is maintained, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities."

CHAPTER 1

INTRODUCTION

The Postal Service has been faced with critical financial problems in recent years. In fiscal year 1974, expenses exceeded revenues by about \$2.3 billion. Despite a Federal subsidy of \$1.75 billion, the Service had to borrow \$500 million to help meet its current operating expenses.

THE SERVICE'S FINANCIAL PINCH

The financial situation has worsened although postage rates and, consequently, postal revenues have increased significantly in recent years. For example, between fiscal years 1971 and 1974, mail volume increased only 3.6 percent--from 87 billion to 90 billion, while revenues increased 35.2 percent--from \$6.7 billion to \$9.0 billion, a gain of \$2.3 billion. Expenses, unfortunately, also increased about \$2.3 billion during the same period--from \$8.96 billion to \$11.3 billion. The rate increases did not improve the Service's financial position.

Rising payroll costs have been primarily responsible for this situation. The Post Office Department's payroll costs in fiscal year 1968 (the year of issuance of the report of the President's Commission on Postal Organization) amounted to \$5.4 billion for 696,964 staff-years of effort. The President's budget for fiscal year 1976 provides for payroll costs of \$11.1 billion for 696,867 staff-years of effort. After this 9-year period, the work force is at about the same level while payroll costs have increased about 107 percent. If payroll cost escalation is estimated at 5.5 percent annually, the cost in 1984 of the present work force would be about \$17 billion.

To delay future postage increases, the Service must capitalize on every opportunity to reduce costs. The principal thrust of its efforts is in productivity improvement. Other opportunities exist.

For instance, in 1964 and again in 1967, we reported that costs could be greatly reduced through closing certain small post offices and continuing mail service by (1) extending rural delivery routes or (2) establishing post offices operated by private individuals under contract.

The Post Office Department was reluctant to do so, however, because previous such changes had frequently resulted in vigorous public and congressional protests that mail service would suffer.

The need to economize is more urgent today. The Congress, in creating the United States Postal Service, gave it the independence necessary to operate as a business entity rather than as an ordinary executive department and, in the words of the Postal Service, "a mandate to be self-sustaining by 1984." Therefore, we undertook this review to reassess the pros and cons of closing small post offices.

RURAL MAIL SERVICE

The Postal Reorganization Act (39 U. S. C. 101) requires the Postal Service to provide prompt, reliable, and efficient services to customers in all areas and to render postal services to all communities. The act further directs that a maximum degree of effective and regular postal services be provided to rural areas, communities, and small towns where post offices are not self-sustaining.

Recent Postal Service statistics show that service to rural areas, communities, and small towns is provided through

- 18,290 third- and fourth-class post offices,
- 2,007 contractor-operated rural branches and stations,
- 107 contractor-operated community post offices (CPOs), and
- 30,674 rural routes.

Third- and fourth-class (classified) post offices are operated by postal employees. The average size of communities served by third- and fourth-class offices is about 250 and 50 families, respectively. Operating costs for these offices generally exceed the postal revenues generated. In fiscal year 1973, operating costs were about \$270 million while revenues were only \$110 million.

The 2,007 rural stations and branches are operated under contract by persons who are not postal employees. Such facilities, which were created after August 1973, are called community post offices. The rural branches and stations, created prior to August 1973, operate essentially as suboffices of other post offices. Postal customers objected to this arrangement. They believed this constituted a loss of community identity since incoming mail bears the name and ZIP code of the parent office. In response to these complaints, the Service adopted a different approach with the establishment of CPOs. CPOs, although offering the same services as rural branches and stations, are more acceptable to postal customers because they maintain a distinct address and ZIP code.

About 4 million rural families are served by small post offices, rural branches and stations, and CPOs. About 12 million families are given rural box delivery by rural carriers who are postal employees or contract carriers.

CHAPTER 2

SMALL POST OFFICES CAN BE CLOSED

WITHOUT AFFECTING QUALITY OF SERVICE

The quality of mail service given rural customers does not decline when small post offices are closed and service is provided by an alternative method. We interviewed citizens of 32 rural communities in 28 States where the Postal Service had recently closed small offices and provided continued mail service through establishment of CPOs and/or extensions of rural and contract route delivery.

Nine of every 10 citizens interviewed said that mail service was at least as good as and sometimes better than before the changes. Elderly customers who began to receive home delivery as a result of a change were especially pleased. For that 1 citizen in 10 with a complaint, which generally involved services provided by rural route carriers, in most instances remedial action was possible. Most rural customers (about 12 million families) already receive the types of service proposed for the approximately 2 million families currently served by small post offices that could be closed.

Many complaints have arisen because customers have not been adequately informed of the types of services to be provided when a post office is being converted. The Postal Service should more adequately inform postal customers of proposed changes in service.

CUSTOMERS GENERALLY SATISFIED

Postal officials agree that the alternative service provided often exceeds that formerly rendered by a third- or fourth-class office. To obtain customer opinions on the quality of mail service, we interviewed postal customers in 32 rural communities in 28 States where small post offices had recently been closed and more economical arrangements had been made to provide mail service. The post offices were replaced by CPOs in 13 communities, rural delivery routes in 12 communities, contract delivery routes in 6 communities, and a combination of rural and contractor delivery routes in 1 community.

We selected communities where mail service had been converted no earlier than December 1972 and no later than January 1974. This was done in order to restrict our interviews to communities where conversions were recent but customers had sufficient experience with the alternative service to make a reasonable comparison.

We interviewed 718 of a possible 1,947 families in the 32 communities. As shown in the following table, 91 percent of those interviewed felt that the less costly mail service currently being provided by the Postal Service was as good as or better than that provided by the third- and fourth-class post offices which served them previously.

Alternative service	Number of communities	Number of families		Patrons' opinions of service (percent)		
		Residing in communities	Inter-viewed	Better	As good as	Worse
CPO	13	1,257	356	12	83	5
Rural route	12	560	266	35	53	12
Contractor route	6	125	92	55	29	16
Combination rural and contractor route	<u>1</u>	<u>5</u>	<u>4</u>	-	25	75
Total	<u>32</u>	<u>1,947</u>	<u>718</u>	26	65	9

A small percentage of the customers interviewed, however, believed mail service was worse under the alternative arrangements because they preferred the convenience of the old facility or because of problems associated with the type of mail service they were receiving. Some of these problems were easily resolved at little or no cost to the Service.

Customers served by a CPO indicated that there was little difference between the quality of service provided by a CPO and a post office because under both arrangements mail was received via rental boxes, often in the same building during similar hours.

A larger percentage of rural delivery route customers, however, felt that service had improved because they now received curbside delivery instead of having to walk or drive to the post office. Conversely, those rural or contractor route customers living in the immediate vicinity of the old post office generally preferred their former service because mail pickup was not an inconvenience. In addition, a small number of customers on rural delivery routes would rather, as a matter of personal preference, drive to the post office to pick up mail each day even if a distance of several miles was involved. For example, one customer said it was just good common sense to prefer receiving mail in a box near one's home, but that he enjoyed his daily trips to the local store where the old post office was located.

COMPLAINTS CAN BE REMEDIED

Rural and contractor route customers frequently complained that they had difficulty transacting special services--receiving packages; purchasing stamps or money orders; and registering, certifying, or insuring letters--with their carrier because of the limited time the carrier spent at each mail box. Customers said they had to wait at their rural box any time they required a special service because of their reluctance to leave money or valuable mail in their boxes. Some customers also complained that several of these services are either not available or take more than 1 day to transact, causing them delays and inconvenience not experienced when they were served by a classified office.

Service officials indicated that some of these customers may have been served by a contractor whose contract did not contain a "rural route features" clause, thus relieving the carrier of providing these special services. Other customers may have been on poorly administered rural delivery routes, because all services are designed to be provided on a same-day basis by the carrier who is, in effect, a traveling post office. In addition, Postal Service procedures permit all customers to lock their boxes using the locking loops provided on all Service-approved rural boxes, even though the incidence of rural theft is not nearly as prevalent as that experienced in urban areas.

In our opinion, the receipt of packages too large for a rural box presents the greatest problem for the rural and contractor route customer. Service policy requires all rural and contractor route carriers to leave a notice in the rural box if an attempt to deliver a large parcel is unsuccessful. Upon receipt of the notice, the customer can drive to the originating post office or request redelivery of the parcel on a specified date. In addition, the customer can give the carrier written permission to place all large parcels beside his rural route box.

When customers are greatly inconvenienced by rural delivery, we suggested, and Service officials agreed, that some type of limited contract facility could be established to sell stamps and money orders and to hold packages to supplement the service provided by the rural or contractor route carrier.

THE PROBLEM OF COMMUNITY IDENTITY

An objection often voiced by customers about to experience a change in post office status is that their community will lose its identity. Sometimes the post office is the last business in their town where people can gather. Until recently, in communities where the Service converted a classified office to a contract operation, community identity suffered because the mailing address and ZIP code were changed to that of another town and the post office was referred to as a "branch" or "station" of another post office.

In August 1973, however, the Service dealt directly with this problem by establishing CPOs, which retained the town address and ZIP code of the former third- or fourth-class post office. Under current procedures the Service makes every effort to first establish a CPO when a post office meets the criteria for discontinuance. However, if either a private contractor or office space is not available in the community, the Service will extend rural delivery from a nearby post office. Consistent with our report to the Congress dated December 7, 1967 (B-114874), we believe that providing community identity should not be a function of the Postal Service when doing so adversely affects the efficiency or economy of postal operations. Postal customers have a right to expect two principal services from the Service: (1) a conveniently located facility or other means of buying stamps, mailing letters and parcels, and receiving other services provided by the Postal Service and (2) prompt and expeditious handling and delivery of outgoing and incoming mail. In our opinion these services can be provided by a CPO or a rural route.

NEED TO IMPROVE PROCEDURES FOR ADVISING CUSTOMERS OF PROPOSED CHANGES

Headquarters officials stated that the Service was reluctant to accelerate post office closures because previous such changes had frequently resulted in vigorous protests from the public and the Congress. We believe that many of these complaints have arisen because customers have not been adequately informed of the types of services to be provided with the conversion.

Service procedures provide that, upon approval of a post office conversion, the Regional Postmaster General immediately advise the customers affected of the changes, the effective date, and any action required of them to assure uninterrupted service. Normally this responsibility is fulfilled by a postal representative who interviews as many potentially affected postal customers as possible before a change is recommended. When the change is approved, a notice is posted in the lobby of the post office to be converted for a minimum of 30 days prior to the effective date.

Because not all customers can be reached by the Service representatives, however, many customers often hear about a conversion after it has been approved by Service headquarters. It is at this time, before the customers are adequately informed of the types of services to be provided by the alternative methods, that petitions are signed and forwarded to their elected representatives. Service officials assured us, however, that once the services to be provided have been explained to the customers, most complaints subside.

To avoid these initial problems, the Service has recently started sending a letter to each individual postal customer before a change is recommended. This letter explains the reasons for the Service's

proposal for a post office change and the alternatives available to the customer. Also, an attached questionnaire gives each customer an equal opportunity to vote for the alternative service which he or she prefers.

Although this letter has been used successfully in the Central Region, where it has been made mandatory, use by the other four regions remains voluntary. In light of the Service's obligation to adequately notify all customers of proposed status changes and the success of this letter in the Central Region, the Service should require this procedure in all communities recommended for a post office change.

CHAPTER 3

SAVINGS WOULD BE CONSIDERABLE

At the end of fiscal year 1974, there were 6,100 fourth-class and 12,190 third-class post offices. The Postal Service believes that about 12,000 of these offices, serving an estimated 2 million families, could be closed without affecting service. We estimate that closure of the 12,000 post offices would reduce the Service's annual costs by about \$100 million.

The Postal Service is aware that considerable savings can be realized by replacing small post offices with extended rural delivery routes or with CPOs operated by private contractors. Although the Service has been converting about 300 third- and fourth-class offices each year, its restrictive policies and rigid interpretation of the Postal Reorganization Act--discussed in the next chapter--have prevented full realization of the available savings.

OPPORTUNITY TO REDUCE COSTS

During the 1800s and early 1900s the Post Office Department maintained a large network of small post offices across the United States to service a basically rural economy. Continuing urbanization, however, has decreased the need for large numbers of rural offices.

During fiscal year 1974, the Postal Service converted 285 third- and fourth-class offices to CPOs or rural delivery routes at a total annual savings of about \$1.8 million, as follows:

<u>Class of office</u>	<u>Number of conversions</u>	<u>Annual operating costs</u>		<u>Annual savings</u>	
		<u>Previous</u>	<u>Current</u>	<u>Total</u>	<u>Average</u>
Third	46	\$ 583,319	\$ 91,582	\$ 491,737	\$10,690
Fourth	239	<u>a/1,547,632</u>	241,017	1,306,615	<u>a/5,467</u>

a/ Adjusted for unavailable data.

As of June 30, 1974, the Postal Service had 12,190 third-class and 6,100 fourth-class post offices. Postal Service officials stated that present levels of mail service can be maintained in rural America if all fourth-class and about one-half of the third-class offices are closed or converted. On the basis of the average annual savings for each class office closed or converted during fiscal year 1974, we estimate that the Service could save about \$100 million annually if these post offices were converted.

The savings realized by closing third- and fourth-class post offices during fiscal year 1974 ranged from \$3,780 to \$19,040 and \$212 to \$29,999, respectively. Because of the labor-intensive nature of postal operations, the bulk of the savings in closing or converting small post

offices results from reductions in postmaster, clerk, and leave-replacement salaries and fringe benefits. Additional savings result from reduced equipment, training, mileage, travel, and rented- or purchased-facility costs.

The cost of alternative types of mail service is minimal compared to that of operating a classified office. Store owners desiring to operate a CPO, for example, may agree to provide all services for as little as \$1 per year because of the business it generates for their stores. As shown by the following summary of actual conversions undertaken during 1974, however, the average annual cost of rural delivery is even less than the average annual cost of a contract operation.

<u>Class of office</u>	<u>Average annual cost before conversion</u>	<u>Average annual cost of a CPO</u>	<u>Average cost of rural delivery</u>
Third	\$13,213	\$4,239	\$792
Fourth	6,490	2,514	422

Examples of cost reduction actions taken by the Service follow.

- A Western Pennsylvania community had its third-class post office replaced by a CPO after the post office building was destroyed by fire. The community of 229 families is only 1 mile from another third-class office. As a classified office, salaries of the postmaster and one clerk accounted for \$15,500 annual operating costs while its annual revenues were only \$4,400. When the office was destroyed, the postmaster transferred to the sectional center, the clerk declined an opportunity to bid on a CPO, and the contract was awarded to another resident for \$3,600 annually. The Service saved \$11,900 and, according to all of 57 customers interviewed, the conversion caused no service deterioration.
- In Illinois, a fourth-class office was closed and rural route service provided to the 29 families. The office was in the postmaster's home and, when she retired, no other suitable quarters were available in the community. Rural route service was therefore provided; the nearest post office was 5.5 miles away. Annual operating costs for the post office were \$7,500 with \$1,300 revenue. Alternative service was provided by a rural route extension for about \$100 annually, thus saving \$7,400. Of 25 residents interviewed, 18 felt service was as good as the post office's while 7 preferred the rural route, primarily because mail was delivered in front of their houses.

Service officials explained that every effort is made to establish a CPO before extending rural delivery, even though it is generally a more costly alternative, because the services provided by a CPO are more similar to a classified office and affected customers are less likely to complain.

MINIMAL EFFECT ON
POSTAL EMPLOYEES

Postal Service officials said converting all fourth-class and one-half of the third-class offices would not result in the loss of jobs by postal employees, but that time for study and implementation would be necessary to transfer employees to vacant positions which are commensurate with their duties and skills. In many cases, job transfers could be adjusted by normal turnover. In addition, financial assistance is available to those employees who change their residence.

The National Association of Postmasters advised us that it opposes closing small offices because the resulting loss in membership would limit its activities, which it feels greatly assist the Service. We recognize that the Service must consider the effects on employees of any changes in organization and operations and must accomplish such changes in a manner that would minimize the adverse effects on employees. We believe, however, that it should not defer changes that would reduce operating costs without affecting the quality of service.

CHAPTER 4
CLARIFYING LEGISLATION
WOULD AID IN ACHIEVING SAVINGS

The Postal Service has closed about 300 small post offices in fiscal year 1974.

The Postal Reorganization Act (sec. 101(b)) provides, in part:

"No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities."

The Service has applied this provision restrictively, requiring strict criteria in addition to economy of operation to be met before an office can be considered for conversion. This has precluded the Service from realizing substantial economies by converting all small post offices where service is expected to be at least as good after a change.

Existing legislation does not specify what additional noneconomic conditions must exist before the Service is authorized to close a small post office. We believe that the Service should accelerate its program for conversions but, because of past congressional concern over such closings, the Service is not likely to do so. Therefore, we believe it would be helpful to amend existing legislation specifically to permit the conversion of small post offices when alternative services will be equivalent to that provided previously.

RESTRICTIVE CRITERIA LIMIT CHANGES

Neither the language nor the legislative history of 39 U. S. C., sec. 101(b), sets forth strict criteria for closing small post offices. It is clear that some reason other than deficit operation of the office is required. We believe that this limitation results from congressional concern that effective postal service be insured to residents of rural communities and that small post offices may be necessary to preserve this level of service. Based on our interviews with postal patrons and Service officials, however, we have found that small post offices, while once crucial to rural mail delivery, are no longer necessary to maintain Service standards.

In view of congressional concern, the Service has established restrictive criteria to limit the number of small post offices being closed. Service policies state that the discontinuance of a post office

will be considered when (1) a community has been abandoned or a vacancy exists in the position of postmaster, (2) alternative service will be as good as or better than the current post office's, and (3) one or more of the following conditions exist:

1. No suitable person can be found in the community to permanently take charge of the post office.
2. No suitable quarters can be found for housing the post office.
3. Fewer than 25 families are being provided box or general delivery service by the post office.
4. Another post office or classified station or branch is located within a reasonable distance of the office to be discontinued (normally, 3 to 5 miles except in sparsely settled areas such as Alaska). Such office must be easily accessible to the customers affected and provide service equal to or better than the former post office.

Final approval for all post office changes is made by the Senior Assistant Postmaster General, Operations, at Service headquarters.

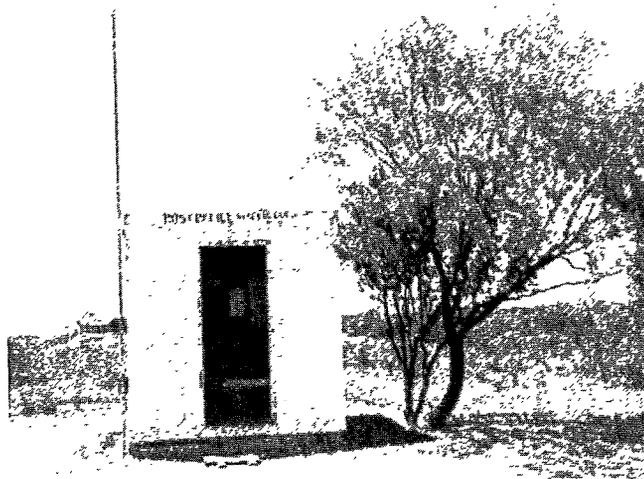
During fiscal year 1974, postmaster vacancies occurred at 648 third- and fourth-class post offices across the United States. With each vacancy the potential existed for reducing operating costs by closing or converting the office. The Postal Service during the same period, however, approved only 285 discontinuances or conversions of third- and fourth-class offices.

The Service estimates that about 800 to 1,000 postmaster positions became vacant annually in all four classes of offices. Of those, approximately 400 to 600 new postmasters will be appointed and about 400 offices will be closed or converted, many being third- and fourth-class offices. Even at the rate of 400 conversions per year, however, it would take 30 years to close the number of third- and fourth-class offices deemed by the Service as constraining economic operations. Although the best opportunity to close an office exists at the time of a postmaster vacancy, small offices can also be closed by promoting postmasters to higher-class offices or by transferring postmasters to larger offices.

In our opinion, the Service's criteria for closing small post offices could be broadened, without a legislative change, to accelerate the pace of conversions. Specific attention should be given to the two most restrictive criteria, which require that a vacancy must exist in the position of postmaster and that fewer than 25 families are being served by the office. Consideration should also be given to requests by a majority of customers of a post office who favor the closing of their office because of cost consciousness or because they desire rural curbside delivery.

While we did not examine the justification for the continued existence of every third- and fourth-class office, we did identify offices that remain open because of these policies. Following are examples of such offices.

--In October 1972 a proposal was made to close a fourth-class post office. The office, pictured below, provided box delivery to only 15 families and was located 6 miles from another fourth-class post office. Annual operating costs were \$3,423 with only \$358 revenue. Alternative service could be provided by rural carrier without increasing the carrier's contract price, and the \$3,423 operating costs would be saved. Postal officials agreed that there was no valid reason for continued operation of the office, but it remains open because the postmaster position is occupied.



--At another fourth-class office, the postmaster position was vacated in November 1971. Annual operating costs were \$10,575 with revenue of about \$2,800. This office provided box delivery to only 75 patrons and was only 7 miles from a first-class post office. Rather than seek a more economical form of service, the sectional center chose to fill the vacancy because more than 25 families were being served.

As shown in chapter 2, service would not decline if these offices were converted to either a CPO or rural route delivery.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

We have concluded that

- the quality of mail service does not decline, in the opinion of the Service and rural customers, when small post offices are closed;
- the Service should more adequately inform postal customers of proposed changes in service;
- about 12,000 small post offices could be closed with an estimated annual savings of \$100 million; and
- the Service has been closing a limited number of these offices and believes it has legal authority to accelerate such closings. Because of congressional concern, however, it is not likely to do so without clarifying legislation.

RECOMMENDATIONS TO THE POSTMASTER GENERAL

To avoid a repetition of the complaints we received from some customers where post offices had been closed, we recommend that the Postmaster General

- more adequately inform postal customers of services to be provided after the closing or conversion of a post office and
- assure that the full range of services available from rural route carriers is being provided to customers on rural delivery.

AGENCY ACTIONS

The Postmaster General concurred with our recommendations and said that the Service has initiated corrective actions to avoid a repetition of customer complaints discussed in the report. (See app. I.)

Specifically, the Service is instructing all regions to write a letter, developed and successfully used in the Central Region, to each individual customer before a post office change is recommended.

The Service is also arranging with contract carriers to give rural customers the full range of financial services already provided to rural customers served by Service rural carriers.

With regard to the Service's authority to accelerate the rate of closing small offices, the Postmaster General agreed that the Service could legally impose fewer restrictions upon itself but that such restrictions are observed primarily because of the concern expressed by Members of Congress. He also agreed that it would be helpful if the Postal Reorganization Act were amended to specifically authorize the Service to close small offices when alternative services would be at least as good as that provided previously.

MATTER FOR CONSIDERATION
BY THE CONGRESS

Because the Postal Reorganization Act does not specifically authorize the Service to close all small post offices if alternative services were equivalent, the Congress may wish to consider clarifying the act to read as follows:

Sec. 101. "(b) The Postal Service shall maintain effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed for operating at a deficit unless the quality of mail service is maintained, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities."

CHAPTER 6

SCOPE OF REVIEW

Our review of the Postal Service's progress in converting or closing uneconomical third- and fourth-class post offices included legislation, Service policies, and procedures followed by selected regional offices, district offices, and sectional center facilities.

We interviewed postal customers to determine whether they were satisfied with the alternative means of mail service provided them after their post offices were either closed or converted. Our interviews encompassed 32 rural communities in the 28 States listed in appendix II. In addition, we interviewed Service officials at Postal Service headquarters, all 5 regional offices, 22 of the 85 district offices, and 17 sectional center facilities.



THE POSTMASTER GENERAL
Washington, DC 20260

March 11, 1975

Dear Mr. Lowe:

This is in reference to your draft report entitled "Opportunity to Economize Postal Operations in Rural America Without Affecting Quality of Service."

The report finds that in the opinion of rural customers the quality of mail service does not decline when small post offices are closed, and it points out the savings that can be realized from such closings. It recommends that the Postal Service (1) more adequately inform postal customers of the service to be provided after the closing or conversion of a post office and (2) assure that the full range of services available from rural carriers is provided to customers on rural delivery.

We agree with the above finding and have action under way in keeping with your recommendations. As your report notes, our Central Region has been informing postal customers along the lines your report recommends and we are now instructing our other regions to do so. We are also making arrangements with our contract carriers to provide rural customers with the full range of financial services which our rural carriers (postal employees) are already providing to rural customers.

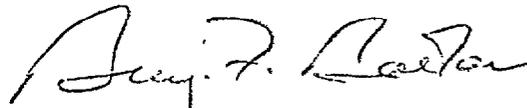
With regard to your discussion of the Postal Reorganization Act, we believe that under the Act as presently written, the Postal Service could legally impose fewer restrictions upon itself in respect to closing small offices than it currently does. We observe these restrictions primarily because of the concern expressed by members of the Congress about such closings. We concur in your view that it would be helpful if the Act were amended to specifically authorize the Postal Service to close small offices if the alternative mail service would be at least as good.

Of course, even if such an amendment were enacted, there are still practical limits to accelerating the closing of 12,000 small

offices, as the report advocates. We would have to examine each office to insure that equal or better service could be provided by alternative means before undertaking to close it. We would also want to make the changes in an orderly, phased way so we can fulfill our responsibilities to the postal employees who would be affected.

We appreciate your giving us an opportunity to comment in advance on this very fine report.

Sincerely,



Benjamin F. Bailar

Mr. Victor L. Lowe
Director, General
Government Division
U. S. General Accounting Office
Washington, D. C. 20548

STATES VISITED

Arizona	North Carolina
Arkansas	North Dakota
California	Oklahoma
Colorado	Oregon
Idaho	Pennsylvania
Illinois	Rhode Island
Iowa	South Dakota
Kentucky	Texas
Louisiana	Utah
Maryland	Virginia
Minnesota	Washington
Montana	West Virginia
Nebraska	Wisconsin
New Mexico	Wyoming

PRINCIPAL OFFICIALS OF
THE UNITED STATES POSTAL SERVICE
RESPONSIBLE FOR ADMINISTERING ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
POSTMASTER GENERAL:		
Benjamin F. Bailar	Feb. 1975	Present
E. T. Klassen	Jan. 1972	Feb. 1975
Merrill A. Hayden (acting)	Oct. 1971	Dec. 1971
DEPUTY POSTMASTER GENERAL:		
Vacant	Feb. 1975	Present
Benjamin F. Bailar	Dec. 1974	Feb. 1975
Vacant	Oct. 1972	Nov. 1974
Merrill A. Hayden	Sept. 1971	Sept. 1972
SENIOR ASSISTANT POSTMASTER GENERAL FOR OPERATIONS (note a):		
Edward Dorsey	June 1973	Present
SENIOR ASSISTANT POSTMASTER GENERAL, MAIL PROCESSING (note a):		
Harold F. Faught	Aug. 1971	Aug. 1973

a/On July 2, 1973, responsibility for regional mail-processing activities was transferred to a newly created Senior Assistant Postmaster General for Operations.

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