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.