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U.S. POSTAL SERVICE

Financial Challenges Continue, with Relatively Limited Results from Recent Revenue-Generation Efforts

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Highlights

Highlights of GAO-10-191T, a testimony to the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The U.S. Postal Service's (USPS) financial condition and outlook deteriorated significantly during fiscal year 2009. USPS was not able to cut costs fast enough to offset declining mail volume and revenues resulting from the economic downturn and changing mail use. Facing an unprecedented cash shortfall, USPS stated that it would have insufficient cash on hand to make its mandated $5.4 billion payment to prefund postal retiree health benefits that was due by the end of the fiscal year.

In July, 2009, GAO added USPS's financial condition to the list of high-risk areas needing attention by Congress and the executive branch to achieve broad-based transformation. GAO stated that USPS urgently needs to restructure to address its current and long-term financial viability. GAO also stated that USPS needs to use its flexibility to generate revenue through new or enhanced products.

This testimony will (1) update USPS's financial condition and outlook, (2) describe changes made by the Postal Accountability and Enhancement Act (PAEA) of 2006 that provided USPS with greater flexibility to generate revenues, (3) outline USPS's revenue-generation actions and results using this flexibility, and (4) discuss options for USPS to generate increased revenues in the future. This testimony is based on GAO's past and ongoing work.

View GAO-10-191T or key components.
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What GAO Found

USPS's financial condition for fiscal year 2009 and its financial outlook continue to be challenging:

- In fiscal year 2009, mail volume declined about 28 billion pieces, or about 14 percent, from the prior fiscal year, when volume was about 203 billion pieces; revenue declined from about $75 billion to about $68 billion.
- A looming cash shortfall necessitated last-minute congressional action to reduce USPS's mandated payments to prefund retiree health benefits by $4 billion. In the absence of congressional action, USPS was on track to lose about $7 billion.
- USPS debt increased at the end of fiscal year 2009 by the annual statutory limit of $3 billion, bringing outstanding debt to $10.2 billion. At this rate, USPS will reach its total $15 billion statutory debt limit in fiscal year 2011.
- USPS projects annual deficits over $7 billion in fiscal years 2010 and 2011, and continuing large cash shortfalls.

PAEA and implementing regulations gave USPS more flexibility to set prices, test new postal products, and retain earnings. USPS has broad latitude to set rates that take effect unless the Postal Regulatory Commission finds the rates would violate legal requirements, such as a price cap that generally limits rate increases for most mail to the rate of inflation.

Except for annual rate increases, USPS revenue-generation actions since PAEA was enacted have generally achieved limited results compared to USPS's deficits. To its credit, USPS has taken actions to use its pricing flexibility to address the pressing need for additional revenue. These actions generated some revenues, although their positive impacts were overwhelmed by the recession—with its cutbacks in consumer spending and corporate advertising—and ongoing diversion of mail to electronic alternatives.

Looking forward, USPS has opportunities to continue pursuing the flexibilities provided by PAEA to help generate additional revenue from postal products and services. However, results will continue to be constrained by the economic climate and by changing use of the mail. Mail volume has typically returned after past recessions, but much of the recent volume decline may not return. Increasing postal rates may provide a short-term revenue boost but would risk depressing mail volume and revenues in the long-term, in part by accelerating diversion of mail to electronic alternatives. USPS has asked Congress to change the restrictions established by PAEA so that it could offer new nonpostal products and services such as banking and insurance. Allowing USPS to compete more broadly with the private sector could lose money, and fair competition issues would need to be considered. Thus, in addition to its revenue-generation initiatives, USPS will need to continue making significant reductions in its workforce and network costs. When we recently added USPS's financial condition to our high-risk list, we said that restructuring will require USPS to align its costs with revenues, generate sufficient earnings to finance capital investment, and manage its debt.