



Highlights of [GAO-10-601T](#), a testimony to 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 U.S. Postal Service's (USPS) financial condition and outlook deteriorated significantly during fiscal years 2007 through 2009. USPS was not able to cut costs fast enough to offset declines in mail volumes and revenues resulting from the economic recession and changes in the use of mail, such as electronic bill payment. In July 2009, GAO added USPS's financial condition to its high-risk list and reported that USPS urgently needed to restructure to improve its financial viability.

The Postal Accountability and Enhancement Act (PAEA) of 2006 required GAO to evaluate strategies and options for USPS's long-term structural and operational reform and report by December 2011. Because of USPS's financial crisis and the need for urgent action, GAO accelerated its work and issued a report ([GAO-10-455](#)) on April 12, 2010.

This testimony provides (1) information on USPS's financial condition and outlook and (2) GAO's perspective on the actions that are needed to facilitate progress toward USPS's financial viability. This testimony is based on GAO's recently issued report and recent testimonies on USPS's financial condition and outlook.

View [GAO-10-601T](#) or key components. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

U.S. POSTAL SERVICE

Action Needed to Facilitate Financial Viability

What GAO Found

USPS is facing a major financial crisis. Mail volumes, the primary source of USPS revenues, declined by 36 billion pieces (about 17 percent) over the last three fiscal years (2007 through 2009). Mail volume declines were largely due to the economic downturn and changing use of the mail linked to the continuing shift to electronic communications and payments. USPS's financial outlook is poor as it projects future declines in mail volumes, stagnating revenues, large financial losses, increasing debt, and significant financial obligations, including for retiree health benefits. USPS projects a record loss of over \$7 billion in fiscal year 2010. Furthermore, USPS expects to borrow \$3 billion, bringing its total outstanding debt to \$13.2 billion, close to its \$15 billion statutory borrowing limit with the U.S. Treasury. Looking forward, USPS projects that by fiscal year 2020, total mail volume will further decline by 15 percent, to the lowest level since 1986. Absent additional actions to cut costs and increase revenues, USPS expects financial losses will escalate over the next decade.

GAO recently reported that making progress toward USPS's financial viability would primarily involve taking action to rightsize operations, cut costs, and increase revenues. Making the necessary progress would require USPS and Congress to pursue strategies and options that would

- reduce compensation, benefits, and other operations and network costs using the collective bargaining process to address wages, benefits, and workforce flexibility, as well as generating revenues through pricing and product flexibility; and
- address legal restrictions and resistance to realigning USPS operations, networks, and workforce.

USPS included many of these strategies and options in the action plan it issued in March 2010, but these planned actions under its existing authority will not be enough to make it financially viable. Therefore, action by Congress and USPS is urgently needed to

- reach agreement on actions to achieve USPS's financial viability;
- provide financial relief through deferral of costs by revising USPS retiree health benefit funding while continuing to fund these benefits over time to the extent that USPS's finances permit; and
- require that any binding arbitration resulting from collective bargaining would take USPS's financial condition into account.

To facilitate reaching agreement about the difficult constraints and legal restrictions that hamper progress, Congress could consider establishing a panel of independent experts, similar to the approach used by the Department of Defense's Base Realignment and Closure (BRAC) Commission, to coordinate with USPS and stakeholders to recommend a package of proposed legislative and operational changes needed to reduce costs and address challenges to USPS's business model.