

Highlights of [GAO-11-244T](#), 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 and outlook deteriorated sharply during fiscal years 2007 through 2009. USPS actions to cut costs and increase revenues were insufficient to offset declines in mail volume and revenues. Mail volume declined from 213 billion pieces in fiscal year 2006, to 171 billion pieces in fiscal year 2010—or about 20 percent. Volume declines resulted from the recession and changes in the use of mail as transactions and messages continued to shift to electronic alternatives. In this environment, USPS initiatives to increase revenues had limited results.

USPS expects mail volume to decline further to about 150 billion pieces by 2020. This trend exposes weaknesses in USPS's business model, which has relied on growth in mail volume to help cover costs. GAO and others have reported on options for improving USPS's financial condition, including GAO's April 2010 report on USPS's business model ([GAO-10-455](#)). Recently, legislation has been introduced that addresses USPS's finances and the need for flexibility to help modernize operations.

This testimony discusses (1) updated information on USPS's financial condition and outlook, (2) the need to modernize and restructure USPS, and (3) key issues that need to be addressed by postal legislation. It is based primarily on GAO's past and ongoing work. In comments on our statement, USPS generally agreed with its accuracy and provided technical comments that were incorporated as appropriate.

View [GAO-11-244T](#) or key components. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

December 2, 2010

U.S. POSTAL SERVICE

Legislation Needed to Address Key Challenges

What GAO Found

USPS's financial condition continued to decline in fiscal year 2010 and its financial outlook is poor for fiscal year 2011 and the foreseeable future. Key results for fiscal year 2010 included total revenue of \$67.1 billion and total expenses of \$75.6 billion, resulting in

- a record loss of \$8.5 billion—up \$4.7 billion from fiscal year 2009,
- a \$1.8 billion increase in outstanding debt to the Treasury, thus making the total outstanding debt \$12 billion, and
- a \$1.2 billion cash balance at the end of the fiscal year.

USPS's budget for fiscal year 2011 projects

- a \$6.4 billion loss,
- a \$3 billion increase in debt to the \$15 billion statutory limit, and
- an end-of-year cash shortfall of \$2.7 billion.

USPS has reported achieving close to \$13 billion in cost savings in the past 5 fiscal years. However, as its most profitable core product, First-Class Mail, continues to decline, USPS must modernize and restructure to become more efficient, control costs, keep rates affordable, and meet changing customer needs. To do so, USPS needs to become much leaner and more flexible. Key challenges include: changing use of the mail; compensation and benefit costs that are close to 80 percent of total costs; difficulties realigning networks to remove costly excess capacity and improve efficiency; constrained capital investment, which has declined to one of the lowest levels in two decades and led to delays in buying new vehicles; lack of borrowing capacity when USPS reaches its statutory debt limit; and large unfunded financial obligations and liabilities of roughly \$100 billion at the end of fiscal year 2010.

Proposed postal legislation, including S. 3831, provides a starting point for addressing key issues facing USPS and facilitating changes, such as rightsizing networks, that will take time to implement and produce results. Also, decisions on postal issues may involve trade-offs related to USPS's role as a federal entity expected to provide universal postal service while being self-financing through businesslike operations. Three key areas addressed by the bill include compensation and benefits; rightsizing USPS networks and workforce; and whether to allow USPS to expand its nonpostal activities. For example, resolving large USPS funding requirements for retiree health benefits is important, while continuing to prefund retiree health benefits to the extent USPS's finances permit. It is equally important to address constraints and legal restrictions, such as those related to closing facilities, so that USPS can take more aggressive action to reduce costs. Allowing USPS to expand into nonpostal activities raises issues of how to mitigate risks associated with new lines of business, assure fair competition with the private sector, and how to finance such efforts. Congress and USPS urgently need to take action to restore USPS's financial viability as business and consumer use of the mail continues to evolve.