

U.S. Postal Service: Financial Outlook and Transformation Challenges

Based on Testimony by
The Honorable David M. Walker
Comptroller General of the United States
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In GAO's view, a structural transformation at the Postal Service is essential if this important entity is to remain viable in the 21st century. The Postal Service faces major financial, operating, and human capital challenges. Its ability to provide universal postal service at reasonable rates and sustain itself through postal revenues is increasingly doubtful.

GAO recently added the Postal Service's transformation challenge to its list of government areas at high risk for waste, fraud, abuse, and mismanagement. GAO hopes that this designation will focus the necessary attention on the dilemmas facing the Postal Service—before the situation becomes a crisis and our options are more limited and costly. GAO added the Postal Service's transformation challenge to its high-risk list for several reasons.

First, the Postal Service's financial outlook has deteriorated significantly. The Postal Service's net income has fallen during the past five years, and it now projects a deficit for fiscal year 2001 in the \$2 billion to \$3 billion range—up from a projected loss of \$480 million just five months ago. The Postal Service believes that the slowing economy will further lower its net income by \$300 million to \$1.3 billion. Next year, the Postal Service estimates that its deficit will be in the \$2.5 billion to \$3.5 billion range, assuming no further increases in postal rates.

Borrowing by the Postal Service is on the rise, and even though its debt load is nearing the \$15-billion ceiling set by law, the Postal Service has no debt reduction plan. The Postal Service has curtailed capital investment to conserve cash, thus delaying much needed infrastructure improvements. These deferrals seem likely to continue. The large number of retirements expected in the next several years will further strain the Postal Service's finances.

Second, the Postal Service faces rising competition at home and abroad. It also expects that "electronic diversion," such as greater use of the Internet, will reduce the volume of first-class mail in the next decade and place the Postal Service under extreme financial pressure.

Third, despite its plans to cut \$2.5 billion in costs by 2003, boost productivity, and strengthen its human capital programs, the Postal Service has historically had great difficulty in achieving its desired results.

For example, many reports, including some by GAO and by the Postal Service Office of the Inspector General, have cited inefficiencies in the postal system and the Postal Service's lack of success in realizing planned savings.

Fourth, the Postal Service faces several legal and regulatory constraints that interfere with its ability to carry out its mission. The Postal Service's Board of Governors wrote the President and Congress in March 2001 asking for a comprehensive review of postal laws. The Board said, "We have unanimously concluded that the present statutory scheme puts at serious risk our ability to provide consistent and satisfactory levels of universal service to the American people, generally recognized as delivery to every address every day, at uniform affordable rates."

Potential losses in first-class mail volume during the next decade could create large financial deficits and drastically increase prices. This situation could threaten the continuation of universal postal service and force the exploration of other options.

The Postal Service's transformation efforts will also be affected by institutional restrictions, including the binding arbitration requirement, the rate-setting process, and limitations on facility closures.

Fifth, the Postal Service continues to experience periodic conflicts with some of its key stakeholders, including the postal unions and the Postal Rate Commission. Longstanding labor-management-relations problems have hindered improvement efforts; three labor agreements that expired in November 2000 may now have to be resolved through binding arbitration. In addition, the Postal Service and the Postal Rate Commission have long disagreed on pricing decisions.

Finally, two key leadership positions relating to postal operations and rate setting have yet to be filled—namely, the Postmaster General and the Chairman of the Postal Rate Commission.

Although the Postal Service has announced some measures to deal with its mounting problems, it lacks a comprehensive plan to resolve its many financial, operational, and human capital challenges. GAO recommends that the Postal Service, along with Congress and other key stakeholders,

develop a transformation plan with specific milestones to address these key issues.

GAO also recommends that the Postal Service provide Congress and the public with summary financial reports on a quarterly basis. These reports should contain detailed information so that stakeholders can fully understand the Postal Service's current and projected financial condition, how its outlook may have changed since the last quarter, and its progress toward achieving the results set forth in the comprehensive plan.

Postal Service officials have told GAO that they generally agree with its recommendations, and I recently met with the Deputy Postmaster General to discuss ways in which the Postal Service might implement them. GAO will work with Congress and the Postal Service to help identify improvement options and will report to Congress on the Postal Service's ongoing financial situation.

GAO appreciates that the road to recovery will be difficult, given the long-standing nature of the structural problems and the major differences in the views of stakeholders. But the sense of urgency is growing. The basic statutory framework that governs the Postal Service has not changed since 1970, despite the fact that businesses and consumers now have many more communications and delivery choices. Unless these laws and regulations are changed, the Postal Service's ability to provide universal postal service as we know it will be put in increasing jeopardy.

BIOGRAPHY OF DAVID M. WALKER

David M. Walker became the seventh Comptroller General of the United States and began his 15-year term when he took his oath of office on November 9, 1998. As Comptroller General, Mr. Walker is the nation's chief accountability officer and the head of the General Accounting Office (GAO), a legislative branch agency founded in 1921. GAO helps Congress maximize the performance and ensure the accountability of the federal government for the benefit of the American people. Immediately prior to his appointment as Comptroller General, Mr. Walker was a partner and global managing director of Arthur Andersen LLP's human capital services practice and a member of the board of Arthur Andersen Financial Advisors, a registered investment advisor. He also served as a Public Trustee for Social Security and Medicare from 1990 to 1995, while he was a partner with Arthur Andersen. Before joining Arthur Andersen, Mr. Walker was Assistant Secretary of Labor for Pension and Welfare Benefit Programs and Acting Executive Director for the Pension Benefit Guaranty Corporation. His earlier technical, professional, and business experience was gained with Price Waterhouse, Coopers & Lybrand, and with Source Services Corporation. Mr. Walker is a certified public accountant. He has a B.S. degree in accounting from Jacksonville University and a Senior Management in Government Certificate in Public Policy from the John F. Kennedy School of Government at Harvard University. He is married to the former Mary Etheredge, and they have two adult children—a daughter, Carol, and a son, Andy.

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Washington, D.C. 20548**