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# UNITED STATES POSTAL SERVICE

## Strategy Needed to Address Aging Delivery Fleet

Statement of Phillip Herr, Director  
Physical Infrastructure Issues



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## UNITED STATES POSTAL SERVICE

## Strategy Needed to Address Aging Delivery Fleet



Highlights of [GAO-11-671T](#), 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 United States Postal Service (USPS) is in financial crisis. It also has the world's largest civilian fleet, with many of its delivery vehicles reaching the end of their expected 24-year operational lives. USPS is subject to certain legislative requirements governing the federal fleet, including a requirement that 75 percent of USPS's vehicle acquisitions be capable of operating on an alternative fuel other than gasoline. This testimony addresses (1) USPS's financial condition; (2) USPS's delivery fleet profile, including how USPS has responded to alternative fuel vehicle requirements and its experiences with these vehicles; (3) trade-offs of USPS's approach for addressing its delivery fleet needs; and (4) options to fund a major acquisition of delivery vehicles.

This testimony is primarily based on [GAO-11-386](#), which is being released today. For that report, GAO analyzed USPS data, visited USPS facilities, and interviewed USPS and other officials. GAO recommended in that report that USPS should develop a strategy for addressing its delivery fleet needs that considers the effects of likely operational changes, legislative fleet requirements, and other factors. USPS agreed with the recommendation. For this testimony, GAO also drew upon past and ongoing work on USPS's financial condition and updated USPS financial information.

View [GAO-11-671T](#) or key components. For more information, contact Phillip Herr at (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov).

## What GAO Found

USPS's financial condition continues to deteriorate. For the first 6 months of fiscal year 2011, USPS reported a net loss of \$2.6 billion—worse than it expected—and that, absent legislative change, it will have to default on payments to the government, including a \$5.5 billion payment for its retiree health benefits. GAO has reported that Congress and USPS need to reach agreement on a package of actions to move USPS toward financial viability.

USPS's delivery fleet is largely composed of custom-built, right-hand-drive vehicles designed to last for 24 years, including about 141,000 gasoline-powered vehicles (16 to 23 years old) and 21,000 flex-fuel vehicles capable of running on gasoline or 85-percent ethanol (E85) (about 10 years old). Its flex-fuel vehicles and many of its 22,000 left-hand-drive minivans, which are also capable of running on E85, were purchased to comply with the 75 percent acquisition requirement for alternative fuel vehicles. Delivery vehicles travel about 17 miles and use the equivalent of about 2 gallons of gasoline on average per day. USPS has a variety of limited experiences with other alternative fuel vehicles, such as compressed natural gas and plug-in electric vehicles, most of which have higher life-cycle costs than gasoline vehicles.

Delivery Vehicles at a USPS Maintenance Facility (left) and Post Office (right)



Source: GAO.

USPS's approach for addressing its delivery fleet needs is to maintain its current fleet until it determines how to address its longer term needs. USPS has incurred small increases in direct maintenance costs over the last 4 years, which were about \$2,600 per vehicle in fiscal year 2010. However, it is increasingly incurring costs for unscheduled maintenance because of breakdowns, which can disrupt operations and increase costs. In fiscal year 2010, at least 31 percent of USPS's vehicle maintenance costs were for unscheduled maintenance, 11 percentage points over USPS's 20 percent goal.

USPS's financial challenges limit options to fund a major delivery vehicle replacement or refurbishment, estimated to cost \$5.8 billion and (in 2005) \$3.5 billion, respectively. USPS and other federal and nonfederal officials see little potential to finance a fleet replacement through grants or partnerships. If Congress and USPS reach agreement on a package of actions to move USPS toward financial viability, such an agreement could potentially enhance USPS's ability to invest in new delivery vehicles.

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Chairman Carper, Ranking Member Brown, and Members of the Subcommittee:

I am pleased to be here today to participate in this hearing to address the U.S. Postal Service's (USPS) financial crisis and the challenges it faces in modernizing its delivery vehicle fleet. USPS operates the world's largest civilian vehicle fleet—comprising more than 215,000 vehicles—of which about 192,000 are light-duty delivery vehicles<sup>1</sup> used to deliver mail to about 131 million residential and business addresses, in most cases, 6 days a week.<sup>2</sup> My statement addresses (1) USPS's financial condition; (2) the profile of its delivery fleet, including how USPS has responded to alternative fuel vehicle requirements and its experiences with alternative fuel vehicles; (3) trade-offs of USPS's approach for addressing its delivery fleet needs; and (4) options to fund a major acquisition of delivery vehicles.

This statement is primarily based on our report, being released today, on USPS's delivery fleet.<sup>3</sup> For that report, we visited USPS facilities, held interviews with USPS and other officials, and analyzed data from USPS's Vehicle Management Accounting System. We determined that these data were sufficiently reliable for the purposes of our review. This statement is also based, in part, on our prior and ongoing work on USPS's financial condition<sup>4</sup> and documents and a May 2011 interview with USPS officials regarding the agency's financial performance for the first 6 months of fiscal year 2011. Our work for this statement was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives. Additional information on our scope and methodology is available in our issued products.

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<sup>1</sup>In addition to delivery vehicles, USPS's fleet includes other vehicles, such as administrative vehicles used for sales, accident investigations, and other purposes, and larger trucks used for hauling mail.

<sup>2</sup>USPS also delivers to another 20 million addresses as part of its post office box service.

<sup>3</sup>See GAO, *United States Postal Service: Strategy Needed to Address Aging Delivery Fleet*, [GAO-11-386](#) (Washington, D.C.: May 5, 2011).

<sup>4</sup>See GAO, *U.S. Postal Service: Modernization and Restructuring Needed to Address Financial Challenges*, [GAO-11-428T](#) (Washington, D.C.: Mar. 2, 2011).

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## USPS's Financial Condition Continues to Deteriorate, and USPS Anticipates a Substantial Cash Shortfall This Fiscal Year

USPS's financial condition has deteriorated significantly since fiscal year 2006, and its financial outlook is grim in both the short and long term. In July 2009, we added USPS's financial condition and outlook to our high-risk list because USPS was incurring billion-dollar deficits and the amount of debt it incurred was increasing as revenues declined and costs rose. USPS's financial condition has been negatively affected by decreasing mail volumes as customers have increasingly shifted to electronic communications and payment alternatives, a trend that is expected to continue. USPS reported that total mail volume decreased 3 percent in the second quarter of fiscal year 2011, while First-Class Mail declined by 7.6 percent compared with the same period last year, negatively affecting revenue as First-Class Mail is USPS's most profitable mail. Half way through fiscal year 2011, USPS reported a net loss of \$2.6 billion.

USPS has reported achieving some cost savings in the last 5 years—for example, it eliminated about 137,000 full- and part-time positions. However, USPS has had difficulty reducing its compensation and benefits costs and has struggled to optimize its workforce and its retail, mail processing, and delivery networks to reflect declining mail volume. USPS has relied increasingly on debt to fund its operations and has increased its net borrowing by nearly \$12 billion over the last 5 years. USPS recently reported that its financial performance for the first 6 months of fiscal year 2011 was worse than expected, and that, not only will it reach its \$15 billion statutory debt limit by the end of the fiscal year, it now projects a substantial cash shortfall and that it will be unable to pay all of its financial obligations. Specifically, USPS said that absent legislative change it will be forced to default on payments to the federal government, including a \$5.5 billion pre-funding payment for retiree health benefits due on September 30, 2011.

While USPS's financial condition continues to deteriorate, we and USPS have presented options to improve the agency's financial condition. Specifically, we have reported that Congress and USPS need to reach agreement on a package of actions to restore USPS's financial viability, which will enable USPS to align its costs with revenues, manage its growing debt, and generate sufficient funding for capital investment.<sup>5</sup> Proposed legislation, including S. 353<sup>6</sup> and draft legislation expected to be

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<sup>5</sup>GAO, *U.S. Postal Service: Legislation Needed to Address Key Challenges*, GAO-11-244T (Washington, D.C.: Dec. 2, 2010).

<sup>6</sup>S. 353, 112<sup>th</sup> Cong., (2011).

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introduced by Senator Carper, provide a starting point for considering key issues where congressional decisions are needed to help USPS undertake needed reforms. As we have previously reported,<sup>7</sup> to address USPS's viability in the short-term, Congress should consider modifying the funding requirements for USPS's retiree health benefits in a fiscally responsible manner. For long-term stability, Congress should address constraints and legal restrictions, such as those related to closing facilities, so that USPS can take more aggressive action to reduce costs. Action is urgently needed as mail delivery is a vital part of this nation's economy.

The USPS Postmaster General has also presented strategies for improving USPS's financial viability, recently stating that the agency's focus should be on its core function of delivery, growing the package business, and aggressively controlling costs and consolidating postal networks to increase efficiency. Clearly, USPS's delivery fleet is a vital component of a strategy focused on delivery.

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## Delivery Fleet Primarily Consists of Aging Long-Life Vehicles and Alternative Fuel Vehicles Acquired to Meet Requirements, Which Have Presented Cost and Infrastructure Challenges

As shown in figure 1, there are three principal components of USPS's delivery fleet:

- about 141,000 "long-life vehicles" (LLV)—custom-built, right-hand-drive, light duty trucks with an aluminum body 16 to 23 years old, that are approaching the end of their expected 24-year operational lives;
- about 21,000 flex-fuel vehicles (FFV), also custom-built with right-hand drive, 9 and 10 years old, that are approaching the mid-point of their expected 24-year operational lives; and
- about 22,000 commercially-available, left-hand drive minivans that range in age from 2 to 13 years and have an expected operational life of 10 years.

According to USPS officials, right-hand-drive vehicles are necessary for curbside delivery.<sup>8</sup> In addition, USPS officials told us that the LLVs' and FFVs' standardized design minimizes training requirements, increases operational flexibility, and facilitates partnerships with parts suppliers. Moreover, LLVs and FFVs were made to withstand harsh operating

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<sup>7</sup>GAO, *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, [GAO-10-455](#) (Washington, D.C.: Apr. 12, 2010).

<sup>8</sup>About one-quarter of USPS's delivery vehicles are used on curbside routes, in which the letter carrier delivers to mailboxes at the curb, typically without leaving the vehicle.

conditions, resulting from an average of about 500 stops and starts per delivery route per day. As a result, the LLVs and FFVs are expected to last more than twice as long as the minivans, which were not built to withstand these operating conditions.

**Figure 1: Examples of the LLVs, FFVs, and Minivans in USPS's Delivery Fleet**



LLV



Source: GAO.  
FFVs have an extra window behind the door for improved visibility.



Minivan

USPS is subject to certain legislative requirements governing the federal fleet. For example, under the Energy Policy Act of 1992 (EPAct 1992), 75 percent of the light-duty vehicles that USPS acquires must be capable of using an alternative fuel such as ethanol, natural gas, propane, biodiesel, electricity, or hydrogen.<sup>9</sup> Since 2000, USPS has consistently purchased delivery vehicles that can operate on gasoline or a mixture of gasoline and 85 percent ethanol (E85) to satisfy this requirement. These vehicles are known as dual-fueled vehicles. USPS officials stated that E85-capable vehicles were chosen because they were the least costly option for meeting federal fleet acquisition requirements. In addition, officials expected that E85 eventually would be widely available throughout the United States. However, according to Department of Energy (DOE) data, as of December 2009,<sup>10</sup> E85 was not available at 99 percent of U.S. fueling stations.

<sup>9</sup>Pub. L. No. 102-486, § 303, 106 Stat. 2766 (Oct. 24, 1992). Legislation subsequently expanded the definition of alternative fuel vehicles to include hybrid vehicles.

<sup>10</sup>These data were the most recent available as of December 31, 2010.

Subsequent legislation required that alternative fuel be used in all dual-fueled vehicles unless they have received a waiver from DOE.<sup>11</sup> Because of E85’s limited availability, USPS has sought and obtained annual waivers from DOE—for example, in fiscal year 2010, about 54 percent of its E85-capable vehicles received waivers permitting them to be operated exclusively on gasoline. The remaining 46 percent of its E85-capable vehicles were expected to operate exclusively on E85. However, USPS officials acknowledged that USPS does not always fuel these vehicles with E85 because using E85 increases operational costs.<sup>12</sup>

Apart from its experiences with E85-capable vehicles, USPS has a variety of limited experiences with other types of alternative fuel delivery vehicles. Collectively, these vehicles accounted for about 2 percent (3,490 vehicles) of its delivery fleet as of September 30, 2010, as shown in table 1.

**Table 1: Number of USPS Delivery Vehicles, by Alternative Fuel Capability, as of September 30, 2010**

Alternative fuel capability	Description of fuel type	Vehicle types	Number of vehicles	Percentage of delivery fleet
E85	E85 is a blend of 85% ethanol (primarily derived from corn) and 15% gasoline.	FFVs and minivans	39,149	20
Compressed natural gas	Primarily consists of methane, around 90%, with small amounts of ethane, propane, and other gases.	LLVs and 2-ton trucks	3,401	2
Propane	Both naturally occurring and derived by separating petroleum from crude oil or natural gas.	LLVs	34	less than 1
Plug-in electric	Electric vehicles store electricity in an energy storage device, such as a battery. Energy is replenished by plugging the vehicle into an electric source.	2 ton trucks and 3-wheeled vehicles	42	less than 1
Conventional hybrid	Uses both gasoline and energy stored in a battery to power the vehicle.	sport utility vehicles and a 2-ton truck	11	less than 1

<sup>11</sup>Pub. L. No. 109-58, § 701, 119 Stat. 594 (Aug. 8, 2005). DOE grants waivers to agencies that operate vehicles in areas where alternative fuel is (1) unavailable, (2) not available within 5 miles or 15 minutes of travel, or (3) more expensive per gallon than gasoline at the same fuel station. (Gasoline is distilled from petroleum. We used the terms “gasoline” and “petroleum” interchangeably throughout our testimony.)

<sup>12</sup>Because of E85’s lower energy density, according to USPS officials, its FFVs are about 27 to 30 percent less fuel efficient when fueled with E85 than when fueled with gasoline, and therefore cost more to fuel—and USPS also may incur additional labor costs if letter carriers deviate from their routes to fuel with E85.

Alternative fuel capability	Description of fuel type	Vehicle types	Number of vehicles	Percentage of delivery fleet
Hydrogen	A fuel cell stack in the vehicle converts hydrogen gas and oxygen into electricity, which drives an electric motor.	sport utility vehicles	2	less than 1
<b>Total</b>			<b>42,610</b>	<b>22%</b>

Source: GAO analysis of data provided by USPS from a Vehicle Management and Accounting System report.

Note: Percentages do not total to 22 due to rounding.

According to USPS officials, to date, USPS has not invested more heavily in alternative technologies in part because alternative fuel vehicles likely would result in higher estimated lifecycle costs than gasoline-fueled vehicles. This is largely because any potential fuel savings from alternative fuel vehicles would be unlikely to offset generally higher acquisition costs over the vehicles' operating lives, given that USPS's delivery vehicles on average travel about 17 miles and its LLVs use the equivalent of about 2 gallons of gasoline per day. In addition, USPS officials told us that the limited availability of alternative fuels and the high costs of installing fueling infrastructure—such as on-site charging stations—have made it difficult to elect to invest in or operate these vehicles. Finally, they noted that USPS has experienced problems obtaining technological support and parts for its alternative fuel vehicles.

## USPS's Approach for Addressing Its Delivery Fleet Needs Has Financial and Environmental Trade-offs

USPS's current approach is to sustain operations of its delivery fleet—through continued maintenance—for the next several years, while planning how to address its longer term delivery fleet needs. Under this approach, USPS anticipates purchasing limited numbers of new, commercially available minivans. According to USPS officials, this approach was adopted in December 2005 after senior management and a Board of Governors subcommittee decided not to initiate a major fleet replacement or refurbishment. At that time, USPS estimated that it would cost \$5 billion to replace about 175,000 vehicles. Planning and executing a custom-built vehicle acquisition would take 5 to 6 years from initially identifying the vehicles' specifications and negotiating with manufacturers through testing and deployment, according to USPS officials. USPS also elected not to refurbish its fleet, another option considered. According to a USPS contractor, in 2005, the agency could have delayed purchasing new vehicles for at least 15 years if it had refurbished its LLVs and FFVs (i.e., replaced nearly all parts subject to the effects of wear and aging) over a 10-year period—at a cost in 2005 of about \$20,000 per vehicle—or a total of about \$3.5 billion, assuming that 175,000 vehicles were refurbished. USPS officials said the agency chose to maintain its current delivery fleet



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rather than make a major capital investment given pending operational and financial developments and uncertainty about evolving vehicle technologies.

We found that USPS's maintenance program and well-established parts supply network have enabled it to maintain its current delivery fleet while avoiding the capital costs of a major vehicle replacement or refurbishment. The USPS Office of Inspector General recently reported that this approach is operationally viable and generally cost-effective, given USPS's financial circumstances.<sup>13</sup> Our analysis of a custom query of USPS's vehicle database found that delivery vehicles' direct maintenance costs averaged about \$2,450 per vehicle in fiscal year 2007 and just under \$2,600 per vehicle in fiscal year 2010 (in constant 2010 dollars). However, these direct maintenance costs are understated, in part because, according to USPS data, about 6 percent of total maintenance costs—all due to maintenance performed by contractors—were not entered into its database.

USPS's approach has trade-offs, including relatively high costs to maintain some delivery vehicles. Our analysis showed that while about 77 percent of its delivery vehicles incurred less than \$3,500 in direct annual maintenance costs in fiscal year 2010,<sup>14</sup> about 3 percent (5,349) of these vehicles required more than \$7,000—and 662 vehicles required more than \$10,500—in direct annual maintenance costs,<sup>15</sup> or over one-third the \$31,000 per vehicle replacement cost USPS currently estimates. USPS officials stated that in most cases, they repair an LLV or FFV rather than replace it with a minivan because of the continuing need for right-hand-drive vehicles. One reason that some vehicles are incurring high direct maintenance costs is that USPS has replaced—at a minimum—about 4,500 LLV frames in fiscal years 2008 through 2010 because of severe corrosion, at a cost of about \$5,000 each. None of the fleet managers for Fed-Ex Express, United Parcel Service, or other companies we spoke with have

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<sup>13</sup>See United States Postal Service, Office of the Inspector General, *Audit Report—Delivery Vehicle Replacement Strategy*, DA-AR-10-005 (Washington, D.C.: June 16, 2010).

<sup>14</sup>USPS established \$3,500 as a one-time repair threshold for approving expenditures for LLV maintenance. We used this threshold to create maintenance ranges for the purposes of analyzing USPS's vehicle database.

<sup>15</sup>We calculated average vehicle maintenance costs for fiscal years 2006 through 2009 and found a similar pattern.

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replaced their vehicles' frames, and some suggested that the need to do so is a key indication that it is time to replace—not repair—a vehicle.

Another trade off of its current strategy is that USPS is increasingly incurring costs for unscheduled maintenance because of breakdowns. USPS's goal is to ensure that no more than 20 percent of its total annual maintenance costs are for unscheduled maintenance. However, in fiscal year 2010, at least 31 percent of its vehicle maintenance costs were for unscheduled maintenance, 11 percentage points over its 20 percent goal. Unscheduled maintenance can result in delays in mail delivery and operational costs, such as overtime expenses.

USPS employees at a majority of the eight vehicle maintenance facilities and some post offices we visited told us that they believe delivery vehicles can continue to deliver mail without major operational interruptions for at least several more years. At the same time, we identified some instances of maintenance problems during our site visits (our report being released today contains photographs and further discussion of these problems).<sup>16</sup> For example, officials at a Minnesota vehicle maintenance facility told us that they are not following USPS's requirements for replacing frames whose thickness in key spots indicates weakness because they do not have the resources to do so. Instead, they said, facility personnel replace frames only when the frames have one or more holes through the metal. In addition, when we visited a vehicle maintenance facility in New York state, technicians were replacing two severely corroded LLV frames with similar holes. The manager of this facility informed us that frames in this condition should have been replaced during a previous preventive maintenance inspection.

As discussed, USPS's financial condition has declined substantially, and although USPS issued a 10-year action plan in March 2010 for improving its financial viability, the plan did not address its fleet of delivery vehicles. USPS has not analyzed how operational changes proposed in its 10-year plan, including a potential shift in delivery from 6 to 5 days a week, would affect its delivery fleet needs, nor has it examined the consequences of its decision to delay the fleet's replacement or refurbishment. In addition, it has not developed a fleet financing strategy.

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<sup>16</sup> [GAO-11-386](#).

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During our review, USPS officials told us that the agency is in the early stages of developing a proposal for addressing its delivery fleet needs. These officials stated that the proposal will likely explore alternatives, including maintaining the current fleet, refurbishing the LLVs and FFVs, or, possibly, undertaking a major acquisition of new vehicles. Furthermore, USPS officials stated that the proposal will discuss strategies for incorporating additional alternative fuel capabilities into its fleet. USPS expects to present its proposal to its Capital Investment Committee later this fiscal year.

USPS officials said that the agency intends to examine ways to comply with EPCA 1992's acquisition requirements in its next large-scale acquisition of delivery vehicles, but noted that life-cycle costs are significantly higher for nearly all currently available alternative fuel vehicles than for gasoline-powered vehicles.<sup>17</sup> Consequently, these officials told us a large-scale acquisition of alternative fuel vehicles (other than E85-capable vehicles) is not likely to be financially viable. USPS officials stated that, in their view, the best way to meet national sustainability requirements for reduced emissions without incurring significant costs may be to invest in highly fuel-efficient gasoline-powered vehicles. Such an outcome could be possible given increased legislative flexibility in the definition of what constitutes an alternative fuel vehicle. Specifically, as a result of the National Defense Authorization Act of 2008, any vehicle determined by the Environmental Protection Agency (EPA) to be a low-greenhouse-gas-emitting vehicle in locations that qualify for a DOE waiver would be considered an alternative fuel vehicle.<sup>18</sup> However, because EPA evaluates only commercially available vehicles, at present, there are no low-greenhouse-gas-emitting right-hand-drive vehicles available that have been determined to meet EPCA 1992's fleet acquisition requirements for light-duty vehicles. Consequently, if USPS decides to pursue such a vehicle

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<sup>17</sup>For example, a 2011 Ford Escape hybrid costs about \$9,000 more than the nonhybrid version of the same vehicle. The manufacturer's suggested retail price for a 2011 Ford Escape hybrid was \$30,045 compared with \$21,085 for the nonhybrid Ford Escape, as of February 15, 2011.

<sup>18</sup>Pub. L. 110-181, § 2862 (Jan. 28, 2008). This legislation permits federal agencies to meet EPCA 1992's requirements for light-duty alternative fuel vehicles by purchasing vehicles that EPA has demonstrated to DOE would achieve a significant reduction in petroleum consumption. Based on a demonstration EPA made to DOE, any low-greenhouse-gas-emitting vehicle in locations that qualify for a DOE waiver would be considered an alternative fuel vehicle.

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in its next acquisition of custom-built delivery vehicles, it would need to work with vehicle manufacturers, EPA, and DOE.

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## Without Significant Improvement in USPS's Financial Condition, There Are No Clear Options to Fund a Major Vehicle Replacement

USPS's financial condition poses a significant barrier to its ability to fund a major acquisition of its delivery fleet.<sup>19</sup> Recently, USPS estimated that it would cost about \$5.8 billion to replace about 185,000 delivery vehicles with new gasoline-powered custom-built vehicles, at about \$31,000 per vehicle (in 2011 dollars).<sup>20</sup> Further, officials from USPS, DOE, and an environmental organization, and operators of private fleets see little potential to finance a fleet replacement through grants or partnerships. A primary barrier to a joint procurement is USPS's need for customized, right-hand-drive delivery vehicles (its competitors typically use larger vehicles that are not right-hand-drive). USPS and DOE officials also saw little likelihood that USPS could help finance a major delivery fleet acquisition through an energy savings performance contract, in which a federal agency enters into a long-term contract with a private energy company and shares energy-related cost savings. Given the low annual mileage of USPS's delivery fleet, USPS and DOE officials stated that it is unlikely that the fuel savings generated from a more efficient fleet (whether consisting of gasoline-only vehicles or alternative fuel vehicles) would be sufficient, compared with the acquisition cost of the vehicles, to interest a private investor.

If Congress and USPS reach agreement on a package of actions to move USPS toward financial viability, depending on the specific actions adopted, USPS's follow-up, and the results, such an agreement could enhance USPS's ability to invest in new delivery vehicles. While USPS's efforts to maintain its current delivery fleet have worked thus far, the time soon will come when the cost and operational consequences of this approach will not allow further delays. When that time comes, USPS will need to know how it can best comply with federal requirements for acquiring alternative fuel vehicles while also meeting its operational requirements. However, until USPS defines its strategy for a major capital

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<sup>19</sup>USPS's financial condition also poses a significant barrier to funding a major refurbishment of the delivery fleet. As discussed earlier, based on a USPS contractor's 2005 estimate of \$20,000 per vehicle, it would have cost about \$3.5 billion at that time to refurbish 175,000 delivery vehicles.

<sup>20</sup>According to a USPS official, this cost would cover the vehicle, shipping, quality control oversight, technician training, and the purchase of essential repair tools. The estimate did not include the costs to dispose of existing vehicles, including environmental costs.

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investment for its delivery vehicles, neither USPS nor Congress has sufficient information to fully consider its options. Consequently, USPS must develop a comprehensive strategy for dealing with this inevitability.

In the report that this testimony is based on, we recommend that USPS develop a strategy and timeline for addressing its delivery fleet needs. Specifically, we recommend that this strategy address such issues as the effects of USPS's proposed change from 6- to 5-day delivery and consolidation of its facilities, as well as the effects of continuing changes in its customers' use of the mail on future delivery fleet requirements, along with an analysis of how it can best meet federal fleet requirements, given its budget constraints. USPS agreed with our findings and recommendation. USPS stated that it is developing a strategy to address the immediate and long-term needs of its delivery fleet, and that it plans to complete the strategy and associated timeline by the end of December 2011.

Chairman Carper, Ranking Member Brown, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to answer any questions that you have.

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## Contacts and Staff Acknowledgments

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