



## U.S. POSTAL SERVICE

### Modernization and Restructuring Needed to Address Financial Challenges

Highlights of [GAO-11-428T](#), a testimony before the Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy, 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 are deteriorating because revenues are not sufficient to cover its expenses and financial obligations. These challenges continue to threaten USPS’s financial viability and GAO has therefore retained USPS on its high risk list issued in February 2011. USPS also faces cost pressures from maintaining a national network of processing, retail, and delivery operations.

This testimony discusses (1) updated information on USPS’s financial condition and outlook and (2) actions needed to modernize and restructure USPS. It is based primarily on GAO’s past and ongoing work, as well as GAO’s review of USPS’s recent financial results and the President’s proposed budget for fiscal year 2012.

#### What GAO Recommends

While this testimony contains no new recommendations, GAO has reported that Congress, the administration, and USPS urgently need to reach agreement on a package of actions to restore USPS’s financial viability by modernizing its operations, networks, and workforce. GAO has also recommended that Congress consider providing USPS with financial relief, and in doing so, consider all options available to reduce costs. In commenting on this statement, USPS generally agreed with its accuracy and provided technical comments that were incorporated as appropriate.

#### What GAO Found

USPS experienced a net loss of \$329 million in the first quarter of fiscal year 2011 and is projecting a \$6.4 billion total net loss for fiscal year 2011. Mail volumes, USPS’s main revenue source, have generally been decreasing as customers have shifted to electronic alternatives. This trend exposes weaknesses in USPS’s business model, which has relied on mail volume growth to help cover costs. While USPS continues to reduce employees’ work hours, its cost reduction efforts have not been sufficient to offset lost revenue. Since fiscal year 2006, USPS has relied on debt to help cover its obligations. If it borrows \$3 billion in fiscal year 2011 as its plans indicate, USPS will reach its \$15 billion statutory debt limit. The President’s Fiscal Year 2012 Budget Request proposes providing USPS with over \$4.5 billion in short-term financial relief in fiscal year 2011 by reducing its retiree health benefit payment by \$4 billion and reimbursing it for approximately \$550 million in Federal Employee Retirement System payments. While useful, these actions would not sufficiently address USPS’s structural problems.

**Postal Service Financial Results and Projections, Fiscal Years 2006 through 2011**  
Dollars in billions

| Fiscal year      | Net income (loss) | Total revenues | Total expenses | Outstanding debt |
|------------------|-------------------|----------------|----------------|------------------|
| 2006             | \$0.9             | \$72.8         | \$71.9         | \$2.1            |
| 2007             | (5.1)             | 75.0           | 80.1           | 4.2              |
| 2008             | (2.8)             | 75.0           | 77.8           | 7.2              |
| 2009             | (3.8)             | 68.1           | 71.9           | 10.2             |
| 2010             | (8.5)             | 67.1           | 75.6           | 12.0             |
| 2011 (projected) | (6.4)             | 67.7           | 74.1           | 15.0             |

Source: USPS.

As seen in the table, USPS’s financial condition has reached a tipping point. Given USPS’s role in facilitating key aspects of the U.S. economy, Congress, the administration, USPS, and stakeholders need to reach agreement on a package of actions to restore USPS’s financial viability, facilitate progress toward modernizing its services to meet changing customer needs, and remove barriers restricting USPS actions. This would allow USPS to optimize its networks and workforce so that it can become more efficient and reduce costs. GAO recently reported on lessons learned from foreign posts’ modernization efforts, including using outreach and communication strategies to inform public officials and customers of increased access to products and services to help gain acceptance for retail network changes. Some posts also developed labor transition strategies that included training, relocation, job search services, and financial incentives to support employees who were negatively affected. While USPS has taken steps to generate ideas for modernizing its retail and delivery networks, the experiences of foreign posts suggest that it will be critically important for USPS to fully develop and implement similar outreach, communication, and labor transition strategies.

View [GAO-11-428T](#) or key components. For more information, contact Phillip Herr at (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov).