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THE IMPACT OF THE ECONOMIC CRISIS ON THE U.S. POSTAL SERVICE

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

OF THE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

JANUARY 28, 2009

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THE IMPACT OF THE ECONOMIC CRISIS ON THE U.S. POSTAL SERVICE

WEDNESDAY, JANUARY 28, 2009

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICE,
AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:58 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper, Akaka, McCain, Coburn, and Collins (ex officio).

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. The hearing will come to order.

Normally, we start off these hearings by my welcoming the witnesses and their family members and others that have joined us. Today, I want to just start off by welcoming our new Ranking Member, with whom I have worked for 26 years, known him for 26 years, and we spent some time together in the Navy. He was on the ground there in Hanoi for a long time while the rest of us were trying to fly around and stay off the ground. And he has been a friend and a personal hero of mine for a long time. The idea that he is sitting here next to me is probably not what he had in mind a couple of months ago for the next 2 years, but personally speaking, I am just delighted to be able to lead a Subcommittee with him. And I am going to say a few things, but then I would be delighted if Senator McCain would like to add some comments as well.

Thanks for joining us. We have been joined by Senator Collins who has forgotten more about these postal issues than most of us know and has an enduring interest in these issues.

The troubles that have hit our economy in recent months also hit the Postal Service and its biggest customers early and hard. As we will hear today, the Postal Service expected to suffer significant losses in the current fiscal year, and I am told that those losses could go as high as $7 billion or more. Volume and revenue projections for next year are troubling as well.

In response to a recent request that I made along with Senator Coburn, Senator Lieberman, and Senator Collins, the Postal Service has laid out a plan to try to cut around $5 billion in fiscal year

2009 and next year as well. Most of those cuts will come from continuing efforts to cut hours and streamline operations, and they come on the heels of previous efforts by the Postal Service to find ways to trim their expenses—successful efforts.

I am sure that Mr. Potter will give us more detail on those prospective cuts in his remarks. I am also sure that he and his team will pursue this plan as professionally and as aggressively as they have pursued similar plans in the past. But I want to point out, though, that even if you are successful, the Postal Service's losses for fiscal year 2009 may still exceed the $3 billion annual borrowing limit that Congress has put in place. I think it is $15 billion total from the Treasury, $3 billion per year, is the cap that we have in place.

Absent some action from the Congress, then, we may well be faced with a situation later this year in which the Postal Service asks the Congress to raise its borrowing limit or extend to it direct Federal financial assistance. Those are steps that I do not believe we should take, and hopefully we will not take them.

In addition, postal management is likely to pursue dramatic cuts in service if we do nothing. They may also be forced to consider a larger than expected rate increase this spring. The mailing community tells us that a large rate increase this year could drive even more business away from the Postal Service. It could also lead to the failure of magazines and catalogues themselves and a loss of jobs in the mailing and the printing industry at a time when we certainly do not need any more job losses.

This situation has naturally caused many of us to question the Postal Service's future viability and the viability of the business model created just over 2 years ago in the Postal Accountability and Enhancement Act (PAEA).

While many Americans still depend on the Postal Service on a daily basis, including those of us up here, the products that have historically been at the core of its business model continue to lose ground to electronic forms of communication which were not around all that many years ago. As a result, there is some question about the extent to which the Postal Service's current difficulties can be attributed to our national economy or if they are a sign that the electronic diversion of the mail is occurring even more quickly than we had originally anticipated.

These are not questions that we can find the answers to today so, in my opinion, it will be necessary for Congress to take action soon to help the Postal Service get through the next year or so.

The Postal Service has approached us, a number of us, with a creative financial assistance proposal that should give them some breathing room in the current fiscal year, and depending on how far we want to go, for several more years as well. It accomplishes this by having the Postal Service's annual payment related to its retirees' health care premiums come out of a fund in Treasury, established under the Postal Accountability and Enhancement Act in 2006 so that the Postal Service could begin pre-funding its health-related obligations to future retirees.

Some concerns have been raised about this proposal, and some of those concerns are valid ones. First, what the Postal Service has suggested we do would reverse a deal made in the Postal Account-

ability and Enhancement Act. The deal recognized that the Postal Service was on track to overfund its pension obligations to its employees in the old Civil Service Retirement System. It also recognized that the obligation that was placed on the Postal Service to pay the additional pension benefits owed to postal military veterans was a unique obligation in the Federal Government and also an unfair one—unfair to the Postal Service.

Senator Collins and I argued that should be changed, and we argued that some definitive calculations needed to be made of what was the Postal Service's obligation for employee participation in the old Civil Service Retirement System were—not just someone's guess as to what it should be, what they thought it might be, but actually to say this is what it ought to be.

In exchange for a reduction in the Postal Service's Civil Service Retirement System payments and a reversal of the military pension language, postal officials agreed to language included in the Act that put the Postal Service on a payment schedule aimed at addressing its long-term retiree health obligations, something that other Federal agencies and most larger businesses in this country do not now address. And I have said to my colleagues, when I was State Treasurer of Delaware, Pete Dupont was our governor. Back in the mid-1970s, we realized that we had an entirely unfunded State pension program, and it was not amortized. It was just pay as you go. And we decided to amortize it over 40 years, set out to do that, actually amortized it within 10 years. I am very proud of that. But until just recently, we never addressed the other part of the problem, and that is the health benefits of the potential future retirees of our State. As it turns out, most States have not addressed that potential liability. As it turns out, most corporations have not addressed that. So this is one that is not peculiar to the Postal Service.

In addition, if enacted, the Postal Service's proposal would spend money that those of us who worked so hard on postal reform were hoping would be used to pay down, if not all of the Postal Service's health obligation, at least most of it. Every dollar that we spend, then, is a dollar that the Postal Service will need to pay back in the future when it will face even stiffer competition from electronic mail, electronic bill pay, and the like.

That said, I fear that enactment of some version of the Postal Service's proposal may be the only thing that could prevent a significant weakening of the Postal Service's financial and competitive condition in the near term. It is my understanding that the GAO analysts that have been working with us on this issue, including Mr. Herr, have said that temporarily allowing payments related to current retirees to come out of the Postal Service's pre-funding account in the Treasury Department would be a reasonable step to take, and today we will hear more from him about that.

Let me add in closing that I have no interest in temporarily propping up the Postal Service and waiting for another request for assistance a few years down the road. We need a Postal Service business model that works in the 21st Century and that preserves the vital service that the Postal Service provides for all of us. That business model may be the one we crafted in the Postal Accountability and Enhancement Act a couple of years ago, and I hope that

it is. We cannot know for certain, however, because a number of key provisions in the Act are still being implemented, and the state of our economy is making it difficult for the Postal Service to make use of its new commercial freedoms that were granted under that legislation.

I look forward to working with our colleagues, old and new, and with our witnesses here to do what needs to be done to help the Postal Service get through the very difficult situation that it faces today, and then we can turn our attention to what, if any, structural or other changes may need to be made to make the Postal Service successful in the years to come, or at least to make it viable enough so that it is no longer limping from crisis to crisis.

Another thing I would say in yielding to Senator McCain is that one of the things that Senator Collins, Senator Akaka, and I have been most interested in is given the fact that we have all this diversion to electronic mail and electronic bill paying, what kind of business model works for the Postal Service? What business opportunities are out there that they can seize and that they can use? So that is part of what I am hopeful that we can do and have some discussion of that even today.

Senator McCain.

OPENING STATEMENT OF SENATOR McCAIN

Senator MCCAIN. Well, thank you, Mr. Chairman. It is a great honor and pleasure to continue to serve with you, and thank you for your outstanding service for many years to this Nation and to the State of Delaware. I am glad to have the opportunity to also be with Senator Akaka and the person who probably has worked harder than anyone on this—Senator Collins. So I will be extremely brief to say that I am pleased to be joining the Subcommittee. I am grateful for the opportunity. There are many challenges ahead in light of—I am sure that our witnesses' comments today will be couched in the economic crisis—in the parameters of the economic crisis that this Nation faces. I did notice with some interest that it has been 2 years since we enacted the Postal Accountability and Enhancement Act that Senator Collins, and Senator Lieberman, and others worked so hard on. And yet we find that mail volume has been in a steady decline. The loss of volume, I am told, will result in a $7 billion loss in fiscal year 2009. Obviously, that is not sustainable, or anything like it. So we have to be cognizant of our responsibility to the taxpayers, but we understand the public service role of the U.S. Postal Service.

I notice our witness from the GAO is here today, and he is going to provide us with some options, none of them very pleasant, I might add, and yet obviously this is an issue that cries out to be addressed by the Congress and the Administration.

So thank you for holding the hearing, and I am pleased to be a Member of this Subcommittee as well as a Member of this Committee.

Senator CARPER. Thank you, Senator McCain. Senator Akaka.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I want to thank you for holding this timely hearing, and I also want to add

my welcome to Postmaster General John E. Potter, also CEO of the U.S. Postal Service; and also the Hon. Dan Blair, who is Chairman of the Postal Regulatory Commission; and it is good to have Director Herr here of Physical Infrastructure Issues at GAO. Welcome to all of you.

The Postal Service over the past 2 years has undergone a major transformation which has resulted in a fundamentally new approach to its business model. More than ever, the Postal Accountability and Enhancement Act that we passed in 2006 requires that the Postal Service act more like a business, closely linking postal rates to incurred costs. However, in functioning more like a business, the Postal Service has begun to feel the same pinch as the private sector due to the economic crisis now occurring. Unfortunately, consumers in the United States are making less and buying less. This holiday season saw record lows in purchases, and lower packages and deliveries as a result.

The Postal Service now faces a deficit of several billion dollars. There are some policies that could be enacted to put a Band-Aid on the situation, but it is no secret that much more is needed. The Postal Service's rates are strictly constrained by the Consumer Price Index cap, which only allows a modest increase in rates. One of the few ways around the cap would be using the exigency clause in the PAEA which is reserved for emergencies.

The problems with the economy will soon push the Postal Service to make some very tough decisions. We face a real possibility of reducing deliveries, cutting staff, or a number of other options that would degrade Postal Service and likely damage customer satisfaction. I fear that dissatisfaction could lead to less use of the Postal Service and drive revenues down even further.

The Postal Service has been innovative, but the current economy calls for more innovation. The Postal Service needs to find new business opportunities and expand on existing relationships. It must also be cautious in entering into negotiated service agreements to ensure that the agreements financially benefit rather than harm the Postal Service's bottom line.

I am pleased that the financial reporting provisions that I pressed for in the PAEA now allow for increased transparency and accountability in the Postal Service's budgeting process. That along with the oversight of the Postal Regulatory Commission will help ensure that the Postal Service and Congress have the information needed to make informed and sometimes difficult choices.

So I look forward to this afternoon's testimony and hope that we can all work together to ensure that the Postal Service continues to provide world-class universal service to all Americans.

Thank you very much, Mr. Chairman.

Senator CARPER. Senator Akaka, thank you. And thank you for being just a great partner on postal issues and a whole lot of other issues that are part of this Subcommittee. But it is great to be your wing man. Thank you.

And we have been joined by somebody else. You are in your old seat, Dr. Coburn, and I am glad you are still here with us.

Senator COBURN. Thank you.

Senator CARPER. Some new blood on this Subcommittee. I think it is a good thing. We will see. We will find out.

Senator COBURN. He has got Muskogee roots. [Laughter.]

Senator CARPER. I would note, again, Senator Collins has really been such a key player in postal issues. I was privileged to work with her a couple of years ago on this legislation, and I never thought at the time that we would continue to work on it as much as we have. But I am glad we are both here to do it.

Senator Collins.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you, Mr. Chairman.

Let me start by joining you in welcoming Senator McCain to our Committee and to this Subcommittee. I was very pleased to be able to appoint him as your Acting Ranking Member yesterday. Senator Coburn is going to be the Acting Ranking Member on the Permanent Subcommittee on Investigations. Both will be great assets to the Subcommittees.

I do very much appreciate your holding this hearing today. As the Chairman has mentioned, a little more than 2 years ago the postal reform legislation that we co-authored was signed into law. The President's signature was the culmination of an arduous process that began in 2002. It included nine hearings that I chaired in close consultation with the experts and stakeholders, many of whom I see in the audience today and at the table to my right as well. We worked closely with the Postal Service, GAO, OMB, employee unions, printers, publishers, nonprofit organizations, and other members of the mailing community.

Although the issues that we confronted were many and complex, our purpose was straightforward. We wanted to help ensure the continuation of affordable universal service. We wanted to strengthen a crucial service that is the linchpin of a $900 billion mailing industry that employs 9 million people. It employs Americans indirectly in fields as diverse as direct mailing, printing, catalogue production, paper manufacturing, and financial services. We worked to strengthen the funding for health insurance for postal workers and retirees. Above all, we worked to position the Postal Service for the challenges of a rapidly changing 21st Century economy to avoid what the GAO had warned would otherwise be a death spiral for the Postal Service.

We are in the midst of a deep recession that has put these issues once again before us, and I must say it is somewhat disheartening that we are back discussing these issues so soon. The Postal Service's response to the current economic crisis has not been to fully deploy the powerful tools provided by our legislation but, rather, to use the crisis as an argument to unravel the intricate compromise of provisions, accommodations, and protections that made up our landmark postal reform act.

Specifically, the Postal Service is seeking relief from fully funding its retiree health benefits obligations. The 2006 law requires the Postal Service to pre-fund its retiree health care obligations by making annual payments over a 10-year period. Two payments have been made to date, and the next is due on September 30. The law also requires the USPS to make a separate annual payment to OPM to cover current retiree health care premiums. When this payment schedule was enacted in 2006, the Postal Service believed

it was achievable. These payments, I have to point out, were crucial components of a compromise that led to the postal reform bill becoming law because they secured the support of the Bush Administration.

Now, with the Postal Service recording a $2.8 billion loss for 2008, and with hard economic times for the entire mailing industry greatly reducing volume, the Postal Service contends that this requirement is unsustainable. The Postmaster General has requested 8 years of relief from the obligation to pay these payments from operating funds. Instead, the Postal Service has proposed to tap the reserve established to fund the future retiree health care benefits.

I have joined Senator Carper in supporting a 2-year reprieve from this requirement to help the Postal Service weather the current economic crisis. But I am very concerned about going beyond 2 years because I believe that it causes the Postal Service to not be proactive in addressing its long-term fiscal challenges.

Mr. Chairman, in November, I joined you, Senator Lieberman, and Senator Coburn in requesting that the Postal Service provide detailed information regarding the steps that it plans to take in the near term to stabilize its financial situation. The GAO was disappointed with the Postal Service's responses and believes that the Postal Service has yet to make a case for urgent relief while charting a course forward to fiscal viability. The GAO also expressed frustration with the Postal Service's lack of transparency, and that is of great concern to me as well.

Our postal reform law was crafted with great care and with the assessment of enormous amounts of information and viewpoints from a wide variety of sources. Its fundamental purpose was to look beyond the short-term fixes and to implement the long-term solutions that are absolutely essential for the Postal Service's future. Any measures taken now to address the Postal Service's current economic crisis must be crafted with those same goals in mind.

Thank you, Mr. Chairman.

Senator CARPER. Senator Collins, thank you.

Senator Coburn, I am not used to looking at you so far away. I am glad you are here.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Thank you, Mr. Chairman. Let me welcome our guests. I have raised some serious concerns on where we are for a couple of reasons. It is not a lack of confidence. I have confidence in the Postal Board of Governors. I have confidence in Postmaster General Potter. What I do not have confidence in is that he has the management tools he needs to make sure the U.S. Postal Service is on a steady footing. We are having this hearing today because the Postal Service outlined their financial outlook for the next 2 years, which I think are amazingly positive assumptions on revenues given what we see in terms of the economy. I do not believe that even if we allow 8 years for the retiree health benefit fund we are going to be in the positive in the near term, or in the next 8 years.

What I want to get answered today is how are we going to fix the problem? Fixing the problem is not transferring in to the Postal Service retiree health benefits back in for cash flow. The problem

is we do not have the flexibility within Postal management to make the changes that we need to ensure that we can have a lean, fighting, effective competitor out there based on what we know is going to happen in terms of reduced mail volume.

I am thankful, Mr. Chairman, for the hearing. I think it is important. However, I am worried that the next headline is going to be "Auto bailout followed by post office bailout." It does not have to be that way. What we need to do is come together to make sure employees are protected, the history of the post office is protected. We need to make the changes that are necessary and flexibility in management so we can respond to the economic realities that actually face you.

I believe the answer to the letter that was sent, as well as the assumptions in it, do not come up to the mark of what is needed to make decisions by this body in terms of trying to support your efforts. Thank you.

Senator CARPER. Thank you, Dr. Coburn.

Let me provide just a very brief introduction for our witnesses, who need little introduction. You are all familiar with the Subcommittee. You have been before us, at least several of you, on many occasions. I just want to take a moment and briefly introduce each of them.

John Potter is the 72nd Postmaster General of the United States—is that right?

Mr. POTTER. Yes.

Senator CARPER. And he took that position in 2001. He has more than 30 years of experience at the Postal Service and has served in a number of key leadership positions over the years. We thank you for your service and your leadership.

Next we have Dan Blair, no stranger to this Subcommittee, the Chairman of the Postal Regulatory Commission. Mr. Blair is the first Chairman of the Postal Regulatory Commission. He was confirmed as a Commissioner in 2006 and designated as its chairman by former President George W. Bush.

Finally, we have Phillip Herr, Director in GAO's Physical Infrastructure team. He joined GAO in 1989 and since then has reviewed a wide range of domestic and international programs. His current responsibilities and areas of expertise include the Department of Transportation and the U.S. Postal Service.

Mr. Postmaster General, we will start with you. We are suggesting you try to go for about 5 minutes for your opening statement and stay as close to that as you can. But if you go over a little, that is all right. We are going to have some more votes. I checked on the floor when we just finished voting about 2:45 p.m., and they said we are going to have more votes probably within the hour or so. So we will hopefully get through all the opening statements and get started on questions, and then we will take it from there.

Welcome. Please proceed. Your entire statement will be made part of the record.

TESTIMONY OF HON. JOHN E. POTTER,[1] POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER, U.S. POSTAL SERVICE

Mr. POTTER. Good afternoon, Mr. Chairman and Members of the Subcommittee, Senator Akaka, Senator Collins, and Senator Coburn. I appreciate this opportunity to discuss with you the extraordinary challenges facing the U.S. Postal Service today.

The Postal Service, like the rest of the economy, is experiencing a severe financial crisis, and I am here today to ask for your help to protect America's mail system. We need two things: A change in the funding of our retiree health benefit premiums, and flexibility in the number of days per week that we deliver.

My first priority is changing the law to allow the Postal Service to pay its retiree health benefit premiums from our Retiree Health Benefit Trust Fund. This will not require appropriated dollars and will save the Postal Service $2 billion in fiscal year 2009.

My second priority is to provide the Postal Service greater flexibility in managing its way through our current crisis by allowing us to curtail delivery on our lightest-volume days, no more than one day per week. These efforts are vital because, as you know, the Postal Service is important to America. We are the second largest employer in the Nation. The mailing industry employs some 8 million people, and we are the conduit for roughly $1 trillion in commerce annually.

Given these facts, it is fair to ask how did we reach the point where we are compelled to ask for your assistance. The answer is twofold: First, as America and its economy has evolved over the past 230 years, moving from agricultural to industrial to information based, the Postal Service has evolved with it. We have grown as America grew. We became the largest post in the world, with 46 percent of the world's mail—truly a success. However, in the Information Age, like other posts, we have seen a slow but steady migration of First-Class mail and a growth in standard mail, a medium which is extremely sensitive to the economy. The revenue loss from the decline in First-Class mail is not offset by the growth of lower-priced standard mail.

Second, the entire Nation is experiencing a significant recession and a reduction in economic activity. Mail volume is a production of economic activity. When the economy is weak, mailers do not mail, which has led to percentage mail volume declines not seen by the Postal Service since the Great Depression.

The Postal Service was well aware of the first issue, and since 1999, we have been taking actions to position the Postal Service to address the challenge of diversion. We have reduced 120,000 jobs through attrition. We modernized our products and services to meet the changing needs of the public. Productivity grew for 8 years for a growth of 12.7 percent, more than double what had been accomplished in the two previous decades combined. We worked with our unions and employees to develop a safer workplace. We have embraced sustainability efforts in all aspects of our organization, and a result, customer and employee satisfaction have increased, and we have reached record levels of service.

[1] The prepared statement of Mr. Potter appears in the Appendix on page 47.

However, unlike electronic diversion, few foresaw the economic tidal wave that has engulfed the Nation. The Postal Service first began to see the effects in December 2007, particularly in the finance, credit, and housing sectors, all of whom are heavy mailers. We immediately began responding. In fact, we doubled our cost-cutting to $2 billion last year, but it simply was not enough.

In addition to the volume decline, other factors kicked in: Record fuel prices, which increased energy costs and drove up the Consumer Price Index; the largest employee cost-of-living adjustments in our history, as our union employees got raises driven by this extraordinarily high CPI; and then, of course, we were pre-funding our retiree health benefit obligations—I agree with Senator Collins—one that we had anticipated, but not in the circumstances that we found ourselves in.

In the end, our cost-cutting could not overtake our growth in costs. Without the requirement to pay the $5.6 billion to pre-fund our retiree health benefits, we would have had a positive income last year, even with the obstacles I described. However, with the pre-funding requirement, we posted a $2.8 billion loss. We began this fiscal year with a projected volume loss of 8 billion additional pieces of mail, and we projected a net loss this year of $3 billion. In the few short months since that forecast was developed, we are now projecting a 12- to 15-billion-piece loss in volume.

We have already taken actions to address the shortfall. We set a target of $5.9 billion in cost savings. However, they cannot be accomplished overnight without labor agreements. We have cut 26.9 million work hours in the first quarter alone, and we are on track and plan to cut well over 100 million work hours this year. We froze executive salaries, and we are reducing complement by 10 percent at headquarters and 19 percent in our area offices. We have frozen our facility budget, and we are only building and leasing post offices that are needed for health and safety reasons. We have instituted a hiring freeze that has already resulted, since October 1, in a reduction of 14,800 employees, obviously all through attrition.

I am sorry to tell you that even our revised forecast may be too optimistic. If current trends continue, we could experience a net loss of $6 billion or more this fiscal year, despite the most aggressive effort in our history to take costs out of our system. The maximum loss we can absorb, while allowing us to meet all our obligations under the current law and close this year with a positive cash balance, is $5 billion. The gap between where our net income is trending and our projected cash position is a cause obviously for considerable alarm, and it is making us make some very difficult choices.

That is why I am urgently requesting that Congress accelerate an existing provision in the Postal Act of 2006 and allow the Postal Service to pay its retiree health benefit premiums from our Retiree Health Benefit Trust Fund rather than make a separate payment for the premiums. The Postal Service would continue to make the scheduled annual payment to the trust fund, which will be $5.4 billion in fiscal year 2009. The Postal Service's contribution to the trust fund over the next 8 years would always be greater than the premiums flowing out of the trust fund. That means that the trust

fund balance, currently $32 billion, will continue to grow over this period of time.

I am also asking that the Congress remove the appropriations rider that requires the Postal Service to deliver mail 6 days a week. As I have mentioned, the Postal Service is taking aggressive action to address our budget shortfall; however, given the severity and uncertainty of the drop in volume, we will need new tools with which to manage. The ability to suspend delivery on the lighted delivery days will save dollars in both our delivery and processing and distribution networks. And I have to tell you, I do not make this request lightly, but I am forced to consider every option due to the severity of the challenge at hand.

The urgency of these requests and the reason I am asking for 8 years of relief is a result of our need to plan both short and long term, and we do have some experience with the impact of congressional action in the past. We are very grateful to get Public Law 108–18 that required the Postal Service to create an escrow fund beginning in 2006, which we put $3 billion into and held as reserve cash. The Postal Act then created the retiree health benefit prefunding requirement which transferred the escrow to the trust fund, and it was reflected as an expense, so we had a loss in 2007 of over $5 billion.

All of these changes, largely driven by the budgetary scoring processes rather than public policy, have a roller-coaster effect on the Postal Service's bottom line. Both of these proposals are designed to allow the Postal Service to plan and manage its way through this crisis. Our request falls squarely within what the Congress and I believe the Administration have defined as job preservation and economic growth.

We strongly believe our request is right for inclusion in the pending stimulus package. If Congress does not grant these requests, then we will be forced to risk service and make other changes that may not be in our interest, our best interests, or the country's best interest in the long term.

In the absence of these changes, we will make the cuts we need to make, but our ability to do them in a systematic way will be hampered. The Postal Service is and has always been the link that connects every American to the rest of the Nation for only the price of a stamp. We collectively cannot put this at risk, and I ask for your help, your action, and your support of the Postal Service as we address this financial crisis.

Senator CARPER. Thank you for that statement, and we look forward to hearing now from Mr. Blair.

TESTIMONY OF HON. DAN G. BLAIR,[1] CHAIRMAN, POSTAL REGULATORY COMMISSION

Mr. BLAIR. Chairman Carper, Senator Collins, Senator Akaka, and Dr. Coburn, thank you for this opportunity to represent the Commission today in testifying. I would also like to acknowledge in today's audience two of my fellow Commissioners: Commissioner Nanci Langley, who is in back of me, and Commissioner Ruth Goldway as well. I am happy to summarize my statement.

[1] The prepared statement of Mr. Blair appears in the Appendix on page 57.

Today, the Postal Service is facing troubling financial difficulties that stand to worsen before they improve. The current economic crisis has substantially impacted the Postal Service's volumes and revenues. For example, the financial sector, which has seen an implosion, accounts for approximately 15 percent of the Postal Service operating revenues, according to the Postal Service's 2008 Annual Report. The economic downturn comes on the heels of continued diversion of single-piece First-Class mail to E-mail and electronic bill payments. The cumulative result of these events has been the most severe volume declines since the Great Depression and significant financial losses for the Postal Service. The Postal Service's own data show volume declines for every domestic class of mail in fiscal year 2008, with First-Class mail volume declining almost 5 percent.

To address this crisis in the short term, the Postal Service has only a limited number of options available for financial relief.

Given its limited choices, a temporary adjustment to the Postal Service's retiree health benefit payment schedule would appear to be the most pragmatic approach for the short term. However, Congress should carefully consider the impact of allowing the Postal Service early access to the Retiree Health Benefits Fund to meet current needs without a plan for ensuring the sustainability of the fund to address the long-term health benefit liabilities.

In addition, the effective and robust oversight of the Postal Service requires transparency of financial information. The Commission recommends that Congress require the Postal Service to provide Congress, the Commission, and the GAO with a comprehensive, forward-looking financial plan. Such a plan would provide more detail than the current Strategic Plan on how the Postal Service intends to regain long-term financial stability in light of the real possibility of continually declining mail volumes.

To support this effort, we recommend the Postal Service provide Congress, the public, and stakeholders with monthly reports of financial operations along the lines of the information contained in the accounting period reports the Postal Service formerly made available. We also recommend that the Postal Service make available to the Commission its integrated financial plan in order to assess the Postal Service's current performance against that plan. Given the tenuousness of the Postal Service's financial situation, more—not less—transparency is necessary.

Again, I thank you for this invitation to testify, and I welcome the opportunity to answer any questions you might have. Thank you.

Senator CARPER. Thank you, sir. Mr. Herr, welcome.

TESTIMONY OF PHILLIP R. HERR,[1] DIRECTOR, PHYSICAL INFRASTRUCTURE ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. HERR. Thank you. Chairman Carper, Senators Akaka, Collins, and Dr. Coburn, thank you for the opportunity to discuss GAO's work regarding the financial condition of the U.S. Postal Service. My statement addresses two topics: First, the Postal Service's current financial condition and outlook; and, second, options

[1] The prepared statement of Mr. Herr appears in the Appendix on page 62.

and actions for the Postal Service to remain financially viable in the short and long term.

As has been commented here today in the hearing, the Postal Service's financial condition deteriorated in fiscal year 2009. Mail volume fell by 9.5 billion pieces. The Postal Service's $2.8 billion loss was its second largest since 1971. Its outstanding debt increased to $7.2 billion, nearly half of the $15 billion statutory debt limit. As recently as 3 years ago, the Postal Service had no outstanding debt.

While the Postal Service has stepped up its cost-cutting efforts, it has not fully offset revenue declines associated with reduced mail volumes. The Postal Service has large overhead costs, including providing 6-day delivery and service at about 37,000 post offices spread across the Nation. Compensation and benefits for its 663,000 career employees and over 100,000 non-career employees accounted for close to 80 percent of its costs.

Preliminary results for the first quarter of fiscal year 2009 indicate mail volume may decline in the range of 10 to 15 billion pieces, with revenues falling below targets developed last summer. We agree with the PRC that unfavorable volume trends continue and could impair all the Postal Service's financial viability.

Communication patterns have begun to change, and people are becoming more likely to obtain information and conduct financial transactions using the Internet, a trend particularly evident among young people.

Looking to 2010, the Postal Service provided information last month that indicated that its financial situation should improve that year. In light of this situation, we recognize the need to provide the Postal Service with short-term financial relief, but such relief is not a substitute for aggressive action to preserve its long-term viability.

Key options that have been discussed include reducing the Postal Service payments for its retiree health benefits for 8 years. As shown in Table 1 of my statement, which is on page 7, the Postal Service has proposed that Congress give it immediate financial relief by reducing its payments for retiree health benefits by an estimated $25 billion from 2009 to 2016. This would decrease the available balance in the fund by approximately $32 billion, including interest charges, in 2017.

A second option would be to reduce the Postal Service payments for retiree health benefits for 2 years. Congress could provide the Postal Service with 2-year relief for its retiree health benefit payments totaling $4.3 billion, which would provide immediate financial relief while having much less long-term impact on the fund. We believe this option is preferable. This would allow Congress to revisit the Postal Service's financial condition in 2 years while assessing actions taken in the interim to assure its long-term viability. In other words, this approach would keep the pressure on the Postal Service to make needed changes.

Another option that would not require Congressional action would be for the Postal Service to work with its unions to modify work rules to reduce costs. For example, the Postal Service and the National Association of Letter Carriers agreed to expedite adjust-

ing city delivery routes, a move expected to achieve some cost savings.

When Congress passed the Postal Reform Act in 2006, it recognized the need to streamline postal operations. Aside from short-term fixes, the Postal Service urgently needs to take action that move it beyond its current cost-cutting efforts. Short-term relief for retiree health care payments is not a substitute for action. Compensation of benefits account for nearly 80 percent of its costs and is one area to consider.

Another area we have previously reported on is reducing excess capacity in the Postal Service's mail processing infrastructure. In 2005, we recommended actions needed to enhance transparency and accountability of its realignment efforts, and we reported in 2008 that it has made improvements in this area. To date, however, it has taken only limited action, closing only one of over 400 large processing facilities, and is considering outsourcing operations in its 21 bulk mail facilities. Another area where costs can be reduced is its network of about 37 retail facilities, a move that could also help reduce its large maintenance backlog.

In conclusion, Mr. Chairman, we recognize it has been difficult and at times controversial for the Postal Service to take action in these areas. Accelerated mail volume declines and changes in the public's use of the mail indicate that the Postal Service needs to move beyond incremental efforts and take aggressive action that will help assure its long-term viability.

Mr. Chairman, this concludes my prepared statement, and I would be happy to answer any questions you or other Members have. Thank you.

Senator CARPER. Mr. Herr, thank you for the statement, and thanks even more for the oversight that you and GAO provide for us, really as a partner in our oversight efforts.

I want to start off with a question for Mr. Potter and then maybe a couple for our other panelists as well. Everybody is going to work with about 7 or 8 minutes. Seven minutes, and I would ask you to try to stay close to that, and then we will come back for a second round.

Mr. Potter, you request in your testimony that Congress for the first time allow the Postal Service—not mandate, but allow the Postal Service to offer less than 5 days of delivery if our current economic situation and a continued decline in mail volume suggest to you and the Board of Governors that doing so would be necessary. I am certain that going from 6 days to 5 would save some money. I also suspect that in some cases it might make the Postal Service a somewhat less attractive option for some of your customers.

Just give us your thoughts on this, and if you would, I would like to hear maybe from Mr. Blair and from Mr. Herr on this point as well.

Mr. POTTER. Senator, as I said in my testimony, I did not take that lightly in terms of making that request. My preference would have been to continue on with 6-day delivery; however, in light of the fact that in a couple years we will have a drop of over 20 billion pieces of mail we needed to move forward with this request.

Senator CARPER. That is 20 billion out of how many, out of the base?

Mr. POTTER. Well, we hit our peak at around 212 billion.

Senator CARPER. And between the 212 billion—excuse me. Of the 212 billion, roughly what percentage of that is First-Class and what is not? Just roughly.

Mr. POTTER. We have about 95 billion pieces of First-Class mail, which is about 47 percent of our total volume.

Senator CARPER. OK.

Mr. POTTER. And, a little over 50 percent is standard mail, which is advertising mail.

Senator CARPER. And out of the drop, what did you say the decrease was?

Mr. POTTER. Right now—and, again, it could go lower, we think we are going to go down to about 189 billion pieces.

Senator CARPER. And roughly what percent—is the loss greater in First-Class? Where is it the greatest?

Mr. POTTER. For the first quarter, we saw a decline of First-Class mail of about 6 percent. Standard mail was down about 11 percent.

Senator CARPER. OK. Thank you.

Mr. POTTER. So in terms of 6-day delivery, we look at the year and we look at how many pieces of mail we actually deliver on average. In 2000 we were delivering 5.9 pieces of mail to every stop. We are projecting that in 2009 that will drop to about 4.8 pieces per stop. Obviously, that is challenging. This precipitous drop was not expected. And so as we look at our lightest volume periods—June, July, and August—it is hard to justify going to every door 6 days a week.

One of the options we are looking at is a reduction in service, and looking at it for that period of time, we would obviously have to work through our plans. I have discussed this with mailers. The mailers I have talked to recognize the situation we are in. They are very concerned that we not raise rates above the rate cap, and if the alternative for them is to have some diminution in terms of days of delivery for the period of time I described, they said that they would work with us and adjust their operations to meet our reduced delivery schedule.

Senator CARPER. Let me just interrupt for a second. You have been acting commendably with respect to partnering, in some cases I think with UPS or FedEx, and using the idea that you go 6 days a week to every door. You go the last mile; you also go the first mile. But you have used that part of your business model as an attractive feature in order to build those partnerships.

I would just lay out a question and a concern. If you go from 6 to 5 days, some of your customers, including your competitors, might be less inclined to use you as a partner for going that last mile. Any thoughts about how that might affect your business? I don't know if that is a growing part of your business or not. I suspect it is.

Mr. POTTER. It is a growing part of our business, but overall, packages are in a state of decline because of the economy, so it is down somewhat. But the competition, the competition does not deliver on a sixth day. So in terms of what is the alternative to us—

and we are very reasonably priced, and for that period of time, I do not think it would cause a diminution.

However, in the fall, people are looking to get advertising mail and packages. So as we approach the holiday season, I think that would be detrimental to our volume, but we could work our way through it.

Senator CARPER. Could you see a period of time where on the lightest days you would have 5 days of service and then maybe getting into the fall, closer to the holiday shopping season, bump it back up to 6 days for a period of time?

Mr. POTTER. That is what we are proposing.

Senator CARPER. All right.

Mr. POTTER. We are proposing only for this summer and probably 2010 because I do not see a sharp mail recovery in 2010. What I am asking for is that the Board be given the latitude to evaluate our mail volumes and to make decisions, in concert with our mailers, on when it would be prudent to roll back or eliminate six day delivery.

Now, if we did that, we would have to work with our unions, and we will, to make the necessary scheduling changes. We would advise our customers of any change so that we do not have anyone walking out to the mailbox on a nondelivery day. We do not want anyone having to guess if there is going to be a mail delivery today. But I believe that we could work through it.

And, again, the alternative is to not comply with the law and hit our borrowing limit, as well as keep our rates below the rate of inflation.

Senator CARPER. Fair enough.

Let me hear from Mr. Blair and Mr. Herr, please. And each take about a minute apiece, please.

Mr. BLAIR. Chairman Carper, I appreciate Mr. Potter's comments, the deliberateness with which he approaches this issue. We have to be very careful when we go into this area.

The Commission recently issued its Universal Service Obligation Study, and we looked at this. We found possible savings for the Postal Service of almost $2 billion if they reduced the days of delivery, but it is a double-edged sword. And more information——

Senator CARPER. So about $2 billion a year?

Mr. BLAIR. Two billion a year, correct.

Senator CARPER. And that assumes year-round, 12 months, 5 days' service?

Mr. BLAIR. Correct.

Senator CARPER. Thank you.

Mr. BLAIR. But we need to know more. Is this going to be a permanent change, a temporary change? For a few months a year? We need to know more about the plan.

Senator CARPER. I think what we just heard, it could cycle on and off. Part of the year, busier times.

Mr. BLAIR. And is it a permanent change? Is it something the Postal Service would revisit? There is just more that needs to be fleshed out.

Senator CARPER. Mr. Potter, are you asking for maybe a test drive, a year or so, see how it works out, do you have enough flexibility?

Mr. POTTER. My preference would be that the Board be given the latitude and the authority to make that decision. That is probably where we are headed in the long term, anyway, because of the diversion of mail from hard copy to electronic.

Senator CARPER. Right.

Mr. POTTER. I would say we would like the authority long term. We would exercise discretion around how to use it. In all likelihood, we would use it in a limited way in the short run. But I would venture to say that we will probably evolve based on pieces per delivery to a less than 6-day-a-week delivery at some time in the future.

Senator CARPER. Fair enough. Mr. Blair, finish your comment and we will come back to you, Mr. Herr.

Mr. BLAIR. Given those potential savings that I identified, the other issues that we need to address are will this exacerbate the already declining mail volumes even more than we are already going to see. Those are questions we do not have answered.

Mr. Potter was right in saying, what are the alternatives? Is it an exigent rate case? Is it bumping up against the borrowing limits? Those are questions that need to be fleshed out.

Current law requires that the Postal Service come before the Commission when there is a proposed change—for an advisory opinion anytime that there is a change in nationwide delivery or service. We would anticipate the Postal Service coming before the Commission with their proposal, and we would want the public to weigh in.

Mr. POTTER. If I could just add to that. It is my understanding that the language I am talking about changing is in the annual Appropriations bill rider. So even if we went to the Commission, they would not have the latitude to tell us that we could deliver less than 6 days a week. That is why we are here and asking relief from the Senate, the Congress.

Senator CARPER. Do you think the Appropriations Committee could trump the PRC?

Mr. POTTER. You created them. You probably could.

Senator CARPER. Fair enough. Senator Collins.

Senator COLLINS. Thank you very much, Mr. Chairman.

Mr. Potter, you will probably be sad to hear that I am now a member of the Appropriations Committee. [Laughter.]

And I am rather fond of the universal service language.

In all seriousness, I am very disappointed to hear you come before us today and advocate as a potential solution to this economic crisis the elimination of the requirement for 6-day-a-week delivery. In 2002, when this Subcommittee first began tackling the problems of the Postal Service, the GAO warned that the Postal Service was at risk of a death spiral because you were raising your rates unpredictably, often through a very litigious process—through no fault of your own. We have changed that. But every time the rates would go up, particularly when they would go up by a substantial amount, your volume would fall.

Well, now you are proposing service cutbacks that I believe will have exactly the same impact on your volume. If businesses, newspapers, and others that have time-sensitive mail can no longer rely on 6-day-a-week delivery, they are going to find other means of de-

livering their information, whether it is via the Internet or using hand delivery in some cases.

I am already receiving many complaints from newspaper publishers and other businesses about changes you are making in my State, where you are shipping mail in some cases hundreds of miles to processing plants that are further away in an attempt to achieve some efficiencies while compromising service. How shipping mail from Madawaska, Maine, to Scarborough, which is 500 miles away, achieves efficiency is beyond me.

I do not know how you can ask for relief from your financial obligations and at the same time propose cutbacks in service. I believe that will cause you to lose even more customers, so that is the issue that I need for you to address.

Mr. POTTER. Well, Senator, I think we are in an unprecedented situation. When we were working together on the postal law that was passed in 2006—and I am very grateful to the leadership on that bill that you and Senator Carper provided on that bill—no one envisioned that we would have what looks to be a 23-billion-piece drop in volume in less than 2 years. That is the kind of loss that we anticipated having over a decade or more. We already had plans in place to reduce our workforce and make the Postal Service leaner, more efficient, and smaller over a period of time, to allow us to evolve into that system.

Now, what has happened is a very dramatic drop in volume. I wish I knew we were at bottom, but I cannot predict that. We looked back in history to learn what the Post Office Department did during the Depression to respond to declining mail volume. We learned a lot from that. There were things they did that we cannot do. During the Depression, they did things like furlough their craft employees. We cannot do that because we are bound by collective bargaining. I believe in collective bargaining and I want to live up to those contracts. But at the same time, these contracts limit what we can do. There are no-layoff provisions in most of our contracts. As an alternative, we are basically exploring everything that we possibly can do to draw down our costs and maintain service. We finished last year with the highest service levels we have ever had in our history. I believe in service. And I can tell you that our Board of Governors believes in service. But given our current situation, there are things that have to change.

What is more detrimental: Raising rates above the rate of inflation—because we can not furlough people. We are bound by our employee agreements, and I want to live up to them. Or do we turn around and lower service by incrementally cutting things like lobby hours and telling customers we cannot hire additional help? Or do we let people go who we need to move the mail? Or is it better to go to the America public and say, because of this financial situation, there is going to be one day a week during the summer months when we are not going to deliver your mail. This would allow us to not exceed our legal borrowing limit and let us to live up to our labor agreements, with the promise that we are going to be right back in business in the fall.

Now, I am speaking for myself in terms of where I think we have to go. There are other options on the table. The other option is to look at our retiree health benefit payment schedule, and that is the

first thing that I am asking for. One of the things we are asked to do is act like a business. And so I think of businesses, and I say, what are businesses doing in this situation?

Senator COLLINS. I would say that a business would not cut back on service and, thus, jeopardize retaining its customers. I think that is the last thing that a business would do. Businesses still have to have bills delivered and catalogues delivered and newspapers delivered, whether it is July or whether it is December. That does not take a hiatus in the summer months.

Mr. POTTER. But businesses close stores that are unproductive. Businesses in some cases roll back or say they are not going to make contributions to 401(k) plans. Businesses say they are not going to give employees raises. I mean, businesses do things that might not be in terms of service the way you think about it, but if a store that is near me closes, my access to that store is now miles away. Service is hampered.

But, again, I am saying basically that we are boxed in. My preference would be to get the relaxation—and I thank you for the support that you mentioned earlier for a couple of years of relief for the payment of our retiree health benefits. That would be very much appreciated. That could get us over the hump, and that is our first priority. If we get that and if we are successful at the cost reduction programs that I talked about, the $5.9 billion that we are shooting for, then we will not have to roll back delivery from 6 to 5 days. But if we are boxed in, that is our only choice.

Senator COLLINS. Well, it is not your only choice. My time has expired, but, Mr. Chairman, let me just say very quickly I am also very concerned about the lack of financial transparency, which was a key goal of the 2006 legislation that we authored. It was a key goal of Senator Akaka's. Here we find out from the GAO, from Mr. Blair, that you are coming to us for relief from a financial obligation, and yet you are not providing transparency, not allowing us to really understand your financial situation.

For years, from 1972 through 2006, the Postal Service had monthly accounting period statements that were submitted to Congress and to the Commission. They were put on the website. That information is not being provided. It is absolutely unacceptable for you to come to Congress and say that you need relief from financial obligations, and then we hear from the GAO and from the Commission, from our own experience, that you are going backwards when it comes to transparency, which is completely contrary to the requirements of the 2006 Postal Reform Act.

Thank you, Mr. Chairman. I know I am over my time.

Mr. POTTER. Could I just make a comment, please?

Senator CARPER. Go ahead, and then we will recognize Dr. Coburn.

Mr. POTTER. We have an auditor that advised us not to provide the information that you are talking about. In the past, Postal management provided that information on a monthly basis, basically open books. We had done that for years. To become Sarbanes-Oxley compliant meant that we should only provide audited data in a public environment. We are simply trying to come into compliance with the law. That is our position. We are trying to be compli-

ant with Sarbanes-Oxley. Our auditor advises us that we cannot release unaudited data that might be misleading.

Senator COLLINS. Well, we want accurate data, not misleading data.

Mr. POTTER. Exactly.

Senator COLLINS. That is certainly true.

Mr. POTTER. And that is the problem. We have offered to share the data with the PRC, provided they do not publish it so we can be in compliance. This is the dilemma we are in. I am being very candid with you. That is exactly the position we are in.

Senator CARPER. All right. Thank you. Dr. Coburn.

Senator COBURN. Do you make financial decision off that data? Do you make management decisions off that data, your monthly financial statements?

Mr. POTTER. Yes, we make budgetary decisions. We make decisions off data around volume, around work hours on a daily basis.

Senator COBURN. But as an executive, you get the financial statements every month.

Mr. POTTER. Right.

Senator COBURN. You know what your workforce is. You know what your rules are. You make decisions on that.

Mr. POTTER. Yes, I do.

Senator COBURN. Why can it not be shared with Members of this Subcommittee on a monthly basis?

Mr. POTTER. It can be.

Senator COBURN. All right. There is part of the answer.

Mr. POTTER. All we are asking——

Senator COBURN. But the point is it has not been.

Senator COLLINS. Right.

Senator COBURN. It has not been made available.

You have a failed business model. Until you answer what the new business model is going to be, everything we are doing and everything you are doing is not going to fix it. What do you need, both you and the PRC Chairman, Mr. Blair? What is it that you need as a CEO to make the decisions to create a future profitable business model and give you the capability of being flexible to handle downturns? You and I have had this discussion. I do not think you are in an economic downturn. I know some of the mail portion of that is, but I think you are going to see—I think electronic diverted mail is going to take away 90 percent of your First-Class mail, because even somebody like me is now paying their bills online. Even me. I would have never thought that. All the younger generation is.

The chart you originally shared with me, you are worried is not quite accurate. If I understand you correctly, you think the volume decline is going to be greater than what you gave me earlier?

What is it that you all need, what does the Commission need, what do we need to give you so that you can make it where the Postal Service is not in a negative cash flow position and you have secured the future for your employees? Taking away the future from your employees now to someday put it back later is the same thing we are guilty of, which never works. That is why we have a $10.8 trillion debt, which is going to go to $13 trillion in the next 2 years.

So what is it that you need? Tell us what we need to do to give you the flexibility to change your business model, and give you the flexibility to manage that business model in a way that does not generate a loss.

Mr. POTTER. That is a big question.

Senator COBURN. Well, but that is the question that has to be answered——

Mr. POTTER. Right.

Senator COBURN [continuing]. Because we cannot react. You are asking us to loosen up $5 billion worth of money, and you are not giving us the plan. You are not telling us what you need. You need to bring and develop and deliver to us here are the changes that need to be if we are going to have a successful model.

Mr. POTTER. Right.

Senator COBURN. Because if 50—I think you said 50 percent of your volume comes from First-Class mail, or did?

Mr. POTTER. It did. It is slightly less. But from a revenue standpoint, it is above 50 percent.

Senator COBURN. OK, so 50 percent. And if that is going to be cut in half in the next 2, 3 years, that means you are going to have a 25-percent decline in volume.

Mr. POTTER. Right.

Senator COBURN. So where is the business plan? Where is the model? What do we need to do to enable you to be successful? We do not know how to run the post office. We do not even know how to run the Congress. So we cannot give you the answers. What you have to do is tell us what you need.

Mr. POTTER. Right. On a broad basis, because obviously we do not have time to go through an elaborate plan, to get out of the current predicament we would like to reschedule the payment of our retiree health benefits. We are not intending to walk away from this responsibility. We are asking to reschedule the payments and, given our financial situation, make them more reasonable in the coming years.

In addition, we are reacting to the volume downturn in terms of reducing our infrastructure. As discussed earlier, with the National Association of Letter Carriers, we are reducing the number of routes we have. That takes time and we have to work through a process to do that. We are going to count every rural route in America. But we do not need your help on those day-to-day things.

When it comes to structural things, we do need your support to enable us to complete consolidations of facilities.

Senator COBURN. Like the mail processing facilities that GAO talked about?

Mr. POTTER. Right. Last year, we eliminated 58 air mail centers. That was not spoken of, but we closed 58 facilities, and we no longer have them.

In some cases, we are not closing facilities. What we are doing is moving mail from one location to the other. If there is a delivery function in a building, we do not close the building. We just change what they do to make the operation more effective. But we need support from Congress.

When we go to do some of these things, a lot of times Congress encourages us to do it. But later an individual Senator or Repre-

sentive steps in and says, "not in my back yard." If there is a way for us to figure out how to navigate these situations, we would appreciate it.

Senator COBURN. Are you saying you need the flexibility to do it without political interference?

Mr. POTTER. Yes.

Senator COBURN. OK. Mr. Blair.

Mr. BLAIR. Dr. Coburn, in response to your question, I want more information. I want more information about the reduction in frequency of delivery. I want to know how that is going to impact on volumes, as Senator Collins said. Is it going to exacerbate this tailspin? And if it is, by how much?

In our study, we identified a 2-percent loss, but, frankly, that 2 percent was an estimate, at best. I want to know more. I am also troubled by the fact that Mr. Potter just said that if the appropriations rider—and maybe I heard him wrong—is dropped, the Postal Service would not have to come before the Commission for an advisory opinion. That was my impression. Unless the Appropriations Committee says, "go to 5-day-a-week delivery," I thought the current law required an advisory opinion by the Commission. We can work this out. Will it take us forever to issue an opinion? No. We would be very sensitive to the Postal Service's request for expedition, but the public has a right to know. And I am very concerned about this lack of transparency as far as monthly reporting.

When I was a staffer on this Committee and in the House, I looked at those reports. Those reports were helpful. And Sarbanes-Oxley application to the Postal Service was enacted not to take away transparency, but to add to it. The Postal Service relies on these, as you pointed out, Dr. Coburn, to make management decisions. They receive daily if not weekly financial data. I understand it is not audited. I understand it is not perfect. But do not let the perfect be the enemy of the good in this case. The public has a right to know. As far as the Commission posting this? This is a public agency, and I am very concerned about not making this data public.

I have a little secret to tell everyone. The sum total of postal knowledge does not rest among the three of us at this panel. People actually read these when we post it on our website. There are people who understand these things and they are interested. And I know that more transparency is oftentimes burdensome for a public agency, but that is the price we pay. And I think, my personal feeling is if you are going to come to Congress seeking relief along these lines, this is a small price to pay for additional transparency.

Senator COBURN. I just want to make one comment. You know, I love my mother-in-law. I will say that publicly.

Senator CARPER. Would you say that again? [Laughter.]

Senator COBURN. I said I love my mother-in-law.

Mr. BLAIR. Is she from Muskogee?

Senator COBURN. Yes, she is.

Mr. BLAIR. So was my mother-in-law.

Senator COBURN. But running the post office is like having two mother-in-laws. You have got a Board of Governors, and you have got a Postal Rate Commission. And then we are going to tell Mr. Potter you cannot manage this without somebody else telling you

what you can do on your rates, here is what you can do in terms of your agreements, and you cannot do this unless the Board of Governors approves.

I am not against a Postal Rate Commission. Do not get me wrong. I am just saying we need to recognize the position we put somebody in in a management position who has to do these things. So what we need—and I will say it again—we need a comprehensive plan and business model put forward to us to say here is what we think we need to be in the future to be viable.

I will tell you, I will bet 1,000–1 in the non-viability of the business model today, with the wind-down and the loss through electronic mail and the competition as it is going to heat back up once the economy turns around in terms of the package business. It is going to be tough, and in spite of the fact we have all these other things, like the Postal Service pays 15 percent more than any other government agency in terms of health benefits and other benefits. The postal contribution is higher than any other Federal employees. So we have all these other hard things, and I just think we need to be honest.

Senator CARPER. Dr. Coburn, you will be recognized here in just a second. I skipped over Senator Akaka and yielded to you. So I owe him an apology, and, Senator Akaka, let us get you in the game here. Thanks very much.

Senator AKAKA. Thank you very much, Mr. Chairman.

I look upon what is happening as something that will affect our entire country, including Hawaii. Mr. Potter, I am very concerned about what has been raised today, and that is, service and deliveries may need to be cut back in order to balance the books of the Postal Service. And we have been talking about transparency and getting to know more about the program. States like Hawaii rely on the Postal Service which could be especially affected if service levels were reduced, without question. How would delivery reductions affect areas like Hawaii? And how would you engage those communities to inform them of service cuts? And another part to that is when you say reduce it to 5 days, which days would be cut?

Mr. POTTER. Well, Senator, the last thing we would like to do is cut service. I am asking for the flexibility only because of the dire circumstances that we are in.

Regarding the day that would be cut, that would be something that would be studied. In the past, we looked at perhaps cutting Saturday delivery, which is our lightest day, and/or Wednesday delivery so that customers could have the ability to speak to their carrier on Saturday. The day to be cut would be under review, and it is something that we might test if we were to suspend delivery on an interim basis.

Regarding the customers, obviously we would keep them informed. Over the years, we have done surveys of customers and, quite frankly, a very high percentages of people said that 5-day delivery would be fine for them versus 6.

Yes, it is extremely sensitive. It is the last thing we would like to do. We propose it only in response to the dire circumstances we find ourselves in.

Senator AKAKA. Mr. Blair, in December 2008, the Postal Regulatory Commission, released a report required by the PAEA which

discussed the current state of the Universal Service Obligation, which is the USO, of the Postal Service. The report generally found that the USPS was fulfilling the USO. They found that the USO has seven attributes, and I would like to ask you whether delivery cuts would fundamentally change the Commission's view of the Postal Service's fulfilling the Universal Service Obligation, and, in particular, to focus on the geographic aspect of the obligation.

Mr. BLAIR. I think the Universal Service Obligation would be impacted by a reduction in the frequency of delivery, but as the Postmaster General has pointed out, we are in extraordinary times, and sometimes extraordinary action is taken. What we need is some good information to provide to Congress and policymakers as they contemplate and grapple with this situation.

Is it a trade-off between an exigent rate case or a degradation in service delivery? These are things that need to be aired in the public and discussed before we move forward. I understand the urgency of the situation, and as we undertook this study last spring and last summer, we went around the country and had field hearings and heard from mailers. I do not recall any of the mailers saying let us go ahead and move to 5-day-a-week delivery. We heard from mailers who were saying how important it was that they be able to get to their customers 6 days a week. But we are in extraordinary times, and we need to think differently than we have in the past. But in order to make well-informed decisions, the Congress needs good information, and that is what the Commission is obligated to provide you, and that is why I call for additional transparency.

Senator AKAKA. Mr. Potter, would the Postal Service consider producing more financial data for the PRC and other stakeholders? Or would this be unnecessarily burdensome for you?

Mr. POTTER. We have had discussions with the PRC, and we are working out arrangements to provide them the information that they feel is necessary. Obviously, if we have it, it will be made available. However, we do not want to generate new information that management would not require. I am not saying that we have been asked for it. Whatever is available we will make available. We just have had discussions and talked about not making it public until the data is cleared by our auditors.

Senator AKAKA. The postal reform bill we passed in 2006 intended to make the Postal Service operate even more like a business, as we have said, and be independent of any Federal funding. However, in this economic downturn, we have seen many private corporations and businesses fail and falter as well.

Given the severity of the situation, would government intervention either through a loan or appropriation, be a wise course of action? Or could it undermine the principles of the PAEA?

Mr. POTTER. Well, Senator, again, we are asking for a rescheduling of our retiree health benefit payments. We would prefer not to be in a position to ask for an appropriation. We reserve the right to do that in the future should it be necessary, but, again our focus is getting that payment schedule redone and, again, in the process of doing that enabling us to adjust to the lower volumes that we are experiencing. And at this stage of the game, that is basically the first step.

I think a year from now, 2 years from now, I would be in a better position to respond to what you are asking.

Senator AKAKA. Mr. Blair.

Mr. BLAIR. Well, since 1970, the premise of the Postal Reorganization Act of 1970, and the PAEA built on top of that was that, we would have a self-sustaining Postal Service. It was in the early 1980s that the Postal Service first started turning an operating surplus, and that is what led to the appropriations rider that we have under discussion today regarding 6-day-a-week delivery and closing of small post offices.

When the Congress saw a net surplus in the Postal Service's operating revenues, it decided not to move forward in giving it an appropriation for the public service aspects of the Postal Service. But they wanted to make sure that those public service aspects—providing 6-day-a-week delivery and not closing small post offices—were maintained, hence the purpose behind this rider that has been in effect and varied a little bit over the years, but for basically the last 25 or 26 years.

We identified in our USO study, however, that the Postal Service provides a number of really non-postal services or societal services apart from its postal activities. And those are important for a community. In many rural areas, it is the one face of the Federal Government. And I think that these are public policy issues which the Congress will have to grapple with as it comes to grips with what we want of our Postal Service today, in the next year, and into the future.

Senator AKAKA. Thank you. Mr. Herr.

Mr. HERR. Yes, thank you. I concur with Mr. Blair. I think one of the bedrock principles of the Postal Service since 1970 has been the idea that it is self-sustaining, so to go to direct appropriations would be a divergence from that history.

I also think as one considers dramatic changes such as are being discussed, that it is incumbent upon the Postal Service to provide the kind of transparency—the plan Mr. Blair mentioned in his statement—that helps Congress understand exactly what is going on, what trade-offs are being made as some of these big decisions are being considered. So I think that would help. It is the transparency, but it is also helping to understand the logic of where the institution sees itself and the niche that it would play in the American economy going forward. Thank you.

Senator AKAKA. Thank you. Thank you, Mr. Chairman.

Senator CARPER. Not at all. Thank you, Senator Akaka.

I am going to stick with you if I can, Mr. Herr. If you will go back with me in time, the first question I asked Mr. Potter, and then Mr. Blair had an opportunity to respond, too, was our discussion about going from 6 days delivery to allowing the option of going at least for part of a year down to 5 days. You said that you think that might save some money, but I also suspect that in some cases it might make the Postal Service a less attractive option for some customers. And I asked the Postmaster General and I asked Mr. Blair to give us some of their thoughts on how they felt about that. Let me just ask you to go back to the same question, please.

Mr. HERR. Certainly. I think part of this—I think I will reflect a bit on the last response I had—is as one thinks of something like

that, I think it is incumbent to lay it out in a strategy that would talk about not only 6-day-a-week delivery but what other options are being considered. One thing I mentioned in my statement is looking at the large processing plants. I also did mention there the air mail centers that have been closed.

Senator CARPER. How many, 57?

Mr. HERR. Fifty-eight of those have been closed. But there are different configurations that go into some of the—there is a broader operational scheme that they have. There has also been a number of efficiency improvements over the years in terms of processing.

So the sense that I have from visiting postal plants, talking to people who have been working these issues for a number of years at GAO, is that there are efficiencies that have taken place that do not require as much processing capacity within some of those plants.

So there are a number of different ways to get at those kinds of savings, and I think to see a broad, integrated plan that would help people understand how these pieces fit together would help one see what the trade-off is. So as Congress would consider policy decisions such as a reduction in service from 6 to 5 days, you could go back to your constituents and explain to them how this is all going to work and hopefully result in a Postal Service that will be sustainable over the long term.

Senator CARPER. OK. Let me ask you, just sort of lay out for us what you believe to be the options that the Postal Service has. And, again, one of the first options that they would ask us to go to would be to look at, if you will, some change in the funding formula, allow for a couple years of grace in meeting that agreed-to obligation, up to as much as 8 years. And I think there is some agreement, at least among Senator Collins, Senator Lieberman, and myself, that if we are not comfortable going with 8 years, we may be comfortable going with 2 years. Some people are uncomfortable with that, as you know. But just kind of lay out for us what you believe the options are for the Postal Service to try to close this gap, and maybe just share with us from your perspective, from GAO's perspective, which might be preferable. If you were giving us advice and counsel, what would you ask or suggest that we consider most favorably?

Mr. HERR. Well, one of the things, on page 7 in my statement we have a table that lays out how this would play out. One of the things I think to bear in mind, if you are considering, say, a 2-year period of relief versus an 8-year period, is if this gets kicked down the road——

Senator CARPER. I said it correctly. You do not favor the 8-year period, do you?

Mr. HERR. No, we do not.

Senator CARPER. But 2 years was more acceptable to GAO. Is that correct?

Mr. HERR. We think that in the long term will be better, will better position the Postal Service to pay for these——

Senator CARPER. I think you are going to tell us, but why?

Mr. HERR. Well, if you look at the numbers there—and I do not want to go through a lot of the numbers. But if you look at kicking this down the road for 8 years, you will be looking at $75 billion

to reamortize in 2017. And I think based on some of the conversation we had today, one question I think we should ask ourselves is: Will the Postal Service be better positioned to take on that type of responsibility at that time versus making incremental—paying it down as it goes along? It is a bit like saving money for college or a big expense that one has and one knows it is coming. As we talked about, there are large numbers of postal employees, nearly 750,000, including part-time folks. So those are big numbers, and those are big responsibilities.

But going beyond that side——

Senator CARPER. Let me just interrupt. There are 750,000 employees. Roughly how many retirees right now?

Mr. POTTER. There are about half a million retirees.

Senator CARPER. Thank you.

Mr. POTTER. And we are down to 659,000 career employees.

Senator CARPER. All right. Thanks very much. Back to you, Mr. Herr.

Mr. HERR. So when you look at the processing capacity in terms of what some of those capabilities are—and I think also to look at the retail network, we are not saying the small post offices in rural communities, but there are post offices in large urban areas. Some work we did for this Subcommittee that came out about a year ago suggests that one can look at the revenues taken in versus the cost of maintaining those facilities, proximity of other post offices, and make some decisions, management decisions, about whether those are needed.

I think as something like this rolls out, it is incumbent upon the Postal Service to work with folks on the Hill, but also in communities to explain what is going on, what options there are. Stamps can be purchased at supermarkets. They can be purchased in pharmacies. They can be purchased on line or through the mail.

So there are ways to continue to receive some of those services.

Senator CARPER. How widely known are those options, Mr. Potter? Have you done any surveying on that to find out just how many people actually realize what their options are?

Mr. POTTER. Senator, I do not know if we have done a survey, but I think it is commonly known, particularly in grocery stores, that you can buy stamps. I am familiar with a very large retailer who was surprised to find out that they were selling $100 million worth of stamps. At their corporate headquarters, they had no clue because their local managers, to compete with their competitors, had to offer that service. So I think that the public has tremendous access to stamps in over 40,000 locations beyond the Postal Service.

We are looking at how we can grow the business, and one way that we do that is by bringing the post office to every home. We are upgrading our website to make it easier for people to buy stamps online, access our services, pay for postage online, and to print out prepaid labels to put on packages.

The retail is something that I am glad was brought up by Mr. Herr.

Senator CARPER. I am going to stop you right there. I want him to finish, but we will come back to you and you will have an opportunity to make——

Mr. POTTER. Right.

Senator CARPER. Those are important points. Thank you.

Mr. Herr, go ahead.

Mr. HERR. The other thing you have to put on the table, given that 78 to 80 percent of the costs are associated with compensation and benefits, I think I was pleased to see in the Postmaster General's statement that he is looking to talk immediately with unions about what options there are there. One thing we point out in our statement is the proportion of costs for current employees that are paid for health care benefits is higher for the Postal Service than for the rest of the government. So that would be one area.

Senator CARPER. The 78 or 80 percent of costs that are represented by personnel, I am not going to ask how that compares with other service industries, but let me just ask: Is that a stable number? Has it generally been in that area for an extended period of time?

Mr. HERR. That is my understanding

Senator CARPER. Everybody is nodding their head yes. Thank you. OK. Go ahead.

Mr. HERR. So given the proportion of the cost that represents, I think that would also be a place to begin having discussions. We talked a little bit in our statement and here today about route adjustments. But as some of these routes have been in place for a number of years, no one has looked at those, and what kind of efficiencies there could be and consolidation. So as you take a broad, hard look—and I think this could be part of this broader plan that was discussed—you would say, well, where could you get some of the fat out of the system? And tours—some of the plants—every postal plant that I visited over the past 7, 8 months, people say volume is down. People know it on the factory floor. Overtime opportunities are decreasing. So do you need three shifts when two could do the work to handle the volume that is there? Those are other opportunities as well.

Senator CARPER. All right. Thanks. I think Mr. Potter would—and he has argued here before—to point out, I think with some pride, the amount of costs that they have taken out of the system in this decade alone. So we will come back, and I will have some questions to ask you. Thanks very much for this exchange.

Senator Akaka, you are on, my friend.

Senator AKAKA. Yes, thank you very much, Mr. Chairman.

Mr. Potter, GAO and others have stated that it is important for the Postal Service to work with the unions in much the same way to realign labor needs with the needs of the postal workforce. I know that you work very closely with the employee unions on these issues.

How has the Postal Service engaged the unions on these recommendations at this critical time?

Mr. POTTER. Senator, I have been meeting on a regular basis with the presidents of both the unions and the management associations and, as a matter of fact, we met yesterday to talk about this hearing and other issues that are going on in the Postal Service. And I shared with them, as best I can, the outlook for where we are and gave them the latest numbers on volume and the impact declining volume has on the Postal Service.

I also share such things as those Mr. Herr mentioned, like looking at how we can become more efficient. Other topics included working with the NALC on route structures, our attempts to try and reduce the number of machines we use, and minimizing the amount of tours that our facilities run. All of that information is shared with our unions.

They understand the situation, and they are engaged, and we are working together to try and determine how we can get through this situation.

Senator AKAKA. Mr. Potter, in 2007, Congress started hearing concerns that the Postal Service was contracting out more delivery services. The number of jobs that are being contracted out was low, though there are contractual protections in place with the unions.

Do you anticipate the Postal Service contracting out additional jobs, possibly additional non-carrier type of jobs? Or should we be bracing for a large reduction in force this year?

Mr. POTTER. Senator, the first priority is to reduce our use of manpower. As has been said, we had a precipitous drop in volume, and we believe we have opportunities to become more efficient within the Postal Service. I cannot speak to contracting out long term, but that is certainly an option that is part of our collective bargaining agreement.

Senator AKAKA. Mr. Potter, during the Great Depression, the Federal Government spent public works money on building up the Nation's infrastructure, notably on building hundreds of new postal facilities at that time. However, today the Postal Service has halted all non-essential building and repair projects due to the financial situation.

Could a public works program like that be useful in the economic situation we find the country in today?

Mr. POTTER. Senator, if I had those types of funds available to me, I think what I would do is direct them toward making our buildings much more energy efficient, and in so doing, that would be very helpful to Postal Service costs and the use of biofuels in the country. I certainly would welcome something along those lines, but I do not think I would direct it toward construction of new facilities. I would direct those funds toward making our facilities more energy efficient.

Senator AKAKA. Thank you for those specific answers. Thank you, Mr. Chairman.

Senator CARPER. Thank you, Senator Akaka.

Mr. Herr, I am going to come back to you in just a minute. I want to follow up on the point just made. We have been marking up legislation, as you know, the so-called economic recovery, economic stimulus package. One of the things that we are trying to do is to push money toward putting people to work, trying to put them to work sooner, but also putting them to work in a way that serves a public policy good. In some cases, it is reducing our dependence on oil, fossil fuels, reducing our trade deficit, helping homes to be more energy efficient, helping schools and helping government buildings be more energy efficient.

Do you know if there has been any discussion as we have considered, drafted, and marked up the economic stabilization plan, has there been any discussion of allowing the Postal Service to partici-

pate or to encourage the Postal Service to participate and benefit somehow from these actions?

Mr. POTTER. There have been some informal discussions in addition to what we just talked about with making buildings energy efficient. I know there are some funds being considered for more fuel-efficient government vehicles, and, again, that would be helpful to the Postal Service as well.

Senator CARPER. One of the pieces of legislation that I worked on—we have discussed it before, you may recall—dealt with the Congress trying to be a better, I guess, customer for the auto industry to try to say we want the auto industry to build more energy-efficient vehicles, flexible-fuel vehicles, plug-in hybrid vehicles and so forth. And one of the concerns that the auto industry has is it is one thing to build vehicles that are highly efficient, develop vehicles that are highly energy efficient, when the price of gas is $4 at the pump. What happens when it is $1.50? And will people continue to buy those vehicles when the price drops to more than half of what it was just a few months ago?

And so we just said, well, what we will do is try to make sure that the Federal Government through thick and thin, regardless of what happens at the pump, the Federal Government is going to be there to purchase vehicles, and we put in legislation some requirements that Federal agencies buy largely, without specifying the technology, energy-efficient vehicles. I think the Postal Service was part of that.

I do not know if you are prepared to share with us a little bit of what you may be doing at the Postal Service to comply with that law. Your vehicles, I think they last for a long time, so you do not have a lot of turnover in your vehicles. I think you get, what, 15 years or something out of them?

Mr. POTTER. We have gotten 17 years out of the current fleet, and so it is time for us to look at it. I want to thank you because I do recall the conversation we had. At the time, the types of vehicles that were considered to be fuel efficient under the energy law were not as broad as the technologies are today. I want to thank you for your help in expanding that definition to give us a broader range of vehicles that would be considered environmentally friendly.

We are pursuing numerous technologies. Right now, we have a hydrogen fuel cell vehicle. We have gas, and natural gas vehicles. We have electric vehicles. We are looking at them all. But as you just said, the price of a gallon of gas is a key element of the economic analysis that is done to justify the purchase of those vehicles.

And so given our financial condition, we are not planning to go out and buy vehicles, but we are working with the Department of Energy and Transportation and others to make sure that we are keeping abreast of what the latest technologies are. We are testing numerous alternatives—in fact, you could come out and look at them, at our Merrifield, Virginia, facility.

We do have the largest fleet of alternate-fuel vehicles in America. Access to fueling stations is an issue, and we could supply the demand should there be a rollout.

Senator CARPER. Let me just throw out an idea here. I am trying to be entrepreneurial and trying to think of ways that you could be more entrepreneurial.

We talked earlier about the fact that you deliver 6 days a week, you deliver the last mile right to people's doors, and how you have used that as an economic opportunity for business and for partnerships with folks that traditionally have been your competitors.

In working with Ford, Chrysler, and GM to figure out how can we have a hydrogen economy, put together a hydrogen infrastructure for our country to encourage people to buy certain kinds of vehicles, has there been any discussion of somehow the Postal Service being a part of the hydrogen infrastructure, given the fact that you have facilities all over the country? Could that be a business opportunity? I don't know if it could be, but we are looking for opportunities especially in densely populated corridors like the Northeast corridor. How do we deploy, make it available for cars that need hydrogen to fuel? Has that business option been given any thought?

Mr. POTTER. It has been given thought, but the problem is that I do not know that there is enough maturity in terms of the analysis and the ongoing competition for what is the right long-term energy solution for vehicles. If we invested in hydrogen and then electric wins out, therein lies the problem.

So is it natural gas? Is it traditional gasoline, diesel? Is it hydrogen? Until there is some kind of better maturity and decisions are made, I do not think that we would be in a position to make an investment to become perhaps a hydrogen fueling station down the road. But it is being given thought. We would obviously have to work with the Postal Regulatory Commission because I do believe it is outside the scope of what the law allows right now.

Senator CARPER. I have heard from the car companies who have said we have the technology literally to put vehicles that use hydrogen out on the road—cars, trucks, vans—but we do not have the infrastructure in order to make it successful. I do not know if there is an opportunity for another kind of partnership that we had not thought of. I would just ask that the people you have work on this stuff, put that in their calculations.

Mr. POTTER. Thank you.

Senator CARPER. Sure. You bet.

Back to you, Mr. Herr. I know you and your folks have been working closely to examine the Postal Service's cost-cutting plans for the coming months, and Mr. Potter has outlined those for us here today. And I would just ask when you look at it in your own view, where do you think they will succeed in their goals, and where are they maybe not as likely to succeed?

Mr. HERR. One of the things we have seen as we have looked at those projections that they have is that there are aggressive goals in terms of cost savings. We heard figures, $5, $6 billion.

Senator CARPER. That was over, what, a couple of years?

Mr. POTTER. Well, it is $5.9 billion that we have put into the budget this year. However, we are realistic enough to know that in all likelihood it is a very difficult stretch to make that happen in one year. So in all likelihood, it would be accomplished over multiple years.

Senator CARPER. OK. So what are your costs? What are your costs in a year, just roughly?

Mr. POTTER. Costs for labor?

Senator CARPER. All in. You squeeze—let's say $6 billion out of what?

Mr. POTTER. Out of about $75 billion.

Senator CARPER. OK. Thank you.

Mr. HERR. So as we look at that, I mean, obviously it will be challenging depending what happens with mail volumes and the success in working with unions to achieve cost savings. The thing that is hard to understand when you parse that number is what exactly it entails. And so what we do not see are specifics that would say this is how we plan to get there. Does this include closing facilities? Does this include one proposal that has been discussed is outsourcing bulk mail facilities.

So it is a little hard to understand at the end of the day how you got to a number like that, and then I think along the way, the benchmarks that someone like yourself would be interested in knowing, how close are we to achieving that? At the beginning of the year, the goal was to look at closures of X number of retail facilities. Has that happened? It is hard to know looking at that kind of figure.

So I think it kind of goes a little bit back to the transparency issue that we were discussing earlier.

Senator CARPER. OK.

Mr. POTTER. We would be happy to share that. We have detailed budgets that go right down to the post office level.

Senator CARPER. And have you had an opportunity at GAO to actually look at that stuff?

Mr. HERR. No, we have not.

Senator CARPER. All right. Do you want to?

Mr. HERR. I think it could be useful, yes.

Senator CARPER. All right. Good.

Mr. BLAIR. And I would hope that it would be shared with us as well, and I would anticipate that, too.

Senator CARPER. What do you think, Mr. Postmaster General?

Mr. POTTER. We will have a ballroom, and we will have everyone in there.

Senator CARPER. All right. Good enough. [Laughter.]

Mr. BLAIR. Your dance card is going to be full.

Senator CARPER. All right. Mr. Herr, back to you. You spend a fair amount of time in your statement discussing the need for the Postal Service to be more aggressive in closing and consolidating processing facilities. You have sort of alluded to that again in your last response. I want to ask you to come back to this a little bit more. Where do you think that the Postal Service has made progress in this area? And with some specificity, where do you think there is some opportunity to do more? I know you have talked about this a little bit. Just come back to it a little bit more.

Mr. HERR. I mean, certainly we have mentioned the air mail centers. They have closed about 58 of those, and——

Senator CARPER. Out of how many, 58 out of——

Mr. POTTER. Out of 58.

Senator CARPER. Fifty-eight out of 58.

Mr. POTTER. No, 58 out of 59.

Senator CARPER. Who escaped?

Mr. POTTER. John F. Kennedy Center up in New York, because they do a lot of international mail.

Senator CARPER. All right. Thank you.

Mr. HERR. So that would be one area where certainly there have been some inroads made.

Senator CARPER. After Kennedy, do you want to shut down that one down, too? What do you think?

Mr. HERR. I have not seen that facility. But the other thing that we mentioned in the statement was that only one out of the over 400 processing facilities have not—only one of those has been closed, so we think——

Senator CARPER. It is interesting. You closed 58 out of 59 air mail facilities and one out of, what, 400 processing facilities?

Mr. HERR. Four hundred, yes.

Senator CARPER. Why do you suppose that is?

Mr. HERR. They are larger. My understanding from talking to folks there at the Postal Service is the air mail facilities were relatively expensive real estate for them given their proximity to airports. And also my understanding is the volumes that were being handled in those facilities has gone down considerably over the years because of different arrangements that are being made.

Senator CARPER. The 400 processing facilities we have, I understand that the nature of the work that goes on in those facilities has changed a good deal.

Mr. HERR. Yes.

Senator CARPER. Certain operations that were done in one facility are now done someplace else in ways to try to provide greater efficiencies.

Mr. Potter, you are trying to say something there.

Mr. POTTER. Well, basically our facilities are kind of the channel for mail to be sorted for delivery in local areas, so they have to be proximate to where mail is delivered. And so if we were to turn around tomorrow and get super-aggressive on facilities, we might close two as opposed to one, because the facilities have multiple functions. In some cases, they have administrative folks in there, like our Inspection Service, our Inspector General. They have retail operations. In many cases they have carriers who deliver mail out of those facilities.

So the facility would not close, but functions in that facility would move. For example, outgoing processing could move from one location to another location. The facility would not close.

It is a misnomer to think that we would just stop employing people in a certain location because, again, these facilities are multifunctional. I do not want anyone to think that somehow we are going to turn around tomorrow, flip a switch, and there will be 100 less facilities. That is simply not the case. The function of what they do in those facilities may change and the amount of facilities that we have doing outgoing processing and canceling of mail might shift. So it is just a misnomer to think that we are going to close those places.

Senator CARPER. All right. I understand.

Mr. Blair, I am tempted to throw the next one at you.

Mr. BLAIR. I will catch it.

Senator CARPER. But you have to wait just one more question.

Mr. Potter, I think you know better than anybody in this room that Congress has not always been quick to address the problems that the Postal Service faces. It took, as you know, Senator Collins and me some 5 years or so to get postal reform legislation enacted, and we thank you and a lot of other folks in this room—and some who are not—for enabling us to get it adopted and signed into law.

But Congress has been known in the past to put up road blocks that prevent you from operating in the most efficient manner possible. I think Dr. Coburn alluded to that when he was with us here a bit ago. What exactly, again, does Congress need to do, just reiterate for us again, what do we need to do and need maybe not to do in the coming weeks and months to help the Postal Service get through the current economic crisis?

Mr. POTTER. Well, I would say what you need to do is continue what you are doing now, encouraging us to become more efficient, encourage us to take advantage of every opportunity we have within the current law. And I would say that you are doing a very good job of that, so keep it up.

In addition to that, though, I think that there are times when it is great for folks to encourage us to do things, but not do it in their back yard. Oftentimes when we make a proposal to consolidate work between facilities or move work from one to another, there is a mechanism to stop us. First, by complaining; second, by asking for an IG study; third, by asking for a GAO study; then asking for the GAO to redo their study; and asking the GAO to redo the study because the information that we started with 2 years ago is likely no longer valid.

You know, we can get into circles in terms of review. I think what we basically need is a general understanding that the Postal Service is challenged and is going to have to make these changes in order to stay viable going forward. I guess we need oversight, but we need to make sure that we have the latitude to make changes.

Senator CARPER. All right. Mr. Blair, as promised, Mr. Potter spent a fair amount of time in his testimony, as you heard, talking about what the Postal Service has done since the enactment of our postal reform legislation to bring in more business and to make themselves more competitive. Do you believe that his team has done enough? And after you have said yes or no to that, let me just ask you to help us identify other opportunities that could be taken advantage of even now with the economy in the state that we find it.

Mr. BLAIR. Well, I do not think that there is an expectation that with the enactment of the PAEA that the Postal Service would transform itself into this lean, mean competitor overnight. It is a transformational process, and they are undergoing that as we speak. The commissioners meet with Mr. Potter and the Deputy Postmaster General, Mr. Donahoe, and his team once a month to discuss issues that are relevant to the statutory consultation. We appreciate that. You have heard my thoughts on the need for additional transparency.

But I think the overarching need right now is to make sure that we have a better understanding of the operations for the public, and if the public has a better understanding, then Congress will have a better understanding. And with a better understanding by the Congress, it will allow the Postal Service to maybe do what is best for the country and best for the Postal Service and best for mailers and employees and other stakeholders.

It is a basic conundrum, I believe, that we put all these burdens on the Postal Service to act like a business, but it is fundamentally an agency, and it is neither fish nor fowl when you look at its structure and its operations. But it is a part of the Executive Branch. It is a Federal branch agency. It is clearly governmental. And that is the environment in which we find ourselves operating. And like it or not, Dr. Coburn said it is like having two mother-in-laws. I think it is almost like having 525 members of your board of directors. But Congress wanted it that way because of the fundamental responsibilities that the Postal Service carries, the fundamental authorities of providing universal service, the policing power, and the monopoly authorities. Congress wanted to make sure that we have sufficient oversight. So you have these checks and balances. That is the system of the government, and that is the system in which we find the Postal Service operating.

Can the Postal Service do more? Of course it can do more. Any organization can do more. But I do know that it is focused on addressing the issues involved with the declining mail. We hear about that. And the Commission wants to be helpful. I find that consultations over the course of the last 2 years have provided additional means of conversation between the Postal Service and the Commission, and I think that has proven very helpful as well.

Senator CARPER. Let me just interrupt. What I really would like to hear from you on this question is what are some economic opportunities that the Commission has recognized, identified, that maybe should be pursued, or should be pursued somehow differently. I would really welcome that.

Mr. BLAIR. Well, one of the areas which I think——

Senator CARPER. Put on your entrepreneurial hat, if you will.

Mr. BLAIR. Well, the Commission has worked with the Postal Service in approving 40 negotiated service agreements in the competitive service area. So I think those are areas in which the Postal Service is accessing new flexibilities. We are anticipating a rate filing under the new system of a cap-based rate increase. I think that is much—that is a big improvement over the old cost-of-service system as well.

So I think that there are flexibilities, there are areas, and I think that we are going to have to identify them over the course of the next few years. They are working aggressively in the package delivery area, but they are coming up against a fundamental question of declining mail and what kind of footprint is the Postal Service going to have in the next few years.

We have seen a reduction in the number of career employees down to what Mr. Potter just cited, 659,000. If you looked at the number of employees 5 years ago or even 10 years ago, it was in the 800,000 to 900,000 range.

Senator CARPER. I just want to say if you look in the auto industry, domestic auto industry, I think they actually have now more retirees than active employees. I was reading the other day where maybe General Motors has seen their employment rate literally cut in half over the last half dozen years. So these reductions, while they are significant—and I think they have all been through attrition—if you look at what has happened in some other major industries in our country, there is even more decline in those.

Go ahead. I am sorry. What are some economic opportunities for increasing revenues that you are aware of, that the Commission is aware of, that you would like to see pursued? You have mentioned a few where they are pursuing them. What are some others?

Mr. BLAIR. Well, we pursued the negotiated service agreements——

Senator CARPER. Yes, you mentioned that.

Mr. BLAIR [continuing]. In the competitive service area. We have struggled with NSAs in the market dominant area because the statutory requirements are more stringent than they are in the competitive area. We have a complaint pending in that area as well. I think that the drafters of the legislation had intended that that be accessed more, but those are things that we have been working on with the Postal Service to see what the areas are where they can have a greater flexibility. I think the fundamental line in that area has been an agreement that makes money for the Postal Service. The Postal Service wants that as well. We will continue to talk in those areas.

The next few years, I think the situation is going to be rough, though, and keeping their head above water is going to be a tough struggle for them.

The PAEA allowed them some flexibility in terms of pricing. I will be anxious to see their new price filings when they come forward with the rate adjustments for May, what kind of flexibilities they are using in this area. They have already submitted their rate increases in the competitive products area, and they have raised prices in that area. We did that in December.

So I think that the legislation is working, and I think that it is evolving, and I will be anxious to see what areas the Postal Service will access in this new rate filing next month.

Senator CARPER. All right. Back to you, Mr. Potter. One product that—no, maybe you and Mr. Blair, and we will let Mr. Herr jump in if he wants. But one product that the Commission has permitted the Postal Service, I think, to continue offering is its electronic postmark, and this product involves the Postal Service, and I think it does so through outside vendors, as I understand it, authenticating documents sent electronically. Delaware is among the States that treat electronic postmarks the same as standard physical property—the same as standard physical postmarks.

There are private businesses, as I think you know, that offer electronic postmarks, but there is some value to the Postal Service being involved in this line of business because of its status as an arm of the government. There is also the benefit of the Postal Inspection Service and the Postal Service's enforcement powers.

I would just ask Mr. Potter, what do you see as the future of this product?

Mr. POTTER. Senator, we have made a number of attempts to try and grow that product over the years, and there simply has not been a market. Our best opportunity appears to be with State governments who are attempting to validate documents, as you describe.

Senator CARPER. And in Delaware, we have a big incorporation business. There are a lot of companies around the world that incorporated in Delaware, and there are in other States as well. I think that is one of the areas where we use it.

Mr. POTTER. Over the years, we have engaged numerous commercial entities, including some of the big-name Internet service providers to determine whether or not that product was viable for them. And we will continue to do that.

Unfortunately, there are a limited number of folks who are using it, and our intent is to use those folks as role models to share with others how that service can be valuable to them. But we have never been able to get that product to gain traction.

Senator CARPER. All right. Thank you. Mr. Blair, any comment there?

Mr. BLAIR. Well, just to build on what Mr. Potter said. It has not gained traction. It has been around for about 10 years, if not longer, and the Commission in reviewing this as a non-Postal Service and intends to go forward to the community and ask them how do we regulate this non-Postal Service. So we will get a little bit more clarity of what the expectations may be and what kind of public disclosures will be centered around it.

Senator CARPER. All right. Mr. Potter and Mr. Herr, each of you reference in your testimony the possibility of revisiting existing union contracts and working with the unions to revise work rules in an effort to find additional cost savings. And I would just say publicly that in our private conversations, the Postmaster General has been, I think, very complimentary of his partners, the Postal Service's partners and the labor unions that represent postal employees and working in a real partnership to try to identify ways to save money and provide service more efficiently, and we applaud that and welcome that continued spirit.

But I would like to get a sense from both the Postmaster General and maybe Mr. Herr, from both of you, what you think is possible in this area. And then, Mr. Potter, have you reached out to any of the unions to gauge their interest in working with you in this regard?

Mr. POTTER. Senator, we have reached out to all the unions in that regard, and the one that is most prominent in terms of a success story is the agreement with the NALC to expedite the adjustment to our city delivery routes. These adjustments cut down the time that it would take if we were to follow the normal handbook procedures.

We are always seeking ways to make changes in a cooperative manner. At the same time, we have to recognize the unions' positions. They do have contracts that were negotiated a couple of years ago—in fact, they were negotiated just prior to the PAEA being approved. And so there is an opportunity today to work on work rules. But I think the greater opportunity for change will

come when the collective bargaining agreements expire, and we will have one expiring in 2010 and another in 2011.

But in the interim, we are going to continue to have discussions, continue to talk with the unions, continue to find win-win situations and solutions to today's problems.

Senator CARPER. Mr. Herr.

Mr. HERR. A couple of things we mentioned in our statement: Health care, the employee share—the employer share of the health care premium that is paid on behalf of its employees. There has been some movement there to lower that expenditure on the part of the Postal Service, and that would certainly be an area to look at as those negotiations begin again for collective bargaining.

Senator CARPER. Would you just start that sentence over again, please?

Mr. HERR. Sure. The area that we identified in the statement is looking at the employer share of the employee—what the employer pays, the Postal Service, on behalf of its employees for their health care premiums, for current employees. So relative to other Federal agencies and folks who work on the Hill, the Postal Service pays about 13 percent more. So that seems to us to be an area that could be looked at and be considered going forward in terms of cost savings.

Senator CARPER. Let me just stop you there. You say it pays on average 13 percent more than the Federal Government pays, provides for most of its employees?

Mr. HERR. That is correct.

Senator CARPER. They are sort of a quasi-public-private corporation, but in terms of their health care costs they bear for postal employees, how does that compare with, say—this is a very big corporation—other large corporations?

Mr. HERR. I have not looked specifically into that question.

Senator CARPER. Until very recently, I think the UAW employees of the domestic Big Three enjoy, I think, first dollar coverage, just really Cadillac coverage.

Yes, Mr. Potter?

Mr. POTTER. You are right, there are other industries that pay full coverage for their employees.

Senator CARPER. At least until recently.

Mr. POTTER. At least until recently is right. The one thing I would like to point out is that we did negotiate in the last round of contract negotiations with our unions that the employer contribution would be lowered by 1 percent per year with all of our four major unions. So every year the employer contribution goes down one percent and the employee contribution goes up. It was recognized that we were paying more than the rest of the Federal Government, and we have a plan to change that percentage going forward. Now it is built into our collective bargaining agreement.

Senator CARPER. And those agreements, did you say, expire in 2010 and 2011?

Mr. POTTER. Right.

Senator CARPER. So the next 2 or 3 years you will continue that reduction.

Mr. POTTER. Yes.

Senator CARPER. OK. Mr. Herr, go ahead.

Mr. HERR. Another area that could be looked at going down the road is as they deploy, there is something called the "Flat Sequencing System" that will better process through automation the large packages and magazines. And our understanding is that as those roll out, there are going to be opportunities as well to—that means less time for carriers to sort mail in the post offices and spend more time on the street. To do that, to get all those efficiency gains, though, they are going to have to redo routes to be sure that the route is an 8-hour route because there will be a different time split required for those folks.

So as that rolls out, and those will be capital investments, but hopefully there will be efficiencies coming from that, we actually have some ongoing work for your counterparts in the House looking at the status of those initiatives, too.

Senator CARPER. Good. Mr. Potter, do you want to jump in here?

Mr. POTTER. Can I just comment on that? That is another instance of successful collective bargaining. In the last round of negotiations, the National Association of Letter Carriers agreed with us that those opportunities existed, and we agreed to an expedited adjustment of routes when those machines were deployed, and in anticipation of downsizing that would occur with that deployment, we agreed to use transitional employees, non-career employees, to cover routes in anticipation of downsizing.

So we are well positioned to get the savings that Mr. Herr referred to. Again, this is another area where cooperatively we have—and for the good of business and the sake of prices and service, we have made an arrangement with our unions that will enable us to capture those savings immediately. In fact, today, I think we are authorized to have up to 13,000 employees in non-career status in anticipation of that deployment.

Senator CARPER. All right. I think I would like to maybe ask one last question. Before I do, do any of you have anything else you would like to add just very briefly, or take away?

Mr. POTTER. I would just like to reiterate the need for action as quickly as possible on the retiree health benefits.

Senator CARPER. All right. Mr. Blair.

Mr. BLAIR. Not at this time.

Senator CARPER. Mr. Herr.

Mr. HERR. No, sir. Thank you.

Senator CARPER. I would ask the Postmaster General to sort of lead off on this, but just go with us through a list of options that are before you, and us as well, to try to get through this difficult period, and maybe give us your top three or four. I think I know what No. 1 is. I am not sure I know what all the others are. But before you do that, let me just acknowledge, you talked about flats, Mr. Herr.

Mr. HERR. Yes.

Senator CARPER. I noticed the magazines that we get at our home are a lot flatter than they used to be. Catalogues are flatter. The newspapers that are delivered to our homes and to our offices are a lot flatter than they used to be, and it is because the advertising is less. It is always strange to me that in an economic downturn, rather than retailers and others, manufacturers, advertising more, they advertise less. It seems sort of counterintuitive, but it

happens again and again. It has happened this time as well. Mr. Herr.

Mr. HERR. I think the other thing that we are seeing along with that is that a lot of magazines are now going to online content, and magazines that I receive are now encouraging me to sign up for free trials so that I can get that access Monday morning first thing on my computer. So that is a real change, too.

Senator CARPER. Yes, it is.

Mr. BLAIR. Magazines and newspapers as well.

Senator CARPER. All right. Mr. Potter, would you lead us off and share with us several options—I do not know, three, four, or five.

Mr. POTTER. OK. Let me just begin by saying that on a broad-picture basis, volume obviously is on a downturn. We will hit bottom and it will begin to come up. When we are in the throes of moving and migrating the mail down, we are playing catch-up in a sense. We are trying to adjust our operations to lower volumes. All the mechanisms that we have in place for adjusting staffing levels and the like are lookback type of systems. They are not anticipatory systems. And so we will be chasing volume down until it hits bottom. When that turns, we will have staffed our facilities at a productive level, and as volume grows, we will be able to absorb that volume.

Now, the question is can we get down low enough, and therein lies the challenge, so that we can break even. Then as growth occurs, can we become profitable?

Senator CARPER. Didn't you do this in the earlier part of this decade as we were coming out of a recession, 6, 7, or 8 years ago?

Mr. POTTER. Yes, we did.

Senator CARPER. Because my recollection is you had borrowed against the Treasury over $10 billion.

Mr. POTTER. Right.

Senator CARPER. And were bumping up against the $15 billion limit not that many years ago.

Mr. POTTER. We were up over $11 billion, Senator, and we got down to zero. But there was some help from you and others up here when it came to adjusting our Civil Service Retirement, as well as the staffing reductions that we have put in place enabled us to rebound. As mail grew back after the September 11, 2001 recession, we became more productive. So in terms of the big picture, that is where we are.

Now, what do we have to do to make that happen? Obviously, we are looking for help from the Congress on our long-term payments and some rescheduling of retiree health benefits.

Senator CARPER. So that would be your first option.

Mr. POTTER. Since I am asking you for help, I will put that on your table. But internally, obviously we are working very hard on cost, and we are working as best we can to match our use of the resources that we have to the workload that we have in front of us. We do want to grow that workload, so our third option is really to get out there and make sure that we grow. And we are investing money in growth, and we are redoing our website to make it easier for people to access information about the Postal Service, to buy postage. In addition to that, we are upgrading the mail because we are going to begin putting intelligent barcodes on mail.

Senator CARPER. When will that happen?

Mr. POTTER. That is going to happen this May.

Senator CARPER. Are you going to make a big deal out of that in terms of letting the world know?

Mr. POTTER. We are going to make a big deal about that, and we are planning to offer a rate incentive for people to begin using it. And I think it is going to upgrade the information that people have about the mail. It will add value to the mail and make our products more competitive in the marketplace.

We are going to continue to work on our package services.

Senator CARPER. Let me just say, we think around here about echo effect. If you are the President and you have a message you are trying to get out, you have all your Cabinet and the folks who work for you in the Executive Branch out there. They can be your echo so you have a theme for the day or the week. Then you have your team out there doing it for you.

Sometimes here in the Senate we want to get a point across, and it will not just be one Senator, a leader of maybe one of our caucuses, but they will have the whole echo of the rest of the caucus, and not just here in the Senate but as we go back to our States across America. So just be thinking about that echo effect.

Mr. POTTER. Right.

Senator CARPER. Actually, there might even be an opportunity to partner with Members of Congress. In our own districts, we all have postal facilities, and the idea that this is a service that is going to be, I think, maybe of value to our constituents. There might be an option to use us as part of the rollout. It is just a thought.

Mr. POTTER. We have seen good growth in our global sector. We are going to continue that growth. We are working in partnership with posts around the world, in the Pacific Rim, in Europe, to grow the package business. We are working with our competitors—UPS, FedEx—to provide last-mile delivery which allows them to take advantage of our very reasonably priced delivery. We are at every door every day. The incremental cost to provide delivery when it is brought to our post office is minimal, and we are able to grow that segment of the business. And I think we have work to do in terms of continuing to make our package business more efficient, and even more reliable than it is today. Our package business is going to become more and more competitive, and we are going to use the flexibilities that you have provided in the law to work with customers when it comes to pricing.

We do have areas of opportunity. In terms of advertising mail, I believe that if you think of the marketplace, direct advertising is going to be the leader when it comes to the future and how people communicate with potential customers. And I think hard copy through the mail, the use of our very robust network, is going to be a vital tool for anyone in the marketing business or retail business to use to get their messages out.

And so I am excited about the fact that we have opportunities for growth. When it comes to our game plan, I think it is rather comprehensive. I think that there are limits to what we can do, and certainly we need to talk about the boundaries that exist today and how we might use this network to generate revenue and main-

tain service. This is not within the law today, but as we think about that longer-term picture and look at other countries around the world, they take advantage of the networks they have and do what I will call flanking measures. They use their retail network for other things other than mail, such as banking. They use their logistics network and open them up and provide trucking services for other folks.

In terms of where we are today, it is a basic blocking and tackling. Let us get it done, but let us make sure that we do not lose sight of growth opportunities as we are cutting costs. And longer term, I think we need to put everything on the table and have discussions about that going forward.

So we will keep you busy, I think, on this Subcommittee. Thank you.

Senator CARPER. You bet. Mr. Blair.

Mr. BLAIR. Senator Carper, you mentioned earlier, you were talking about what the opportunities are that exist, and in giving some thought to this, one area is to grow the revenues. Mr. Potter mentioned the use of the intelligent mail bar code. This is an example of giving more value to the mail. PAEA gave additional flexibilities on experimental and new products, and those are areas that really have not been tested yet. That is something the Commission would be receptive to. So some imagination, some new marketing products, those areas in which the mail is given more value is a potential growth area.

You can grow revenues or cut costs, and we have seen that. One area to cut costs is reducing the frequency of delivery or reducing the number of your retail outlets. Those do not come without a cost themselves, though. Are you going to gain short-term value but lose long-term customers? And those are things that I do not think we have an answer for yet. I think that is a public policy question that further needs to be explored.

One area that we have not talked about today is the debt limit. It is $15 billion. They are at $7 billion right now. The Postal Service has indicated that is not an area that they would want to go in. But it is an alternative for Congress to consider if you want to raise the debt limit or raise your annual borrowing limits. But that comes with a price as well because debt carries interest payments on it. And at some point, you reach that limit and then it hampers your ability to operate.

So, again, no recommendations, but these are options for Congress to consider.

Senator CARPER. Mr. Blair, on the issue of the interest costs that the Postal Service is paying—is it $7 billion right now? Do you pay whatever the cost of capital is for Treasury? If they are borrowing money at—do you use the overnight cost, or do you use their 90-day cost? What do you use?

Mr. POTTER. We use their short-term 90-day cost.

Senator CARPER. And what are those right now?

Mr. POTTER. I think they are 25 basis points.

Senator CARPER. Pretty good deal.

Mr. POTTER. It is an extremely good deal, but the problem for us is that long-term interest rates are also at their lowest. So we have a decision we have to make. Do we take and convert some of the

short-term borrowing that we have to long term? We do not appear to have any reasonable chance of paying our debt down in the next couple of years given the state of the economy. So we may step out from behind that short-term debt to lock in lower rates on long term. But it is a burden to the organization going forward to have this debt.

Senator CARPER. All right. Thank you. Mr. Blair.

Mr. BLAIR. Another alternative—and, again, these are not recommendations, but an appropriation, Congress could always appropriate, return to the days of subsidizing their operations. That seems to run counter to the idea of a self-sustaining Postal Service, but those are options that could—we have limited options, and there are some tough issues out there. That is why I agree with the approach that you are taking that at least in the short term address the issue of the retiree health benefits. But I also want to underscore the fact that those long-term liabilities are not going to change, and you do not want to short-change the future funding of those liabilities.

So I would just urge the Subcommittee to keep those in mind.

Senator CARPER. I do not know that I heard you say—does the 8-year structure make more sense than the 2-year?

Mr. BLAIR. To me, the 2-year makes more sense because it gives you an additional oversight capacity that you otherwise would not have.

Senator CARPER. All right.

Mr. BLAIR. I am sure that 8 years would be more simple and easy to administer. There is certainly more certainty to it. But much like the escrow account which was much hated, but it is what drove postal reform. The idea of having an additional 2-year review on something like this gives you additional oversight opportunities as well.

Senator CARPER. Mr. Herr, you get the closing word.

Mr. HERR. Closing with the last word.

Senator CARPER. Almost. Then I will give the benediction.

Mr. HERR. OK. I think as we reiterate, just mentioning the short term, the 2-year financial relief, I think coming—something that should accompany that would be a plan, something that can be shared, explained, and can be used as an oversight tool to help you, can help build consensus with Congress, business, citizens, to understand exactly what some of the ramifications of this are for individuals and for businesses and users of the mail.

I would also think a real option is working with the unions to see what is on the table and what can be achieved there. Things are locked in for several years, and given these circumstances and what has been described, it seems like times like this call for some honest, hard discussions to see what can be achieved in that area, too.

And then I think also, work with businesses to better understand what their needs are and what new products they desire out of the Postal Service. Some of their competitive products that we looked at, the priority mail and express mail, represent about 10 percent of revenue. So even if those grow at a very high rate, it still represents a relatively small portion of what their overall revenue stream is.

And then, last, we have some ongoing work looking at intelligent mail, revenue generation issues and route estimates, and as that work is completed, we will be sure to share it with you and your staff on the Subcommittee as well.

Senator CARPER. All right. Well, this has been a timely hearing and I think for me a most informative hearing. I think I walk away from this hearing with a better understanding of how we find ourselves in this situation, maybe a little bit better understanding of the options to get us through these difficult times.

It is not just the Postal Service that is struggling. Delaware is the only State on the Eastern seaboard that has any auto assembly operations, and at the beginning of this month, we closed the Chrysler plant, which has been in business for almost 60 years. Very painful for us.

We see today the number of people that are working at our General Motors plant, which used to employ over 3,000 employees, is down to under 1,000, and that plant is—it is not shuttered, but closed for a couple more weeks, and they will begin assembly operation again.

I was driving up the road the other day to the YMCA where I work out, not far from my house, and I drove by Circuit City, a big, full parking lot, but not for long because that store and a lot of others are closing all over the country.

Those are just some of the things we see in my own State, and they are mirrored and reflected in other States. We should not be surprised that the Postal Service is struggling as well.

We have several options before us, and we appreciate the discussion of those options. I think rather than us criticizing the Postal Service, while we have to through our oversight function hold the Postal Service accountable—and I certainly want to encourage you, to the extent that you can, to be transparent, more transparent and accountable in trying to comply with Sarbanes-Oxley and balancing both of those demands—we would encourage you to do that.

We would encourage you to continue to work with your labor partners as you find efficiencies, and I am struck, most times when I go into a post office—and I go in fairly regularly just to sort of test the waters—by how often the people who sell me stamps or whatever other service that they are providing will ask, actually promote another service and say, "Have you thought about this?" Or if you are going to ship a package, do you want to make—not just insurance, but "Do you want to have reporting dates?" and that sort of thing, the tracking numbers and so forth. A little shout out to some folks who work for the Postal Service.

In San Diego, our oldest son is in his third year in college, and he and one of his compadres from school have decided to not hang out in Boston or in Delaware, but to find a 1-month gig in San Diego. Not bad. And they are working there on a research project at the University of California, San Diego, which is good business if you can find it if you are in college—really in any business, I think. But they are big bicyclists. They are on the triathlon team at their college, and they shipped their bikes out to be at their positions so they could continue their training while they are working. And they shipped by Postal Service three boxes of equipment to support their bicycling.

We thought we would save some money and not do the insurance. We thought we would save some money and not provide the tracking ability. And we got out there, and the days that we expected the packages to be delivered, they were not delivered. Actually, two were on the day it was expected; one was not. And it was not delivered the second day. And it finally showed up on the third day. The postal employees at one of your shops out in San Diego, one of your facilities, could not have been more helpful, and we just want to say in terms of customer service, they were first-rate. And we are grateful for that.

I will leave here thinking that, in addition to all the things you are trying to do to save money, in addition to all the things you are trying to do to build revenues, as I said—and some of you have heard me say this before—if it is not perfect, make it better. Everything you do, everything I do, we can do better. We just have to really push the envelope and keep pushing it.

I almost liken your financial proposal, Mr. Potter, to a renegotiation of a mortgage on a house in terms of the amortization schedule, the payment schedule. We are looking at not going to one of those exotic adjustable rate mortgages with a big balloon payment at the end, but we are talking about renegotiating the terms of the mortgage, and we are doing a lot of that in families and communities and homes across America. And I think that is what you are asking for here. And given some of the other options that are before us, it is probably a better option than most. To the extent that we can get that done, we will push hard to do that.

And, Mr. Potter, to the extent that you have been talking to our colleagues, particularly those in positions of some authority on other committees, those I think have been well received, and hearing from you has been helpful in moving the ball.

With that having been said, we have got our work cut out for us. I think we are going to have another hearing, maybe a little before March 1, and we are going to revisit some of these issues, but mostly I think we want to focus on opportunities that are out there for growth, for growing revenues, and some that are going well and maybe some others that are not—maybe a couple that we touched on here today as possibilities that we could identify, too.

With that having been said, thank you very much for your preparation and for your testimony, and we will probably follow up with some more questions and would ask that you respond to those very promptly.

With that, this hearing is adjourned. Thank you so much.

[Whereupon, at 5:26 p.m., the Subcommittee was adjourned.]

APPENDIX

UNITED STATES POSTAL SERVICE

STATEMENT OF
POSTMASTER GENERAL/CEO JOHN E. POTTER
BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES AND INTERNATIONAL SECURITY
OF THE
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

JANUARY 28, 2009

Good afternoon, Mr. Chairman and members of the Subcommittee. I appreciate the opportunity to talk to you today about the state of the business at the United States Postal Service and the extraordinary nature of the challenges we are facing. Simply put, the Postal Service is in acute financial crisis.

My testimony will begin by explaining the causes of our current financial challenges. Next, I will discuss the actions we have been taking to meet these challenges. Finally, I will outline the help we are requesting from Congress to weather this storm. Specifically, I am asking for flexibility in the number of days we deliver mail and an eight-year adjustment to our funding schedule for retiree health benefits.

As you know, the Postal Service is a vital economic engine in our national economy. We are not only the nation's second-largest employer, but the mail drives millions of jobs in a wide range of industries in every corner of the nation. The mail drives commerce, both through what it contains and because of its interdependency with so many complementary elements of the nation's infrastructure. The mail system is a nationwide logistics network second to none. Working to protect the viability of the mail will produce benefits that reach far beyond the boundaries of the Postal Service.

The cause of the financial situation we are facing is two-fold.

A revolution in the way people communicate has structurally changed the way America uses the mail. For the last decade, we have experienced a steady erosion of First-Class Mail – one of our highest-margin products – as billings, payments, statements, and personal and business correspondence continue to shift from the mail to electronic communications.

Over most of the same period, there was strong growth in our Standard Mail product – one of the most effective advertising channels in America. In 2005, for the first time, Standard Mail volume exceeded that of First-Class Mail.

Yet, while it remains our volume leader today, lower-cost Standard Mail produces only about half the revenue, overall, as First-Class Mail, and it is extremely sensitive to fluctuations in the economy. Standard Mail volume would have to double to generate the same revenue as First-Class Mail. That level of growth, never experienced even in a strong economy, is unachievable in an economy marked by a severe downturn in advertising.

The economic premise of our system, envisioned by the Postal Reorganization Act of 1970, had long been that ever-growing mail volume would produce the revenue necessary to support a mail processing and delivery network that must expand to serve up to two million additional homes and businesses each year. For more than three decades, that business model contributed to the development of a self-supporting postal system, one that satisfied the statutory mandate that it break even over time, and one that has not received an operational subsidy since 1982.

With the rise in electronic communications driving profound and permanent changes in the mail mix as we entered the new century, it became clear that this model was being rendered obsolete. Change was necessary. Congress, working closely with the entire range of postal stakeholders, enacted legislation in late 2006 that was intended to provide the Postal Service with product and pricing tools that would provide the flexibility needed to operate successfully in a more dynamic, competitive communications market.

Yet, by December 2007, barely one year into our efforts to implement the complex provisions of the Postal Accountability and Enhancement Act, we began to see disturbing new trends in mail volume, reflecting weaknesses in the financial, housing, and credit industries. Historically, these sectors have been among the strongest generators of mail.

Although the financial situation of the Postal Service is grave, it would have been even more untenable if it were not for the aggressive actions we have taken to protect the organization's viability. Those actions began long before we began to see the effects of today's economic distress.

For more than 200 years, the Postal Service had been a tradition-guided, rule-bound, risk-averse organization. With a monopoly based both on law and the practical fact that there was no real alternative to hard-copy postal mail delivery, there was no compelling need for the organization to change its approach.

That world ended as we neared the 21st century. By 1999, understanding that our old business model would be unsustainable in a new, wired world, the Postal Service embarked on a journey of transformational change. The velocity of that change has increased every year as we continue to test the limits of what is possible with the limitations of law and regulation.

We set our sights on achieving previously unimagined efficiency in our operations. This resulted in eight consecutive years of strong productivity gains, producing the equivalent of billions of dollars in cost savings.

These gains, more substantial than the total productivity growth experienced over the previous three decades, were interrupted only after we began to experience the profound effects of the growing economic downturn.

Over time, the effects of the structural shift in communications became increasingly apparent, requiring an acceleration of our cost-management activities. By 2002, we had embarked on a program that ultimately reduced our base costs by $1 billion annually, resulting in cumulative cost reductions approaching $20 billion. That included reducing our career workforce by more than 120,000 positions – through attrition. Last year's $2.2 billion in cost reductions built on that record savings of an additional 50 million workhours.

Our experience over many years has shown that mailing activity is a leading indicator of changes in broader economic cycles. With that in mind, and seeing the economy's continued deterioration as we moved into 2008, we acted quickly to adjust our 2008 financial plans, doubling already aggressive cost reduction goals to $2 billion – a goal we not only met, but exceeded. This prevented a loss that could have approached $5 billion.

Yet even these efforts could not keep pace with extraordinary, upward cost pressures. They were led by record-high fuel prices for our more than 220,000 motor vehicles and 37,000 facilities; contractual cost-of-living allowances for our almost 600,000 bargaining-unit employees, reflecting a sharp rise in consumer prices; and a congressionally mandated $5.4 billion annual funding payment for the Postal Service's share of retiree health benefits.

In fiscal year 2008, total mail volume fell by more than 9 billion pieces – 4.5 percent. With volume down significantly, revenue did not meet projections, even with a May price adjustment, and remained essentially flat compared to the previous year. Costs, however, continued to grow, at a rate far higher than could have been anticipated.

While we reacted as quickly as we could to declining volumes and the economic downturn, some costs were completely beyond our control, most notably the huge prefunding requirement for retiree health benefits and the largest Cost of Living Adjustments (COLA) in our history, required by the collective-bargaining agreements with our craft unions. We simply could not cut costs fast enough to meet these obligations and remain profitable.

The Postal Service is the only public or private entity required to prepay health benefit premiums at these extremely high levels. And, if our payment obligation reflected Generally Accepted Accounting Principles (GAAP), the Postal Service would not be required to make these payments.

All of these factors contributed to a greater-than-expected net loss of $2.8 billion last year.

Among the cost-management initiatives we took last year was a halt in the construction of new postal facilities in 2008. The limited facilities funds that are now available will be directed only to those sites with the most critical needs. This includes buildings badly damaged or destroyed by natural disasters, locations where we have lost our lease, or sites with severe safety deficiencies that cannot be abated by repair or alteration.

In the last round of contract negotiations, which resulted in new collective-bargaining agreements for our four major unions, we agreed to a new formula for the funding of health care benefits for current employees. This increases the contribution employees make toward their health care benefits by one percent a year. This will continue for the life of the contracts and will help to reduce Postal Service costs.

Working with the National Association of Letter Carriers, we recently concluded a historic agreement that helps us to improve the efficiency of our operations in the face of declining mail volume. The interim agreement establishes a new process for evaluating and adjusting delivery routes, resulting in a quickly implemented one-time adjustment to reflect workload loss. This offers an important advantage over the regular route-inspection process which, under normal circumstances, can be longer and somewhat more arduous. In expediting this procedure, the accelerated route adjustments helps us to achieve operational savings sooner than had been possible. The process, which began in 2008, is continuing this year. Ultimately, it will involve the evaluation of 90,000 city delivery routes.

I have also frozen the salaries of all Postal Service officers and executives at 2008 pay levels. Executive leadership in the Postal Service has an obligation to help send a message of change throughout the organization, demonstrating that they, too, have a personal stake in working to overcome the challenges we are facing.

We are in the process of reducing the authorized staffing complement at national headquarters by 15 percent. And earlier this week we announced that we will be taking similar actions in the field, reducing authorized complement at our nine Area offices by 19 percent. These are our key field administrative units, with responsibility for operations in a number of surrounding states.

We have cut travel budgets across the board and we are using the latest web and video conferencing technology to conduct meetings and share important information. Given the size and scope of our organization, we can realize significant savings in direct travel costs, lodging, and event support.

We are also pursuing needed efforts to consolidate some duplicative mail-processing operations while protecting service. This supports improved efficiency and a greater return on our processing-equipment investments – which generally were made with an eye toward increased, rather than decreased, mail volume.

In this regard, we continue to review our processing needs and capacities to determine which operations from multiple locations can be combined at a single, central facility. This generally involves only the relocation of a single aspect of the work performed at a particular sorting facility, although in some cases operational needs and unique conditions may support the closing of a facility by completely merging its operations with another.

The bulk of our processing and sorting operations are performed at some 400 large, special-purpose mail processing plants. These are separate and distinct from our network of local, retail Post Offices. A well-defined Area Mail Processing policy, developed to support consistency and a fact-based decision process for consolidations, guides us as in our efforts to maximize operational efficiency and capitalize on the economies of scale associated with advances in automated mail processing.

Over the last several years, changing transportation and operational requirements have made it possible to withdraw operations from 58 Airport Mail Centers, allowing us to close these facilities and avoid the high costs of leasing facilities on airport grounds. The need for these facilities was reduced as new air transportation contracts placed more mail on the flights of dedicated shippers rather than commercial, passenger carriers.

We also took a hard look at our actual transportation use and found that much of the mail that had been moving by air could meet its service standards through less-expensive ground transportation. By reducing our need for air carriage, we also reduced our need for Airport Mail Centers. Throughout this process, whether moved on the ground or in the air, mail continued to achieve record service performance.

In seeking even greater operational efficiency – whether by consolidating some aspect of a facility's processing activities or phasing out all operations at a particular location – we share information with our customers, our unions, our suppliers, and the communities affected.

We also consider the effect on our employees and work through the contractual provisions that govern these activities. It is important that our decisions are informed both by the interests of our stakeholders and by a realistic response to the extreme financial pressures that are affecting us.

In this regard, I believe that one of the primary interests of our stakeholders is a viable Postal Service not only today, but long into the future. Our consolidation activities, which do affect the way mail is processed in local communities, support the critical goal of protecting our ability to provide quality service to every community. Congress, in enacting the Postal Accountability and Enhancement Act, was clear in its expectations that the Postal Service operate in a more businesslike way than ever before. The Act itself underlines those expectations through provisions that address and encourage activities in this important area.

Our experience has shown that there is strong, overall stakeholder support for the general issue of improved postal efficiency. However, that support often weakens considerably when a specific change is proposed for a specific community. As we move forward, I ask for your understanding and your support of necessary actions that, in promoting efficiency, help us to build a stronger future.

Throughout the entire Postal Service, we remain focused on a systematic, data-driven approach to cost-cutting. We have targeted $5.9 billion in potential cost reductions in 2009 and 2010.

In just the first few months of the current fiscal year, we have used 27 million fewer workhours than the same period last year. I am extremely grateful for the exceptional efforts of all of our managers and employees in capturing these savings so quickly, while providing extraordinary service. But that is only the beginning – we have challenged the organization to eliminate 100 million workhours this year, doubling last year's remarkable achievement. I believe this is possible.

Looking ahead, and considering a very uncertain future economic climate, it is clear that the problems we are facing are intensifying. The ability of the Postal Service to continue to fulfill its universal service mission is our primary concern. We are doing everything within our power to reduce costs and maintain a system capable of delivering to our nation's 150 million families and businesses each day. Despite our best efforts, we know that this may not be sufficient to close the widening gulf between revenue and costs.

Some have suggested that an exigent price increase, which would provide us the ability to increase rates beyond the statutorily-imposed price cap, would be appropriate. We do not agree; this would be counterproductive, particularly in an environment where mailing activity has already severely contracted.

This position reflects our experience in 2007 when the Postal Regulatory Commission issued a recommended decision raising prices for Standard Mail catalogs well beyond our original proposal. The result was a substantial drop in catalog-mail volume, demonstrating that driving prices above the rate of inflation can result in mailers reducing the number of pieces they mail. Our interest is not in pursuing an exigent price increase to find new revenue, because we believe that driving up prices will only drive customers away.

Our approach in shoring up the foundations of our business – to ensure that the Postal Service is able to serve America in the future – cannot be singularly focused on cost-cutting measures. Revenue growth that is based on business growth – not simply price increases – is also a key element that is necessary for our long-term viability. This is an important consideration as we begin to implement the new pricing tools made possible by the Postal Accountability and Enhancement Act.

Accordingly, we have taken several major steps to build our business. In 2008, for the first time, we created new, discounted list prices for commercial users of Express Mail and Priority Mail, encouraging volume retention and growth. For our Parcel Select product that offers "last mile" door-to-door delivery, we created pricing and volume incentives that promotes volume growth for large and medium shippers.

And just this month, we further expanded our Express Mail and Priority Mail offerings to include a second level of commercial pricing. This new pricing feature, "Commercial Plus," is designed to attract a greater number of larger customers to our premium products.

Last year's major restructuring of our international services streamlined our offerings, more closely aligning them with their domestic counterparts. This supports growth by increasing ease-of-use and providing a better understanding of our comprehensive and competitive global product line.

We realigned our organizational structure in 2008, creating a new Mailing and Shipping Service division that will help us bring new products to market more quickly and effectively. This will strengthen the position of the Postal Service in an extremely competitive marketplace.

Following last year's decision by DHL to reduce its United States operations, we initiated an aggressive outreach effort to make the Postal Service the shipper of choice for former DHL customers. We are also creating a dedicated sales force that will exclusively promote our expedited shipping services, which offer exceptional customer value.

We have also begun a major redesign of our website, *usps.com*. The new format will make it easier than ever for customers take advantage of our services. A number of changes to the site have already been implemented, giving it a clean new look, easy-to-navigate features, as well as improved and expanded functionality. This will position our *usps.com* as a more valuable growth channel than ever.

This month, we adopted a new, annual price-adjustment schedule for shipping services – our competitive products portfolio. This aligns the Postal Service's prices adjustments for shipping services with the standard industry practice of annual price changes every January. All shippers will benefit by having all the pricing information they need to make cost comparisons at the same time each year.

We have worked hard to position the Postal Service for growth in an intensely competitive delivery market, making full use of the new tools Congress made available to us through the Postal Law of 2006. Since that time, however, general business conditions have deteriorated to the extent that the domestic shipping business is contracting, not expanding.

While I am enthusiastic about the potential of these new product and pricing tools, particularly in an improved economy, I am extremely concerned about our ability to maintain a comprehensive, nationwide mail system in a staggering economy that shows no signs of recovery and simply has not been conducive to growth.

In many ways, our situation is similar to that faced by many governors and mayors. They, too, are struggling to meet the expense of providing basic public services with shrinking budgets. Growing unemployment, a slowdown in business and consumer spending, mortgage foreclosures, reduced construction activity, and mergers and closures in the banking and retail sectors have constrained the traditional and primary sources of state and city government revenue. These are many of the same factors that have brought the Postal Service to its present, tenuous situation.

But, in reacting to the extreme demands of today's economy, state and local officials have a level of flexibility and options that are simply not available to the Postal Service. Pay is being frozen or reduced. Service levels are being cut. Libraries, motor vehicle agencies, and other state and city offices have reduced their hours and days of operation.

Workforce flexibility in the Postal Service, defined by the collective-bargaining agreements with our unions, is more limited. The agreements were negotiated while our economy was growing, while postal productivity was increasing, and while our finances were strong. For that time, their provisions represented an appropriate mechanism to share our success with the people who helped us to achieve it. But, in a drastically changed environment – one that could not be foreseen at the time – those same provisions, by limiting the options available to us in responding to the current crisis, can have the unintended effect of working against the future security and well-being of our employees.

Over the last year, round after round of layoffs, in both the public and private sector, have helped to reduce the costs of employers who have had to adjust to a contracting economy. We want to continue working with our unions to seek more positive, win-win solutions.

Contracts with the two unions that alone represent almost 75 percent of our 652,000 career employees – the American Postal Workers Union and the National Association of Letter Carriers – do not expire until late 2010 and late 2011. We cannot wait until then to address what are pressing needs today. So I am proposing to union leadership that we begin talks now to create needed levels of workforce flexibility.

We are proud of the fact that, even as we sharply reduced our use of resources, our service levels reached an all-time high last year, including 97 percent on-time delivery performance for overnight-committed First-Class Mail.

But in working to keep performance strong, the strain on our operations becomes more apparent every day as we consider what additional steps we can take to survive a financial crisis that appears only to deepen. We have stretched the limits of our system as they have never been stretched before. Without help, I do not believe we can long serve the people of America with the level and quality of service they expect and deserve.

The Postal Service is a unique institution. While it must operate like a business, competing in a marketplace that includes some of the world's most respected and successful businesses, it must also fulfill an important public service role. That is a role we embrace.

We must serve every customer and every community equally. Rich or poor, from the biggest cities to the smallest towns, we must provide the same high level of service. We must provide the same access. We must make our services available at the same price – in both easy-to-serve locations and locations so remote they can only be reached by mule, by swamp boat, or by bush plane.

The Postal Service is today, and has always been, the link that connects every American – no matter who, no matter where – to every other American, for only the price of a stamp and an address. We cannot put this at risk.

We are doing our best to manage through the immediate crisis. We have been adapting quickly as mail volume falls, matching workhours to a declining workload, and reducing costs in every operating and administrative unit. Doing the right things today will leave us very well positioned for an eventual economic recovery. As mail volume returns, we will ramp back up only at the rate necessary to protect productivity, keeping costs down so that operating revenue goes as far as possible.

Today, however, we are still chasing volume – which is falling faster and faster, outpacing the speed at which we can adjust operations. No one knows at what point mail volume will bottom out.

As the service needs of America change, we must change along with them. We must provide the products our customers want, when they want them and how they want them. While they have embraced new communications technology, Americans still rely on the mail, and they trust it like almost nothing else – more than 500 million times each day. They expect us to be there for them. Without the mail, a still-vital piece of our nation's infrastructure, our nation would be the poorer. We cannot let that happen. Therefore we are turning to Congress for help.

We expect no improvement this year; rather, our projections anticipate a continued deterioration of our financial situation. Our financial plan, which forecast an additional decline of 8 billion pieces of mail this year, has been revised to reflect an even steeper decline. Volume is now expected to plunge by some 12 billion to 15 billion pieces, based on actual mailing activity during the first quarter. Preliminary quarter-one financial results show that revenue is down approximately $1.3 billion – 6.5 percent – from the same period last year. We expect that 2009 will be the first time that we have recorded a year-to-year revenue decline since 1946.

If current trends continue, we could experience a net loss of $6 billion or more this fiscal year despite the most aggressive effort in our history to take cost out of our system. The maximum loss we can absorb while allowing us to meet all of our obligations under current law and close the year with a positive cash balance is $5 billion. The gap between where our net income is trending and our projected cash position is a cause for alarm and is causing us to make some very difficult choices.

Continued deterioration of the economy may depress mail volume and revenue even further than we expected, for a longer period than we expected. If this should be the case, the Postal Service must find additional opportunities to eliminate costs. So far, we have been able to do this without affecting service. But the situation demands that we also examine options that had previously been off the table. Over the years, we have taken great pride in accomplishing our mission of serving everyone, everywhere, every day. This has been at the center of our universal service mandate.

As we look at our business through the lens of today's new reality, we also recognize that our efforts as an organization may, by themselves, be insufficient. We believe that legislative relief is necessary to preserve the nation's mail system.

First, it is possible that the cost of six-day delivery may simply prove to be unaffordable. If that should occur, it could become necessary to temporarily reduce mail delivery to only five days a week. We would do this by suspending delivery on the lightest volume days. Toward this end, I reluctantly request that Congress remove the annual appropriation bill rider, first added in 1983, that requires the Postal Service to deliver mail six days each week.

Any such action would be taken under the direction of our Board of Governors and only when absolutely warranted by financial circumstances. Were we to do so, we would make every effort to maximize the benefits to our customers while minimizing any disruption to our mailers.

Second, we are asking for a legislative change to provide relief from the crippling cost burden imposed by the law's requirement that we prefund the employer premium for the health benefits of future retirees while continuing to pay health care premiums for our current retirees. This, in no way, removes our obligation to satisfy this basic benefit funding need – nor should it. What it does do, by transferring the current premium payments to the fund, is improve our financial position and cash flow significantly. This will free up a tremendous portion of operating revenue to offset our current operating expenses. Let me explain details.

That funding schedule, established by the Postal Accountability and Enhancement Act, was a difficult stretch even before we entered the current recession. It requires annual payments ranging from $5.4 billion to $5.8 billion over the ten-year period from 2007 through 2016.

In 2008, our total retiree health benefits costs came to $7.4 billion – $1.8 billion paid to the Office of Personnel Management for current retirees, and $5.6 billion deposited into the Postal Service Retiree Health Benefit Fund to prefund future premium payments. That represented almost ten percent of last year's operating budget. We are facing higher costs this year.

Without the payment mandated by the Act to prefund retiree health benefits, the Postal Service would have achieved a positive net income in 2008 – rather than our actual $2.8 billion loss. That is particularly significant in light of the fact that no other entity – public or private – is required to prepay this health benefit obligation at these extremely high levels. These prepayment amounts are not directly related to the actual cost of these benefits or the total unfunded obligation; rather, they reflect budget "scoring" issues, developed to maintain the Act's budget neutrality.

While we recognize that budget neutrality can be an important public policy goal, we believe, in this case, there is an urgent need to balance current responsibilities against future responsibilities. Our proposal creates the needed balance.

We are in uncharted waters. But we do know that mail volume and revenue – and with them the health of the mail system – are dependent on the length and depth of the current economic recession. We are encouraged that Congress and the White House continue to take focused steps to address the nation's financial crisis. However, no one can yet predict when the economy will recover or the actual strength of a recovery.

To ease our immediate financial crisis, the Postal Service proposes that Congress provide legislative relief by amending the Postal Accountability and Enhancement Act. Our proposal would retain the ten-year payment schedule, but would permit the Office of Personnel Management to pay the Postal Service's portion of health benefit premiums for current retirees from the Postal Service Retiree Health Benefits Fund. This would save the Postal Service up to $24.6 billion through 2016.

This change would not increase the health benefit premiums paid by current or future Postal Service retirees, nor would it affect their benefits.

The Postal Service Retiree Health Benefits Fund has a balance of $32 billion. By paying current retiree health premiums from the Postal Service Retiree Health Benefits Fund rather than from operating revenue, an additional $2 billion would be available to offset other costs in 2009. This would significantly improve our balance sheet and strengthen our business, protecting our long-term ability to contribute to the funding of health benefits for our retirees.

I come before you today with only one agenda – to ask for your support in preserving an effective, affordable Postal Service, capable of serving every American in every community, and one that remains an important economic driver, for many years to come. We cannot accomplish this goal without your help.

These are extremely challenging times – for the nation and for the Postal Service. As I have explained, we have done a great deal to preserve the future of our nation's mail system. But there is more to be done and we must do it together. From my perspective, nothing is off the table; we must achieve each one of the following actions.

Success is dependent on working with our unions to achieve necessary workforce flexibility.

Success is dependent on our mailers providing us with mail that can move more efficiently through our system.

Success is dependent on even better management of workhour usage.

Success is dependent on bringing maximum transactional ability to our website – our lowest cost channel.

Success is dependent on driving mail volume up.

Success is dependent on an economic recovery.

And, finally, success is dependent on Congress providing the relief I have asked for today – in delivery flexibility and retiree health benefit payments.

I appreciate your consideration and I thank you for inviting me to discuss these matters with you. I would be pleased to respond to any questions you may have.

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Postal Regulatory Commission Chairman Dan G. Blair

Statement before the Senate Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security

Wednesday, January 28, 2009

Chairman Carper, Ranking Member Coburn, and members of the Subcommittee, thank you for the opportunity to testify at this timely hearing to discuss the impact of the economic slowdown on the U.S. Postal Service. The mission of the Postal Regulatory Commission is to provide transparency and accountability into the financial operations of the Postal Service. We are the agency's primary regulator and work to provide a window on postal financial operations to Congress, stakeholders and the general public.

Eight years ago, this Committee asked the Government Accountability Office (GAO) to study the precarious financial situation of the Postal Service and its ability to meet its universal service obligation. At that time, the Postal Service revised its financial outlook from an estimated $480 million deficit in FY 2001 to a $2 to $3 billion deficit a few months later. The inability to determine how the Service's financial picture could deteriorate so rapidly prompted the Committee to ask for a comprehensive review by GAO. This joint effort helped put the Service on a path towards financial transparency and transformation, which ultimately led to enactment of the Postal Accountability and Enhancement Act of 2006 (PAEA). The Commission appreciates this Committee's continuing active oversight to safeguard the long-term viability of the U.S. Postal Service and for adding it to the list of urgent issues that merit congressional attention.

Today, the Postal Service is facing troubling financial difficulties that stand to worsen before they improve. The current economic crisis has substantially impacted Postal Service volumes and revenues. For example, the financial sector, which has seen an implosion, accounted for approximately 15 percent of the U.S. Postal Service operating revenues according to the Postal Service's *2008 Annual Report* (p. 23). The economic downturn comes on the heels of continued diversion of single-piece First Class Mail to e-mail and electronic bill payments. The cumulative result of these events has been the most severe volume declines since the Great Depression and significant financial losses for the Postal Service. Postal Service data show

volume declines for every domestic class of mail in FY 2008, with First-Class Mail volume declining almost 5 percent.

To address this crisis in the short-term, the Postal Service has only a limited number of options available for financial relief.

Of the options available, one might include the filing of an "exigent" rate case, which would allow the Postal Service to raise its rates for market dominant products higher than the CPI-based rate cap imposed by the PAEA. To do so, the Service would file an exigency rate case with the Commission and demonstrate "extraordinary or exceptional circumstances" (39 U.S.C.A., §3622). Within 11 months of the enactment of the PAEA, the Commission developed a rate-cap based system for market dominant product rate adjustments. The intent of the new system is to ensure regular, predictable rate adjustments as envisioned by the PAEA. We now expect to receive notification from the Postal Service early each year of a proposed inflation-based rate adjustment for market dominant products. In fact, we anticipate receiving the Service's next proposed increase in February. To add an exigency filing on top of the anticipated annual rate increase could possibly drive more mailers out of the system, further diminishing future postal volumes and revenues.

Another option would be additional cost reductions. According to the Postal Service, it plans to further reduce costs by $4 billion in FY 2009. Additional reductions could also be considered. For example, the Service could reduce mail delivery to households from six to five days. In the Commission's recent *Report on Universal Postal Service and the Postal Monopoly,* we determined that if the Postal Service were to make this service reduction, it could save a potential $1.9 billion annually. A Postal Service study estimated annual savings of $3.5 billion. Reductions in service, however, carry potential risks. For instance, the Postal Service estimate did not account for losses in volume as a result of reducing service. The Commission, in its USO Report, recommended that the Postal Service assess how major mailers might react to such a change in service should the Postal Service opt for this type of reduction.

Current annual appropriations language prohibits the Postal Service from reducing mail delivery from six days a week. Therefore, any proposals to change the frequency of mail delivery must be reviewed by Congress. The appropriations language also places restrictions on the closing of small and rural post offices. Congress may want to revisit these legislative limitations if it determines that delivery and service reductions are necessary to ensure future financial viability of the Postal Service.

Congress may also wish to consider raising the Postal Service's total debt limit as another means of addressing the Service's financial situation. However, additional debt would have to be paid back with interest. Currently, the Postal Service has a $15 billion debt ceiling and may increase their debt load no more than $3 billion in any one year. Over the last three years, the

Postal Service has increased its long term debt outstanding from $0 in FY 2005 to $7.2 billion at the end of FY 2008.

Another possible approach would be increasing the direct appropriation from Congress to cover additional operating expenses. The Postal Service generated nearly $75 billion in ratepayer revenues in FY 2008. The Postal Service is supported almost exclusively by ratepayers and received only $103 million through direct appropriations. This appropriation covers free mail for the blind, overseas voting, and a reimbursement of prior revenue foregone authorized by the Revenue Forgone Reform Act of 1993.

In considering its options, the Service is seeking legislative relief through an adjustment to its retiree health benefits premium payments. Unlike other federal agencies, the Postal Service is required by law to fund the cost of health benefits premiums for both current and future retirees. Additionally, the Service is required to pay into the Postal Service Retiree Health Benefits Fund regularly scheduled payments as required by law through 2016. As of September 30, 2008, this fund had a positive balance of $32.6 billion.

This fund is the result of recommendations made in July 2003 by the President's Commission on the United States Postal Service in its report to Congress entitled, "Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service." The report identified the Postal Service's estimated unfunded retiree health benefit of $48 billion as of FY 2003.

The President's Commission "strongly encouraged" the Postal Board [of Governors] to acknowledge the extent of the obligation in its financial statements, based on the public's "right to know" the fiscal health of its public institutions. The President's Commission also recommended that, "... the Board consider funding a reserve account to begin paying down this obligation, so future ratepayers [would] not be forced to pay for postal services delivered to the nation today."[1]

At the time the Report was issued, both the Senate and the House of Representatives postal oversight committees were contemplating postal reform. Ultimately, each body produced reform legislation which required the Service to begin paying down its outstanding unfunded retiree health benefits liabilities.

Ultimately, the Congress enacted the PAEA which required the Postal Service to fund health benefits for current and future Postal retirees according to a mandated payment schedule through 2016. The law requires Postal retiree health benefits be evaluated annually by the Office of Personnel Management with the goal of satisfying any liability funding requirements by 2056.

[1] Report of the President's Commission on the United States Postal Service, p. 124

The Postal Service was also granted a right to request a review of OPM's determinations by the Postal Regulatory Commission (5 U.S.C.A., §8348).[2]

The total payment for FY 2009 for retiree health benefits is estimated at approximately $7.4 billion. This includes the scheduled payment of $5.4 billion, as mandated by the PAEA, and an estimated $2 billion for current retiree health benefit premiums.

Given its limited choices, a temporary adjustment to the Service's health benefit payment schedule would appear to be the most pragmatic approach for the short term. However, Congress should consider carefully the impact of allowing the Postal Service early access to the Retiree Health Benefits Fund to meet current needs without a plan for ensuring the sustainability of the fund to address the long-term health benefit liabilities.

The Commission recommends that Congress require the Postal Service to provide Congress, the Commission, and the GAO with a comprehensive, forward-looking financial plan. Such a plan should provide more detail than the current strategic plan on how the Service intends to regain long-term financial stability in light of the real possibility of continually declining mail volumes.

As the members of this Subcommittee know, a key goal of the 2006 Act was striking a balance between the Postal Service's need for additional flexibility with the public and mailing community's need for increased financial transparency. The Act granted the Commission new regulatory power to ensure the financial transparency of the Postal Service. The law also requires the Service to comply with Securities and Exchange Commission-like reporting requirements.

As part of the Commission's regulatory responsibilities, my fellow Commissioners and I meet often with Postmaster General John Potter, Deputy Postmaster General Patrick Donahoe, and senior postal executives. We know from these meetings that the Postal Service is focused on addressing this fiscal crisis and is working to make the difficult decisions needed to preserve the Service's financial health and sustainability.

At this time, the Commission is reviewing the Postal Service's Annual Compliance Report (ACR). The Commission's review of this report will address compliance of rates and fees under applicable standards, as well as whether service standards in effect during the period covered by the 2008 ACR were met. This determination, however, focuses on activities of the

[2] The estimated unfunded liability for the Retiree Health Benefits Fund for FY 2007 and FY 2008 are $55.0 billion and $53.5 billion respectively. USPS Form 10-K filing with the Postal Regulatory Commission at pages 18-20.

prior fiscal year. More information about the Postal Service's current financial performance, including access to its integrated financial plans and how well it is performing against that plan, would provide Congress and stakeholders with a clearer picture of postal financial operations.

Mr. Chairman, during this time of financial downturn, timely and sufficient - as well as accessible information on operating results - is crucial. Publicly available monthly reports - to Congress and the Commission - will help keep postal stakeholders abreast of changes in trends and allow prompt reaction to changing circumstances. From 1972 through 2006, the Postal Service submitted monthly accounting period statements to the Commission and Congress. These reports were publicly available and remain posted on the Postal Service's website. However, in 2006, the Service stopped providing this information to the public. Postal management, of course, gets weekly and even daily updates of operations.

Given the tenuousness of the Postal Service's financial situation, more – not less – transparency is called for. The Commission recommends that the Postal Service provide Congress and the Commission with monthly financial reports. These reports are part of the Commission's tools to assess postal finances, operations and service.

Chairman Carper, this concludes my written statement. Again, I thank you for inviting me to testify. I welcome the opportunity to answer any questions members of the Subcommittee may have.

United States Government Accountability Office

GAO

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

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U.S. POSTAL SERVICE

Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs

Statement of Phillip Herr, Director
Physical Infrastructure

GAO-09-332T

January 2009

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-09-332T, a hearing 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

When Congress passed the Postal Accountability and Enhancement Act in December 2006, the U.S. Postal Service (USPS) had just completed fiscal year 2006 with its largest mail volume ever—213 billion pieces of mail and a net income of $900 million. Two years later, USPS's mail volume dropped almost 5 percent—the largest single-year decline. The Postmaster General testified last March before this subcommittee that USPS was facing a potential net loss of over $1 billion for fiscal year 2008. He noted that USPS anticipated continued deterioration due to the economic slowdown, as the financial, credit, and housing sectors are among its key business drivers. He also said that the shifts in transactions and messages from mail to electronic communications and from advertising mail to lower-cost electronic media have affected the USPS's financial situation.

This testimony focuses on (1) USPS's financial condition and outlook and (2) options and actions for USPS to remain financially viable in the short and long term. It is based on GAO's past work and updated postal financial information. We asked USPS for comments on our statement. USPS generally agreed with the accuracy of our statement and provided technical corrections and some additional perspective, which we incorporated where appropriate.

To view the full product, including the scope and methodology, click on GAO-09-332T. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

U.S. POSTAL SERVICE

Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs

What GAO Found

USPS has reported that the declining economy accelerated declines in mail volume in fiscal year 2008 and flattened revenues despite postal rate increases. In fiscal year 2008, mail volume fell by 9.5 billion pieces, fuel prices increased costs by over $500 million, and cost-of-living allowances for postal employees increased costs by $560 million. Cutting costs by $2 billion—primarily by cutting over 50 million work hours—did not close the gap between revenues and expenses. Thus, USPS recorded a loss of $2.8 billion for fiscal year 2008. Its debt increased by $3 billion by the end of the year to $7.2 billion. USPS's outlook for fiscal year 2009 has become more pessimistic. USPS projects a volume decline of 10 billion to 15 billion pieces, another loss, and $3 billion more in debt. At this pace, USPS could reach its $15 billion statutory debt limit by fiscal year 2011.

In the short term, several options could assist USPS through its difficulties, some of which would require congressional action. USPS has proposed that Congress give it immediate financial relief totaling about $25 billion over the next 8 years by changing the funding of its retiree health benefits. Although GAO recognizes the need to provide USPS with immediate financial relief, such relief is no substitute for aggressive USPS action to preserve its long-term viability. USPS projects an improvement in its financial condition in fiscal year 2010. Therefore, GAO believes it would be preferable to provide 2-year relief totaling $4.3 billion. This would have less impact on the retiree health benefits fund, and then Congress could revisit USPS's financial condition to determine whether additional relief is needed.

In the long term, USPS action beyond its current cost-cutting efforts is urgently needed to reduce costs and improve efficiency. GAO agrees with the Postal Regulatory Commission that unfavorable mail volume and revenue trends may imperil USPS's financial viability and that USPS must dramatically reduce its costs to remain viable. Two areas for further action to reduce costs include compensation and benefits, which is close to 80 percent of its costs, and mail processing and retail networks. GAO previously reported that excess capacity in USPS's mail processing infrastructure has impeded efficiency gains. USPS has considered several options to realign its facility network, such as outsourcing operations in some mail processing facilities, but has taken only limited action. Another option would be for USPS to close unnecessary retail facilities and thereby reduce its large maintenance backlog. While it has been difficult for USPS to take action in these areas, Congress encouraged USPS to expeditiously move forward in its streamlining efforts in the postal reform act of 2006. GAO recommended that USPS enhance transparency and strengthen accountability of its realignment efforts to assure stakeholders that realignment would be implemented fairly and achieve the desired results, and it has made improvements in this area. Accelerated volume declines and changes in the public's use of mail indicate that USPS needs to move beyond incremental efforts and take aggressive action to streamline its workforce and network costs to assure its long-term viability.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to participate in this oversight hearing on the state of the U.S. Postal Service (USPS). As requested, my statement addresses the following:

1. USPS's financial condition and outlook.

2. Options or actions available for USPS to remain financially viable in the short and long term.

My statement is based on our prior work and updated information on USPS's financial condition and outlook. We reviewed USPS's budget for fiscal year 2009 and preliminary information on results for the first quarter of the fiscal year and met with the Chief Financial Officer and other postal officials. We conducted this performance audit in accordance with generally accepted government auditing standards. These 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

USPS's Current Financial Condition and Outlook Have Deteriorated

USPS's financial condition deteriorated in fiscal year 2008. According to USPS, this was due largely to declines in the economy—particularly in the financial and housing sectors—that were reflected in a 4.5 percent decline in total mail volumes and flattened revenues despite rate increases. In addition, fuel prices increased costs by over $500 million, and cost-of-living allowances provided to postal employees increased costs by about $560 million. Even after reducing over $2 billion in costs, primarily by cutting more than 50 million work hours, USPS was not able to close the gap between revenues and expenses. Thus, USPS finished fiscal year 2008 with a $2.8 billion loss—the second-largest loss since 1971 (see app. I). [1]

Further, USPS productivity decreased 0.5 percent in fiscal year 2008, which was the first decline since fiscal year 1999. According to USPS, productivity declined because its cost-cutting efforts were not sufficient to

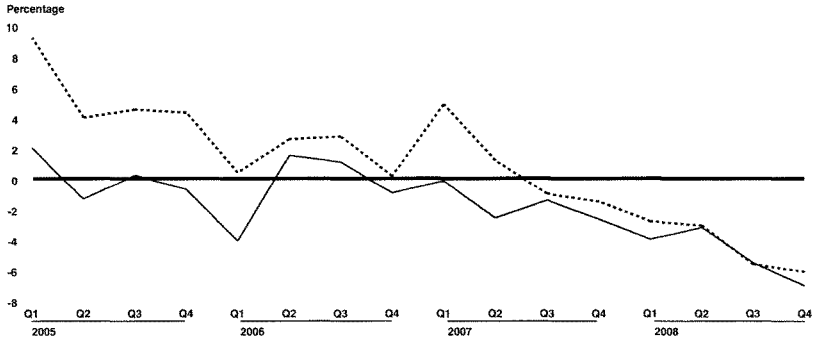
[1]USPS's $5.1 billion deficit in fiscal year 2007 was impacted by the one-time transfer of its $3.0 billion escrow fund to the newly created Postal Service Retiree Health Benefits Fund.

offset the impact of declining mail volume. USPS debt increased by $3 billion in fiscal year 2008—the annual statutory limit—and reached $7.2 billion in total outstanding debt at the end of the fiscal year, or nearly half of the $15 billion statutory debt limit. At the end of fiscal year 2005, USPS had no outstanding debt. At this pace, USPS would be constrained at the end of fiscal year 2011 by the $15 billion statutory debt limit.

Rate Increases and Cost-Cutting Efforts are Insufficient to Offset the Impact of Volume Declines

As USPS has reported, it experienced the single largest volume drop in its history in fiscal year 2008 when mail volume fell by 9.5 billion pieces (see app. II). First-Class Mail volume (e.g., correspondence, bills, payments, and statements) declined 4.8 percent, while Standard Mail (primarily advertising) declined 4.3 percent. Volume declines accelerated during fiscal year 2008 (see fig. 1). Preliminary results for the first quarter of fiscal year 2009 indicate that the trend of accelerating volume declines is continuing.

Figure 1: Quarterly Changes in the Volume of First-Class Mail and Standard Mail, Fiscal Years 2005 through 2008



Source: USPS.

Note: Quarterly changes are from the same quarter of the prior fiscal year. First-Class Mail volume does not include International First-Class Mail.

According to USPS, difficulties faced by the hard-hit financial and housing sectors, which are major mail users, contributed to mail volume declines in fiscal year 2008. Advertising mail was adversely affected, particularly credit card, mortgage, and home equity solicitations. Volume declines also came from catalogue retailers, the printing and publishing business, and the services sector. Mail volume in fiscal year 2008 was also affected by the continuing shift of mail to electronic communication and payment alternatives. The accelerating declines in mail volumes resulted in a similar trend for total USPS revenues.

USPS stepped up cost-cutting efforts during fiscal year 2008 but did not cut costs sufficiently to offset the impact of declining mail volumes. USPS has large overhead (institutional) costs that are hard to change in the short term, including providing 6-day delivery and retail services at close to 37,000 post offices and retail facilities across the country. Compensation and benefits for USPS's workforce, which was about 663,000 career employees and nearly 102,000 noncareer employees at the end of fiscal year 2008, generated close to 80 percent of USPS costs. USPS has collective bargaining agreements with its four largest unions that expire in 2010 and 2011. These agreements include layoff protections, as well as work rules that constrain USPS's flexibility. They also include semiannual cost-of-living allowances (COLA) linked to the Consumer Price Index (CPI). In addition, the agreements cover many benefits, such as the employer and employee contributions to health benefits premiums. Under the current collective bargaining agreements, USPS's share of the employee health benefit premiums was 85 percent in fiscal year 2007 and will decrease by 1 percent each year beginning in fiscal year 2008 or 2009 through 2011 or 2012, depending on the terms of the agreements with the unions. USPS's share of the premiums in fiscal year 2007 was about 13 percent more than for most other federal agencies.

USPS's Fiscal Year 2009 Outlook Has Become More Pessimistic

According to USPS officials, USPS's financial outlook has continued to deteriorate based on preliminary results for the first quarter of fiscal year 2009, as well as updated projections for mail volume and revenue. Preliminary first quarter results indicate that USPS incurred a deficit, as expense reductions did not fully offset large declines in volume and revenue. In response, USPS has cut work hour targets for its field operations for the rest of the fiscal year. However, USPS officials told us these targets could be difficult to achieve, and they expect the net loss for fiscal year 2009 to exceed last year's net loss. In light of these results and updated projections, USPS officials told us this month that they expect fiscal year 2009 mail volume to decline by 10 billion to 15 billion pieces.

USPS officials project revenues to fall below the target in USPS's original budget and for debt to increase by $3 billion.

USPS officials said they expect to have sufficient cash reserves to make mandated year-end payments for retiree health benefits and workers' compensation, unless the USPS net loss for fiscal year 2009 exceeds $5 billion. Given difficult and uncertain economic conditions, it will be important for USPS to continue providing Congress and stakeholders with timely and sufficiently detailed information to understand USPS's current financial situation and outlook.

Aggressive USPS Action Is Needed to Preserve USPS's Financial Viability

Various options or actions are available for USPS to remain financially viable in the short and long term. In the short term, USPS has asked Congress to consider its proposal for immediate financial relief. In the long term, aggressive USPS action beyond its current cost-cutting efforts is urgently needed to reduce costs and improve efficiency, particularly in light of accelerated declines in mail volume and changes in the public's use of mail. We agree with the Postal Regulatory Commission (PRC) that unfavorable mail volume and revenue trends may imperil USPS's financial viability and that USPS must dramatically reduce its costs to remain viable.[2]

As the PRC has noted, current pressures from declining revenue and volume do not appear to be abating, but rather seem to be increasing. During the economic downturn, there has been accelerated diversion of business and individual mail, and some mailers have left the market entirely. An economic recovery may not bring a corresponding recovery in mail volume due to continuing social and technological trends that have changed the way that people communicate and use the mail. Specifically:

- First-Class Mail volume has declined in recent years and is expected to decline for the foreseeable future as businesses, nonprofit organizations, governments, and households continue to move their correspondence and transactions to electronic alternatives, such as Internet bill payment, automatic deduction, and direct deposit. USPS analysis has found that electronic diversion is associated with the

[2]PRC, *Report on Universal Postal Service and the Postal Monopoly* (Washington, D.C., Dec. 19, 2008).

growing adoption of broadband technology. As PRC reported, available alternatives to mail eventually result in substitution effects.

- It is unclear whether Standard Mail will continue to grow with an economic recovery. Standard Mail now faces growing competition from electronic alternatives, such as Internet-based search engine marketing, e-mail offers, and advertisements on Web sites. In addition, Standard Mail is price-sensitive, as was demonstrated when catalog advertising declined in response to the 2007 postal rate increase. Although Standard Mail rate increases are limited by the price cap,[3] future rate increases will likely have some impact on volume.

- Periodicals (e.g., mailed newspapers and magazines) volume has been declining due to changing reading preferences and these declines are expected to continue. Overall newspaper readership is falling. Also, the *Christian Science Monitor* and *U.S. News and World Report* recently announced that they would discontinue their printed editions. Businesses and consumers are becoming more likely to obtain news and information from the Internet, a trend that is particularly evident among young people.

Options to Assist USPS through Its Short Term Difficulties

Several options could assist USPS through its short-term difficulties, some of which would require congressional action. Although we recognize the need to provide USPS with immediate financial relief, such relief should meet its short-term needs and is no substitute for aggressive USPS action to preserve its long-term viability. Key options include the following:

- *Reduce USPS payments for retiree health benefits for 8 years.*

  USPS has proposed that Congress give it immediate financial relief by reducing its retiree health benefits payments by an estimated $25 billion from 2009 through 2016.[4] Specifically, USPS has proposed that Congress change the statutory obligation to pay retiree health benefits premiums for current retirees from USPS to the Postal Service Retiree

[3]The Postal Accountability and Enhancement Act of 2006 (PAEA) Pub. L. No. 109-435 (Dec. 20, 2006) established an inflation-based price cap to limit price increases for market-dominant products. The price cap is based on the CPI.

[4]PAEA established the Postal Service Retiree Health Benefits Fund, into which USPS makes annual payments to cover future health insurance premiums for USPS retirees.

Health Benefits Fund (Fund) for the next 8 years.[5] Because the Fund would pay the estimated $25 billion in premium payments over the next 8 years, this would decrease the Fund by approximately $32 billion (including interest charges) as of 2017. With this option, starting in fiscal year 2017, USPS would have a total unfunded retiree health benefits obligation currently estimated at about $75 billion, rather than an estimated $43 billion, that would then need to be amortized in future years. In the long term, the large impact this unfunded obligation would have on the Fund would create the risk that USPS would have difficulty making future payments, particularly considering mail volume trends and the impact of payments on postal rates if mail volume declines continue. USPS's proposal would also shift responsibility for paying the benefits of postal employees from current rate payers to future rate payers. USPS would continue to make annual payments ranging from $5.4 billion to $5.8 billion from fiscal years 2009 through 2016 (as shown in Table 1) for its obligation for future retiree health benefits, as required by PAEA. Thus, under USPS's proposal, it would save $2 billion in fiscal year 2009.

Table 1: USPS Proposal to Revise Funding of Its Retiree Health Benefits Premium Payments

Dollars in billions

Fiscal year	Payment for future retiree health benefits obligation	Payment for current retiree health benefits premiums	Total
2009	$5.4	$2.0	**$7.4**
2010	5.5	2.3	**7.8**
2011	5.5	2.6	**8.1**
2012	5.6	2.9	**8.5**
2013	5.6	3.2	**8.8**
2014	5.7	3.5	**9.2**
2015	5.7	3.9	**9.6**
2016	5.8	4.2	**10.0**
Total	**$44.8**	**$24.6**	**$69.4**

Source: USPS.

Note: USPS has proposed amending the statute so that payments for current retiree health benefit premiums would be paid from the Postal Service Retiree Health Benefits Fund, which would reduce

[5]The Fund had a balance of over $32 billion at the end of fiscal year 2008.

the Fund by a total of $24.6 billion over 8 years. USPS would continue to make the annual statutory payments for future retiree health benefit obligations.

- *Reduce USPS payments for retiree health benefits for 2 years.*

  Another option would be for Congress to provide USPS with 2-year relief for retiree health benefits premium payments, totaling about $4.3 billion, which would be consistent with providing immediate financial relief, while having much less impact on the Fund than USPS's proposal. Specifically, Congress could revise USPS's statutory obligation so that it would not pay for current retiree health benefits for fiscal years 2009 and 2010. USPS has provided information related to its financial situation for fiscal years 2009 and 2010 which projected that its financial condition would improve beginning in 2010. Therefore, we believe that the option to provide 2-year relief totaling $4.3 billion would be preferable to USPS's proposal. Under this short-term option Congress could revisit USPS's financial condition to determine whether further relief is needed and also review what actions USPS has taken to assure its long-term financial viability.

- *Work with unions to modify work rules.*

  One option that would not require congressional action is similar to actions taken by other financially stressed entities, whereby USPS and its unions could agree on ways to achieve additional short-term savings, such as by modifying work rules to facilitate reducing work hours. For example, USPS and the National Association of Letter Carriers recently agreed on a new procedure to expedite the evaluation and adjustment of city delivery carrier routes. According to USPS officials, this new process is aimed at enhancing USPS's ability to respond to declining mail volumes[6] and is expected to make a key contribution to the budgeted savings of $1.3 billion in city delivery costs in fiscal years 2009 and 2010.

Other options are based on provisions in the statute and could include 1) seeking regulatory approval for an exigent rate increase and 2) increasing USPS's annual borrowing limit. USPS could request PRC approval for an

[6]City carrier routes are established based on workload (e.g., mail volumes, number of deliveries, and miles traveled). These routes, which include both office and street operations, are set as close to 8 hours per carrier as possible. As mail volumes have declined, some routes have workloads that frequently require less than 8 hours to complete. The new process will allow USPS to consolidate and/or eliminate routes, so that the remaining routes are as close to 8 hours as possible.

exigent rate increase that would increase rates for market-dominant classes of mail[7] above the statutory price cap.[8] Mailers have voiced strong concern about the potential impact of an exigent rate increase on their businesses. In our view, this option should be a last resort. Such an increase could be self-defeating for USPS in both the short and long term because it could increase incentives for mailers to further reduce their use of the mail.

Congress could also temporarily expand the statutory $3 billion annual limit on increases in USPS debt, which would provide USPS with access to funding if it has difficulty making mandated year-end payments. Raising USPS's annual debt limit could address a cash shortage and would be preferable to an exigent rate increase. However, it is unclear when USPS would repay any added debt, which would move USPS closer to the $15 billion statutory debt limit. In our view, this option should be regarded only as an emergency stopgap measure.

Comprehensive Action Is Needed to Help Keep USPS Financially Viable in the Long-Term

Action is urgently needed to streamline USPS costs in two areas where it has been particularly difficult—the compensation and benefits area, which generates close to 80 percent of its costs, and USPS's mail processing and retail networks. As USPS's mail volumes decline, it does not have sufficient revenue to cover the growing costs of providing service to new residences and businesses, while also maintaining its large network of processing and retail facilities. We have reported for many years that USPS needs to rightsize its workforce and realign its network of mail processing and retail facilities. USPS has made some progress, particularly by reducing its workforce by more than 100,000 employees with no layoffs and by closing some smaller mail processing facilities. Yet, more will need to be done.

USPS has several options for realigning its mail processing operations to eliminate excess capacity and costs, but has taken only limited action. In 2005, we reported that according to USPS officials, declining mail volume,

[7]PAEA defines market-dominant products to include First-Class Mail—single-piece mail (e.g., bill payments and letters) and bulk mail (e.g., bills and advertising); Standard Mail (mainly bulk advertising and direct mail solicitations); Periodicals (mainly magazines and local newspapers); some types of Package Services (i.e., single-piece parcel post, media mail, bound printed matter, and library mail); and single-piece International Mail.

[8]An exigent rate increase is a rate increase for market-dominant products that exceeds the price cap due to extraordinary or exceptional circumstances.

worksharing,[9] and the evolution of mail processing operations from manual to automated equipment led to excess capacity that has impeded efficiency gains.[10] While USPS has terminated operations at 54 Airport Mail Centers in fiscal years 2006 through 2008, it has closed only one of over 400 major mail processing facilities as a result of consolidating its mail processing operations.[11] Another realignment option USPS is considering is outsourcing operations in its network of 21 bulk mail processing centers.[12]

Another option we reported on would be for USPS to close unnecessary retail facilities, and by reducing the number of facilities, USPS could lower the costs of maintaining its network of facilities.[13] USPS's network of retail facilities has been largely static despite population shifts and changes in mailing behavior. In considering options to provide retail services at a lower cost, it is important to note that large retail facilities—generally located in large urban areas—generate much larger costs for the retail network than the smallest rural facilities and may therefore potentially generate more cost savings.

Closing postal facilities is often controversial but is necessary to streamline costs. Congress encouraged USPS to expeditiously move forward in its streamlining efforts in PAEA. We recommended that USPS enhance transparency and strengthen accountability of its realignment efforts to assure stakeholders that realignment would be implemented fairly and achieve the desired results. USPS has taken steps to address our recommendations and thus should be positioned to take action.

[9]Postal worksharing activities generally involve mailers preparing, barcoding, sorting, or transporting mail to qualify for reduced postage rates (i.e., worksharing rates). These rates are reduced based on the costs that USPS is estimated to avoid as a result of mailer worksharing activities.

[10]GAO, *U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability*, GAO-05-261 (Washington, D.C.: Apr. 8, 2005).

[11]GAO, *U.S. Postal Service: USPS Has Taken Steps to Strengthen Network Realignment Planning and Accountability and Improve Communication*, GAO-08-1022T (Washington, D.C.: July 24, 2008).

[12]GAO, *U.S. Postal Service: Data Needed to Assess the Effectiveness of Outsourcing*, GAO-08-787 (Washington, D.C.: July 24, 2008).

[13]GAO, *U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services*, GAO-08-41 (Washington, D.C.: Dec. 10, 2007).

Other long-term options for reducing costs include more fundamental changes that would have public policy implications for Congress to consider—such as potential changes in USPS's universal service from 6 to 5 delivery days per week as discussed in a recent PRC study, and potential changes to USPS's business model, which we will be discussing in a PAEA-required report that will be issued by December 2011. These studies will provide Congress with information about how to address challenges for USPS to meet the changing needs of mailers and the public.

We asked USPS to comment on a draft of our testimony. USPS generally agreed with the accuracy of our statement and provided technical corrections and some additional perspective, which we incorporated where appropriate. USPS reiterated its position regarding the funding of retiree health benefits and the difficulties related to its cost-cutting efforts.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions that you or the Members of the Subcommittee may have.

Contact and Acknowledgments

For further information regarding this statement, please contact Phillip Herr at (202) 512-2834 or herrp@gao.gov. Individuals who made key contributions to this statement include Shirley Abel, Teresa Anderson, Joshua Bartzen, Heather Frevert, David Hooper, Kenneth John, Emily Larson, Susan Ragland, and Crystal Wesco.

Appendix I: USPS Financial Information for Fiscal Years 1972 through 2008

Dollars in millions

Fiscal Year	Net Income (Loss)	Total Revenues	Total Expenses	Outstanding debt
1972	$(175)	$9,354	$9,529	$250
1973	(13)	9,931	9,944	250
1974	(439)	10,875	11,314	765
1975	(989)	11,662	12,650	1,783
1976	(1,176)	12,915	14,090	3,030
1976 TQ[a]	15	3,462	3,446	3,530
1977	(687)	14,842	15,530	2,468
1978	(380)	16,031	16,410	2,405
1979	470	18,174	17,704	1,888
1980	(306)	19,253	19,559	1,841
1981	(588)	20,898	21,486	1,608
1982	802	23,727	22,925	1,536
1983	616	24,790	24,173	1,464
1984	118	26,557	26,440	1,465
1985	(251)	29,016	29,267	2,075
1986	304	31,135	30,830	3,234
1987	(223)	32,505	32,728	4,728
1988	(597)	35,939	36,536	5,880
1989	61	38,920	38,859	6,476
1990	(874)	40,074	40,948	6,971
1991	(1,469)	44,203	45,672	8,440
1992	(536)	47,105	47,641	9,924
1993	(1,765)	47,986	49,751	9,748
1994	(914)	49,576	50,489	8,988
1995	1,770	54,509	52,739	7,280
1996	1,567	56,544	54,977	5,919
1997	1,264	58,331	57,067	5,872
1998	550	60,116	59,566	6,421
1999	363	62,755	62,392	6,917
2000	(199)	64,581	64,780	9,316
2001	(1,680)	65,869	67,549	11,315
2002	(676)	66,688	67,364	11,115
2003	3,868	68,764	64,896	7,273
2004	3,065	69,029	65,964	1,800

Dollars in millions

Fiscal Year	Net income (Loss)	Total Revenues	Total Expenses	Outstanding debt
2005	1,445	69,993	68,548	0
2006	900	72,817	71,917	2,100
2007	(5,142)	74,973	80,115	4,200
2008	(2,806)	74,968	77,774	7,200

Source: GAO analysis of U.S. Postal Service data.

Note: Totals may not add due to rounding.

*TQ represents transition quarter, a period beginning July 1, 1976, and ending September 30, 1976. In a change taking effect October 1, 1976, the U.S. government changed its fiscal year from a period ending June 30 to a period beginning each October 1 and ending the following September 30.

Appendix II: Mail Volume, Fiscal Years 1990 through 2008

Fiscal year	First-Class Mail volume (millions)	First-Class Mail volume: percent change	Standard Mail volume (millions)	Standard Mail volume: percent change	Total domestic volume (millions)	Total international volume (millions)	Total volume (millions)	Total volume: percent change
1990	89,270	4.0%	63,725	1.5%	165,503	798	166,301	2.9%
1991	90,285	1.1	62,430	-2.0	165,058	793	165,851	-0.3
1992	90,781	0.5	62,547	0.2	165,654	789	166,443	0.4
1993	92,169	2.1	65,773	5.2	170,313	907	171,220	2.9
1994	95,333	3.4	69,416	5.5	177,177	862	178,039	4.0
1995	96,296	1.0	71,112	2.4	179,933	801	180,734	1.5
1996	98,216	2.0	71,686	0.8	182,386	1,053	183,439	1.5
1997	99,660	1.5	77,254	7.8	189,881	1,007	190,888	4.1
1998	100,434	0.8	82,508	6.8	195,961	944	196,905	3.2
1999	101,936	1.5	85,662	3.8	200,613	1,031	201,644	2.4
2000	103,526	1.6	90,057	5.1	206,783	1,099	207,882	3.1
2001	103,656	0.1	89,938	-0.1	206,380	1,083	207,463	-0.2
2002	102,379	-1.2	87,231	-3.0	201,918	904	202,822	-2.2
2003	99,059	-3.2	90,492	3.7	201,379	805	202,185	-0.3
2004	97,926	-1.1	95,564	5.8	205,262	844	206,106	1.9
2005	98,071	0.1	100,942	5.6	210,889	852	211,741	2.7
2006	97,475	-0.6	102,460	1.5	212,199	793	212,992	0.6
2007	95,898	-1.6	103,516	1.0	211,401	833	212,234	-0.4
2008	91,280	-4.8	99,084	-4.3	201,869	835	202,703	-4.5

Source: GAO analysis of U.S. Postal Service data.

Questions for the Record

Submitted to John E. Potter
From Senator Thomas R. Carper

"The Impact of the Economic Crisis on the U.S. Postal Service"

January 28, 2009

Q1. I mentioned in my statement the possibility that – even if you achieve all of your cost-cutting goals – your losses could exceed your statutory borrowing limit. What is the likelihood that this will happen? What would the repercussions be?

Answer combined with answer to Question 2.

Q2. What are some of the pros and cons of the options on the table for addressing the Postal -Service projected deficits, such as raising the Postal Service's debt limit or raising rates above the CPI-based rate cap?

From December 2008 through March 2009, all leading economic forecasts for the U.S. economy have significantly worsened and these have been borne out by the January-February mail volumes which have declined from the corresponding 2008 period by over 16%. We have updated our financial projections and these unprecedented declines have led us to the conclusion that we will likely not have sufficient cash and borrowing capacity to meet our obligation through the end of our fiscal year, September 30, 2009. Our current projections show that, after planned additional massive cost reductions, but without significant legislative change, we will generate cash flow deficits of approximately $6 billion per year over the next two years—an unsustainable position.

We continue working to conserve cash and restructure our network to reflect these already realized and the anticipated further volume declines. Last year we reduced costs by over $2 billion, and we have targeted $5.9 billion in potential cost reductions from planned spending in 2009 and an additional $3.8 billion in savings next year. To achieve these savings, we must reduce our labor hours by more than 100 million this fiscal year alone.

Assuming that revenue continues its expected decline and that we can achieve these aggressive 2009 cost savings, we will require almost $2 billion additional cash (after borrowing our annual limit of $3 billion) to meet 2009 obligations. That cash shortfall would be largely addressed by proving retiree health benefit premium relief. Absent a sharp increase in mail volumes in the next few months, the repercussion of this situation is that we will not be able to meet our obligations in the month of September, 2009. The largest such obligations relate to payroll and the scheduled $5.4 billion pre-funding of our post-retirement health benefit trust.

The severe forces impacting the US economy and mail volumes have accelerated the need for significant structural changes within the Postal Service. The projected volume decline over the last 18 months is largely driven by the recession, and to a lesser extent, the continued migration of mail to electronic media. We believe that the Postal Service will experience recovery from the recessionary forces impacting our business

as commerce picks up and GDP, retail sales, capital investment and other leading indicators for the mail turn positive. We expect that the majority of commercial mailers will return to historic volumes of mailing and that new mailers will emerge. Over the next 3-to-5 years, commercial volumes may approach pre-recessionary levels; however, this growth recovery will be somewhat offset by the continued economic diversion of First-Class mail. Accordingly, we require short-term relief from cash outflows over the next few years and should make necessary structural changes now. These structural changes are necessary to help ensure the Postal Service remains strong, continues to support the trillions of dollars of commerce that rely on our services and continues to provide the American Public with the world's most trustworthy, reliable and cost efficient mail services.

Our requests for assistance from Congress in addressing our cash flow deficits have not changed significantly since my January 28, 2009 testimony before the Subcommittee. Yet, the need for accelerated change has become clearer and more acute. We request Congressional assistance in the following two areas:

- First, we seek amendment of provisions of the Postal Accountability and Enhancement Act that pertain to our funding of retiree health benefits premiums. Our proposal would retain the current ten-year payment schedule but would permit the Office of Personnel Management to pay the Postal Service's portion of health benefit premiums for current retirees from the Postal Service Retiree Health Benefits Trust Fund (PSRHBT), which presently has a balance of over $32 billion.

  This would significantly improve our balance sheet and strengthen our business. Importantly, this change would not impair the viability of the fund, it would not reduce the health benefits of retirees, and it would not be a cost to the American taxpayer. The change would save the Postal Service $2 billion dollars this year and additional amounts in later years, making it less likely that we would exceed the borrowing limit and more likely that the Postal Service will be able to maintain current service levels.

- Second, we ask the Congress to pass legislation which will allow the Postal Service to elect to reduce the frequency of mail delivery to homes from six to five days per week. Were we then to take such action under the direction of our Board of Governors, we would make every effort to maximize the benefits while minimizing any disruption to our customers. To prepare for that necessity, we reluctantly request that Congress remove the annual appropriation bill rider, first added in 1983, that requires the Postal Service to deliver mail six days each week.

You asked that I discuss the pros and cons of addressing our projected cash deficits through debt funding or, through raising prices above the rate cap.
We have considered both of these measures and have concluded that neither is a desirable option for the following reasons:

- We do not believe we should build a business plan which relies on borrowing additional money to fund operating losses while volumes are decreasing. Were we to fund operating losses with excessive debt, debt service would threaten our ability to return to financial strength as the economy eventually began to improve. The sole "pro" of such a measure would be that we could meet our obligations in the short-term. The cons include the excess burden this approach would place on our return to financial stability, the likely need to significantly raise postage rates to service the

debt, and the possible downward spiral this situation might cause. Neither do we believe it would be in the best interest of the American Public or the Postal Service to raise overall postal rates above the CPI rate cap. Raising rates above the cap will adversely impact mail volumes and accelerate migration or, possibly, dampen our recovery.

- Second, raising rates above CPI during a recession and while consumer prices are falling would be extremely unpopular and could damage our brand. Last, in various polls conducted over the last few months, the American Public has indicated that they favor other changes (including a change from 6- to 5-day delivery) over higher rates.

Q3. As you know, there was language in the postal reform bill that pretty strictly limited the Postal Service to products related to the processing and delivery of hard-copy mail. The intent was to focus them on what they did best and prevent them from wasting time and resources on activities that the private sector might do better or that might unnecessarily distract them from their main mission. Keeping in mind that the Commission's interpretation of our language is currently being litigated, do you think we were too restrictive? Did what we did in the postal reform bill make it too difficult for the Postal Service to get into legitimate lines of business and to be responsive to the public?

Congress enacted the Postal Act of 2006 in order to provide the Postal Service with product and pricing tools that would provide the flexibility needed to operate successfully in a more dynamic, competitive communications market. I am enthusiastic about the potential of these new product and pricing tools, particularly when the economy recovers, and we are looking at ways to utilize this flexibility.

Regarding the existing law, for the Postal Service to succeed under the model envisioned by Congress through its adoption of the Postal Act of 2006, we need to continue to have freedoms to operate that may need to be expanded based on customer and government needs. However, we believe that the Postal Regulatory Commission overreached in its recent order on nonpostal/products by asserting its jurisdiction over leasing of real property, licensing of intellectual property, philatelic services, and other revenue-generating activity over which it did not previously have jurisdiction and which we believe were not intended to be swept within the scope of the Postal Act's "nonpostal" prohibition. The additional regulatory or Congressional requirements that will be imposed upon us pursuant to the Commission's decision would impair our ability to derive revenue through those sources.

Q4. You and Chairman Blair engaged in a debate during the hearing about transparency and the financial reporting requirements placed on the Postal Service. In postal reform, we required the Postal Service to file quarterly financial reports similar to those files by private firms covered by Sarbanes-Oxley. It was clear from the discussion at the hearing, however, that the Postal Regulatory Commission and perhaps some members of this subcommittee think quarterly reporting is not enough. How can we strike the right balance on this issue?

As was pointed out during the hearing, the Postal Act of 2006 contains financial reporting provisions that allow for increased transparency and accountability. We have filed two Annual Compliance Reports with the Postal Regulatory Commission and have

complied with SEC-type reporting as required by the law. We continue to place a large amount of financial data on our website, *usps.com*, which is accessible by the public. The implementation of Sarbanes-Oxley requirements by September 30, 2010 will also enhance our transparency through additional disclosures on internal controls over financial reporting

Given these unprecedented conditions, we further discussed this issue with our Board and in January 2009, began monthly reporting to the PRC of certain key financial and operating information. Because monthly financial information is not subjected to the rigorous adjustment and review required of quarterly data, we requested that the PRC keep this information confidential. However, the PRC has determined that it should make the monthly reports public information. Accordingly, we have appended an explanatory paragraph to these reports which explains that the information is preliminary and has not been subjected to quarterly reporting procedures. We believe that the PRC is satisfied with the data and frequency of our reporting at this time.

Questions for the Record

Submitted to John E. Potter
From Senator Tom Coburn

"The Impact of the Economic Crisis on the U.S. Postal Service"

January 28, 2009

Q1. Do you have the necessary authority and flexibilities to address the Postal Service's financial crisis now and into the future? If not, what additional abilities do you need?

Senator, the Postal Service does not have the authorities and flexibilities necessary to address either current or future financial crises and to ensure our financial viability through the next few years. On several issues, the Postal Service needs Congressional support to provide the assistance we need to operate efficiently at service levels expected by the American Public.

From December 2008 through March 2009, all leading economic forecasts for the U.S. economy have significantly worsened and these have been borne out by the January-February 2009 mail volumes which have declined from the corresponding 2008 periods by over 16%. We have updated our financial projections and these unprecedented declines have led us to the conclusion that we will likely not have sufficient cash and borrowing capacity to meet our obligation through the end of our fiscal year September 30, 2009. Our current projections show that, after planned additional massive cost reduction efforts, but without significant changes to legislation, we will generate cash flow deficits of approximately $6 billion per year over the next two years—an unsustainable position.

We continue working to conserve cash and restructure our network to reflect these already realized and the anticipated further volume declines. Last year we reduced costs by over $2 billion, and we have targeted $5.9 billion in potential cost reductions from planned spending in 2009 and almost $14 billion in cumulative cost reductions over 2009-2010. To achieve these savings we must reduce our labor hours by more than 100 million this fiscal year alone. Assuming that revenue continues its expected decline and that we can achieve these aggressive 2009 cost savings which are more than double any one-year decrease we have previously effected, we will require almost $2 billion additional cash (after borrowing our annual limit of $3 billion) to meet 2009 obligations. This cash shortfall would be large addressed by providing retiree health benefit premium relief, as we have requested. Absent a sharp increase in mail volumes in the next few months, the repercussion of this situation is that we will not be able to meet our obligations in the month of September, 2009. The largest such obligations relate to payroll and the scheduled $5.4 billion pre-funding of our post-retirement health benefit trust.

The severe forces impacting the US economy and mail volumes have accelerated the need for significant and structural changes within the Postal Service.
The projected volume decline over the last 18 months is largely driven by the recession, and to a lesser extent, the continued migration of mail to electronic media. We believe that the Postal Service will experience recovery from the recessionary forces impacting

our business as commerce picks up and leading indicators for the mail turn positive (GDP, retail sales, capital investment, etc.)
We expect that the majority of commercial mailers will return to historic volumes of mailing and that new mailers will emerge. Over the next 3-to-5 years, commercial volumes may approach pre-recessional levels; however, this growth recovery will be somewhat offset by the continued economic diversion of mail during this same period. Overall mail volumes will likely settle in the next 3-to-5 years at levels lower than pre-recession levels of over 200 billion pieces of mail per year. Accordingly we require short-term relief from cash outflows over the next few years and should make necessary structural changes now. These structural changes are necessary to help ensure the Postal Service remains strong, continues to support the trillions of dollars of commerce that rely on our services and continues to provide the American Public with the world's most trustworthy, reliable and cost efficient mail service.

Our requests for assistance from the Congress in addressing our cash flow deficits have not changed significantly since my January 28, 2009 testimony before the Subcommittee. Yet, the need for accelerated changes has become clearer and more acute. We request Congressional assistance in the following two areas:

- First, we seek amendment of provisions of the Postal Accountability and Enhancement Act that pertain to our funding of retiree health benefits premiums. Our proposal would retain the current ten-year payment schedule but would permit the Office of Personnel Management to pay the Postal Service's portion of health benefit premiums for current retirees from the Postal Service Retiree Health Benefits Trust Fund (PSRHBT), which presently has a balance of over $32 billion.

  This would significantly improve our balance sheet and strengthen our business. Importantly, this change would not impair the viability of the fund, it would not reduce the health benefits of retirees, and it would not be a cost to the American taxpayer. The change would save the Postal Service $2 billion dollars this year and additional amounts in later years, making it less likely that we would exceed the borrowing limit and more likely that the Postal Service will be able to maintain current service levels.

- Second, we ask the Congress to pass legislation which will allow the Postal Service to elect to reduce the frequency of mail delivery to homes from six to five days per week. Were we then to take such action, under the direction of our Board of Governors, we would make every effort to maximize the benefits to while minimizing any disruption to our customers. To prepare for that necessity, we reluctantly request that Congress remove the annual appropriation bill rider, first added in 1983, that requires the Postal Service to deliver mail six days each week.

While I limit my request to the foregoing two specific items, there is a long list of issues on which we could also use Congressional support to strengthen our situation. A package of changes including the items discussed below is needed to allow us to execute our plan to return to a solid financial position, and profitable or breakeven operations.

- As was discussed in the January hearing, sometimes, the Postal Service encounters political interference when it sets out to make operational changes. While those proposed operational changes could yield economic efficiencies, they have been blocked by Members of Congress who have sought to limit the Postal Service from

making any operational changes in their districts, even though the changes would not reduce current service levels. We would appreciate your assistance in galvanizing the Congress behind a national plan to ensure the financial viability of the Postal Service.

- While we are committed to the principles of collective bargaining and to our contracts, we will require changes to ensure the long-term financial health of the Postal Service. Confronted with unprecedented volume declines it would be prudent for the Postal Service to negotiate work rule terms with our unions, which the law allows, and it is our intent to do so. However, we cannot negotiate over all employee benefits. The law would need to be amended to allow bargaining over all benefits.

- We also need Congressional support in the interpretation of postal and non-postal services, as defined by the PAEA. We disagree with the Postal Regulatory Commission's ruling on this issue and its assertion that it now has jurisdiction over the leasing of real property, the licensing of intellectual property, philatelic services, and other revenue generating activity over which, previously, it did not. The Postal Services requires the right to manage its own real and intellectual property. The Postal Service also needs the freedom to create new products that will provide additional sources of revenue and meet changing customer and government needs.

Q2. The Postal Service lacks a viable business plan. When do you expect that you will be able to develop a business plan that will sustain the financial future of the Postal Service?

The Postal Service constantly engages in both short-term and long-term planning to ensure continued responsiveness to our customers and to actual financial and economic conditions. Annually, the Postal Service develops an Integrated Financial Plan (IFP) that guides the management of the business. The IFP is the annual budget and financing plan for the Postal Service's operations, human resources, capital investment, and cash management decisions. The IFP is updated with a monthly forecast that reflects operations year- to-date and incorporates known changes in operating and economic conditions. Quarterly, the Postal Service prepares long-term financial forecasts that identify business trends and cost drivers and, thereby, provide a sound basis for management decision-making. We presented our plan update to our Board on March 12, 2009. As discussed above, the plan shows cumulative cost reductions over the next 2 years totaling almost $14 billion. Additionally, the plan indicates that we will need help from Congress in the short-term to achieve a restructuring of our operations. The plan shows that the Postal Service will return to financial stability through the combination of: 1) cumulative 2-year cumulative internal cost cutting of almost $14 billion; 2) relief from pre-funding retiree health benefits totaling at least $2 billion per year; 3) a change to mail delivery from 6- to 5-day delivery; and 4) other significant measures outlined above and/or listed below. We request an opportunity to discuss this plan with your staff at your earliest convenience.

Some of the other actions we have reflected in our current plan are:

✓ Halting the construction of new postal facilities in 2008.

✓ A USPS-wide hiring freeze

- ✓ Implementing a new process for evaluating and adjusting delivery routes, resulting in a quickly implemented one-time adjustment to reflect workload loss.
- ✓ Freezing the salaries of all Postal Service officers and executives at 2008 pay levels.
- ✓ Reducing the authorized staffing complement at national headquarters by 15 percent and, at all nine Area offices by 19 percent.

Nevertheless, we are keenly aware that cost-cutting measures and CPI-U based price increases are not enough to sustain the Postal Service in the longer-term. Under any CPI price-capped business model, growth is necessary for long-term viability. To achieve growth, we have begun to implement the new pricing tools made possible by the PAEA and have taken several major steps to build our business. These actions have included expanded use of our pricing flexibility evidenced in our recent proposal for the 2009 Market Dominant price changes. Also, the Mailing and Shipping services division has developed a revenue growth plan and already has:

- Created new, discounted list prices for commercial users of Express Mail and Priority Mail that encourage volume retention and growth and attract new customers.
- Implemented a major restructuring of our international services in 2008 that streamlined our offerings and closely aligned them with their domestic counterparts.

We also are making our products more accessible and convenient to use. We are beginning a major redesign of our website, *usps.com* that will position it as a more valuable growth channel and make it easier than ever for customers to take advantage of our services online.

While we are doing the right things today with the tools we have at our disposal, we need your support to provide the additional business management tools and flexibility we require to better address the needs of our business and ensure our long-term viability.

Q3. During the Postal reform debate there was language removed from the *Postal Accountability and Enhancement Act* that would have allowed the financial health of the Postal Service to be a factor when negotiating labor contracts. Do you think arbitration should include this factor?

Yes. Traditionally, employee compensation and benefit costs account for approximately 80% of postal costs annually. With one of the largest work forces in the world, it seems only appropriate that the financial health of the Postal Service be taken into consideration during management and labor decisions that have a financial consequence.

Q4. Does the Postal Service plan to file an "exigent" rate case in the next two years?

For this year, the Postal Service has already initiated its annual rate increases for market dominant products under the current price cap. Those increases are scheduled to take effect in May 2009.

While an exigent price change request could be used to address these challenges, the Postal Service prefers employing the options I have outlined above. We believe an across-the-board exigent pricing change may result in volume losses and loss of customer goodwill. Nonetheless, we will continue to evaluate the need for an exigent pricing change but will make a decision on this only after we are better able to predict the outcome of other measures.

Q5. A 2007 USPS IG report concluded the Postal Service's FEGLI and FEHB programs for bargaining and non-bargaining employees where comparable to the six federal and five quasi-federal agencies that they compared. However, the Postal Service's contribution rates for both programs were significantly higher compared to most agencies. How much money would the Postal Service save if it lowered its health insurance contribution for all employees, both bargaining and non-bargaining, to 72 percent? How much money would the Postal Service save if it lowered its life insurance contribution for all employees, both bargaining and non-bargaining from 100 percent to 33 percent, the average Federal contribution rate for Federal employees?

If the Postal Service could lower its health insurance contribution for all employees, both bargaining and non-bargaining, to 72 percent, the savings would be approximately $525 million annually.

If the Postal Service could lower its life insurance contribution for all employees, both bargaining and non-bargaining, from the current 100 percent to 33 percent (which is the average contribution rate for all other Federal employees), the savings would be approximately $135 million annually.

Q6. During the last labor contract negotiations, did you propose to decrease the Postal Service's health benefit contribution from the current rate of 85 to 88.5 percent down to the average Federal contribution for Federal employees of 72 to 75 percent?

While we proposed such a change, getting our four major labor unions to agree to increase the contribution rate for employees by about 13 percent over four years was not a very likely scenario. As an alternative, we worked with our unions using collective bargaining to reach an agreement that increases the employee contribution by one percent during each year of the current contracts and in turn reduces the employer contribution by one percent. The annual reduction of one percent in the employer contribution is effective for four years through 2011 for the American Postal Workers Union (APWU) and National Rural Letter Carriers' Association (NRLCA) and for five years through 2012 for the National Association of Letter Carriers (NALC) and National Postal Mail Handlers Union (NPMHU).

Thus, over the length of the contracts, the Postal Service employer contributions will decrease by four to five percent, as the employee contributions increase by the same amount. Our plan is to continue the effort to reduce the employer contribution even further by building it into future collective bargaining agreements.

Q7. How much money is the Postal Service saving in health insurance costs with recent collective bargaining contracts, which reduced contribution by the Postal Service by one percent annually for the life of the contracts?

As previously stated, the new collective-bargaining agreements reached with our four largest unions in 2007, included a new formula for the funding of health care benefits for current employees that increases their contribution by one percent during each year of the contract, and in turn decreasing by one percent the employer contributions paid by the Postal Service. As a result of this change, the Postal Service saved $26 million in 2008. For 2009, we expect to save approximately $105 million. Over the life of the contracts, the total savings for bargaining unit employees are estimated to be $665 million.

Q8. How many mail processing plants have you closed since you began your business transformation plan? How much money have you saved from closing these mail processing plants?

It is difficult to cite a specific transformation business plan time period because the Postal Service continually adjusts its network to meet operational needs.
The network plan, however, that the Postal Service provided to Congress on June 19, 2008 is an appropriate starting point as it contains information regarding how the Postal Service planned to adapt its network in accordance with the establishment of modern service standards and how the Postal Service intended to rationalize its transportation and distribution networks.

The Postal Service Network Plan contains three integrated core elements: (1) closing redundant postal Airport Mail Centers (AMCs); (2) using our recently enhanced Area Mail Processing (AMP) guidelines to review our mail processing network as a whole and identify which operations can be consolidated into other plants; and, (3) transforming our Bulk Mail Center (BMC) network.

Since 2006, we have successfully closed 61 AMCs and expect to close 8 additional AMCs in 2009. Estimated savings of $200 million from the entire AMC closure program is expected. The AMC closings were justified because they were primarily single function operations located on airport property that occupied expensive floor space well in excess of our operational needs.

The postal strategy regarding mail processing plants is to consolidate operations rather than to close facilities entirely. Thus, the Postal Service operates approximately 400 mail processing plants, each of which serves multiple essential functions that are best carried out at specific plant locations. In some instances, these processing plants house administrative personnel, such as our Inspection Service and Inspector General; others operate carrier delivery and retail service functions. To achieve still greater efficiencies, we may make alterations to our mail processing operation within these facilities. But we close a building only when we determine that carrier delivery, retail service, or other administrative functions need not continue at that location. In recent years, we have used the AMP process to eliminate some and combine some other mail processing operations at ten different locations and closed one facility altogether.

The area mail processing procedures that we have initiated in 2008, include the consolidation of originating operations at the St. Petersburg, FL, mail processing plant into the Tampa, FL, plant located about 20 miles away. An annual expected savings of $4.7 million is projected to result from this transfer of operations. Other Area Mail Processing facility consolidations approved in fiscal year 2009 include Kansas City, KS

which is a complete closure, and Canton, OH. Nineteen AMP feasibility studies are in-progress so far in FY 2009.

As part of our Network Plan, we are also working to transform our BMCs to ensure they remain responsive to evolving customer needs. Over time, the mail entry patterns of postal customers have changed significantly with more mail being deposited at destination and bypassing BMC processing. This has reduced volume at the BMCs. We are currently evaluating different design concepts for this network, which we anticipate will yield substantial dollar savings.

Overall, we are committed to making our mail processing and transportation network more efficient, economical, and environmentally sound. As these efforts progress, we will follow our well-established processes for keeping external stakeholders and local communities informed, and for providing opportunities for public input. We will also continue to work closely with our employee unions and association, as well as our customers and suppliers, so that we may carefully balance all of their needs with the serious financial realities that face the Postal Service.

Questions for the Record
Senator Tom Coburn
January 28, 2009

Dan Blair, Chairman, Postal Regulatory Commission

- *In your testimony you discuss the President's Commission on the United States Postal Service as supporting the current law of prefunding the retiree health benefit liability*
    - *Do you think that the proposed legislation being discussed, which would allow the Postal Service to take money from the Postal Retiree Health Benefits Trust Fund, would do exactly what the commission feared... "making future ratepayers forced to pay for postal services delivered today?"*

- *In your testimony you discuss several cost saving options the Postal Service could consider. In your opinion, which option(s) are most viable?*

Blair response: I continue to believe that a temporary adjustment to the Service's health benefit payment schedule appears to be the most pragmatic approach for the short term, given the available alternatives. However, Congress should consider carefully the impact of allowing the Postal Service early access to the Retiree Health Benefits Fund to meet current needs ***without*** a plan for ensuring the sustainability of the fund to address the long-term health benefit liabilities. A basic fact is that ultimately, over time, the Fund must be made whole.

The Commission recommends that Congress require the Postal Service to provide Congress, the Commission, and the GAO with a comprehensive, forward-looking financial plan. Such a plan should provide more detail than the current strategic plan on how the Service intends to regain long-term financial stability in light of the real possibility of continually declining mail volumes.

Post-Hearing Questions for the Record
Submitted to Dan G. Blair
From Senator Thomas R. Carper
"The Impact of the Economic Crisis on the U.S. Postal Service"
January 28, 2009

1. *As you know, there was language in the postal reform bill that pretty strictly limited the Postal Service to products related to the processing and delivery of hard-copy mail. The intent was to focus them on what they did best and prevent them from wasting time and resources on activities that the private sector might do better or that might unnecessarily distract them from their main mission. Keeping in mind that the Commission's interpretation of our language is currently being litigated, do you think we were too restrictive? Did what we did in the postal reform bill make it too difficult for the Postal Service to get into legitimate lines of business and to be responsive to the public?*

   Blair response: After long consideration, Congress enacted legislation that, among other things, was designed to restrict the Postal Service to selling "postal products" with some grandfathered exceptions. That law has only been in place two years. To date, there has not been sufficient evidence presented that the Service would be meaningfully better off financially if it were allowed to explore non-postal businesses. I believe, however, that it is simply too early to assess whether or not Congressional policy was overly restrictive.

2. *You and General Potter engaged in a debate during the hearing about transparency and the financial reporting requirements placed on the Postal Service. In postal reform, we required the Postal Service to file quarterly financial reports similar to those files by private firms covered by Sarbanes-Oxley. It was clear from the discussion at the hearing, however, that you and perhaps some members of this subcommittee think quarterly reporting is not enough. How can we strike the right balance on this issue?*

   Blair response: We have been talking to the USPS Board of Governors (BOG) on this subject since the middle of November, 2008. I am pleased to report that the Commission and the Postal Service have reached an agreement on the methods of reporting financial and operating results on a monthly basis and have also reached an agreement on the filing of the Postal Service's operating and financing plans for the year.

   On February 27, 2009 the Postal Service publically filed with the Commission their Integrated Financial Plans for FY 2008 and FY 2009. The Integrated Financial Plans detail the operating budget for the fiscal year, including the economic assumptions used to develop the budgeted data. Also included are the Capital Investment budget and the fiscal year's financing plan for operations and capital investment. These documents are required to be filed with the Commission as per the Commission's Data Reporting rules but were not because the Postal

Service, at the time, felt that these documents were confidential to the operations of their business. These budget documents, as per our agreement with the BOG will now be filed with the Commission on a timely basis.

Additionally, on March 3, 2009 the Postal Service filed with the Commission the first monthly financial statement for January, 2009. This document was originally developed by the Commission's technical staff and presented to the Postal Service as a blueprint for monthly reporting of financial results. After consultation between the Commissioners and the BOG, and further discussions between the Commission staff and the USPS, the final monthly report format was agreed upon and the Postal Service will now file these monthly reports for posting on the Commission's web site. The monthly reports contain basic income statement information and compare the current month with their operating plan and with the same period last year and also report the same information on a year-to-date basis. In addition to an income statement the report also presents volume information by class, a breakdown of expenses by category, and also a report on total workhours used. While we recognize that the information provided in the monthly statements is not audited and can be subject to revision, we feel it will provide stakeholders a clearer and more recent picture of the USPS financial status.

We are currently negotiating additional reporting requirements on some of the backup account data for the monthly statements. This data, included in the Postal Services monthly Trial Balance and Revenue and Expense Summaries, was routinely provided to the Commission until September, 2008. The reason for the break in filing this data with the Commission, which is required by the Commission's rules, was that the information in the reports was too detailed for the casual observer and that the Postal Service was concerned about the misuse and misinterpretation of the accounting information. While the Postal Service has offered to continue to file this data, they would only do so if the information was provided under the Commission's rules of confidentiality. However, until September, 2008, these reports were filed with the Commission in the open and were posted on the Commission's web site whenever they were filed. The current negotiations are centered on when these reports can be published publically.

Enclosure

Responses to Post-Hearing Questions for the Record
The Impact of the Economic Crisis on the U.S. Postal Service
January 28, 2009 Hearing
Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

Questions for Phillip Herr, Director
Physical Infrastructure Issues
U.S. Government Accountability Office

Questions for the Record Submitted by Dr. Coburn

1. How important is it for the Postal Service to be given additional authority to address its labor costs?

We believe the Postal Service has sufficient authority to address its labor costs, but progress to reduce compensation and benefit costs will require coordination and cooperation with postal employee unions. We discussed in our January 28 testimony an area the Service could pursue without congressional action is to work with its unions to modify work rules and thereby facilitate reducing work hours and costs. As we mentioned, the Service recently reached agreement with the National Association of Letter Carriers to expedite the evaluation and adjustment of city delivery carrier routes. Another area where the Postal Service could work with its unions is related to compensation and benefits, which generated close to 80 percent of the Service's costs in fiscal year 2008. More than 85 percent of career postal employees are covered by collective bargaining agreements. Because postal unions have the right to negotiate wages, benefits, hours, and workplace conditions, the Service must negotiate changes in these areas through collective bargaining. Also, the Service must by law consult with management organizations, which represent most of the postal employees not covered by collective bargaining agreements, including postmasters and postal supervisors.[1] As we testified in 2003, the Service's ability to control costs in this area will be critical to achieving a more efficient organization.[2]

According to a 2007 report by the U.S. Postal Service Office of Inspector General, the Postal Service's contributions for its employees' life insurance and health benefits were significantly higher than most federal agencies. Accordingly, lowering the Service's contribution rates for these benefits could result in significant savings.[3] For example, while most other federal agencies pay 33 percent, the Postal Service pays

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[1] 39 U.S.C. §1004.
[2] GAO, *U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation*, GAO-04-108T (Washington, D.C.: Nov. 5, 2003).
[3] United States Postal Service Office of Inspector General, *Audit Report: Postal Service's Employee Benefit Programs*, Report Number HM-AR-07-003 (Arlington, VA: Sept. 24, 2007).

the full cost of almost all employees' life insurance premiums. In addition, the Service pays 100 percent of the life insurance and health benefits premiums for its executives. Although most other federal agencies paid 72 percent of their employees' health benefits, the Service's contribution was 85 percent for employees covered by collective bargaining agreements. As a result of the most recent collective bargaining negotiations completed in 2007, the Service's contribution rates for these employees' health benefits is being reduced by 1 percent each year beginning in 2008 or 2009 through 2011 or 2012, depending on the terms of the current collective bargaining agreements.

2. Do you believe the Postal Service can remain financially viable under its current way of doing business?

The Service's current and future financial viability depends largely on how it responds to the recent accelerated declines in mail volumes. Traditionally, the Service achieved self-financing based on the growth in mail volume and revenue to help cover its major costs, particularly wage and benefits. However, mail volume peaked at 213 billion pieces in fiscal year 2006, dropped to 203 billion pieces in fiscal year 2008, and the Service expects it to drop 12 to 15 billion pieces in fiscal year 2009, which would be the largest drop in its history. The Service's financial report for the first quarter of fiscal year 2009 stated that retail sales, employment, and investment spending are all significant indicators of mail demand. It anticipated a small economic rebound in fiscal year 2010, but little, if any volume growth, so that any revenue growth is expected to be primarily due to the May 2009 price increases.

The Service's greatest challenge is whether it can cut costs at the same pace as revenues are declining. The Service also reported in its first quarter report that if current revenue and volume trends continue and without the most aggressive cost reduction efforts in its history, it could experience a net loss of approximately $6 billion or more this fiscal year. As we stated in our January 28 testimony, the Service needs to move beyond incremental cost-cutting efforts and take aggressive actions to streamline its workforce and network costs (retail and mail processing networks), to assure its long-term viability.

3. Given the financial crisis facing the Postal Service, why didn't GAO include the Postal Service on its 2009 High-Risk list? Do you plan to include them in the near future? If not, why?

We considered whether the Postal Service's financial condition should be added to the High-Risk List that GAO released in January 2009, but we did not have information from the Postal Service that would support such a designation at that time. As we noted in our High Risk report, we are continuing to monitor the Postal Service's deteriorating financial condition.[4] Based on Postal Service information provided to us in December 2008, the Service was projecting a mail volume decline of 8 billion pieces in fiscal year 2009 and a smaller decline of just over 1 billion pieces in fiscal year 2010. The Service was also projecting revenue to increase over fiscal year

[4] GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

2008 levels in both fiscal years 2009 and 2010. In addition, net income for fiscal year 2009 was projected to be $3 billion, which would decrease to $1.5 billion in fiscal year 2010. Outstanding debt was projected to increase by $3 billion for fiscal year 2009 but by only $200 million in fiscal year 2010. Based on this information, it appeared that the Postal Service would face a difficult year in fiscal year 2009, but could start to recover in fiscal year 2010. The Postal Service's financial report for the first quarter of fiscal year 2009 released on February 9, 2009, significantly downgraded these projections as detailed above. We are closely monitoring the Postal Service's financial condition and will add it to the list at any time we consider to be appropriate. We will also work with the Subcommittee as needed to update trend data in the Postal Service's financial condition and changes in mail volume.