

GAO

Testimony
Before the Senate Committee on
Governmental Affairs

For Release on Delivery
Expected at 2:00 p.m. EST
Wednesday, November 5, 2003

U.S. POSTAL SERVICE

**Bold Action Needed to
Continue Progress on Postal
Transformation**

Statement of David M. Walker,
Comptroller General of the United States





Highlights of [GAO-04-108T](#), a testimony before the Senate Committee on Governmental Affairs

Why GAO Did This Study

Last year the President established a commission to examine the future of the U.S. Postal Service (the Service). Its report, issued in July 2003, contained a proposed vision for the Service and recommendations to ensure the viability of postal services. GAO was asked to discuss (1) its perspective on the commission's report and (2) suggestions for next steps. This testimony is based on GAO's analysis of the Commission's report and prior GAO reports and testimonies.

What GAO Recommends

GAO believes that Congress should consider the Commission's recommendations and enact comprehensive postal reform legislation that would clarify the Service's mission and role; enhance governance, accountability, oversight, and transparency; improve regulation of postal rates; and make human capital reforms.

GAO also recommends that the Postmaster General develop a comprehensive plan to optimize its infrastructure and workforce, in collaboration with its key stakeholders, and make it publicly available. In addition, the Postmaster General should provide periodic updates to Congress and the public on the status of implementing its transformation initiatives and other Commission recommendations that fall within the scope of its existing authority. Postal officials have agreed to take these actions.

www.gao.gov/cgi-bin/getrpt?GAO-04-108T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Bernard L. Ungar at (202) 512-2834 or ungarb@gao.gov.

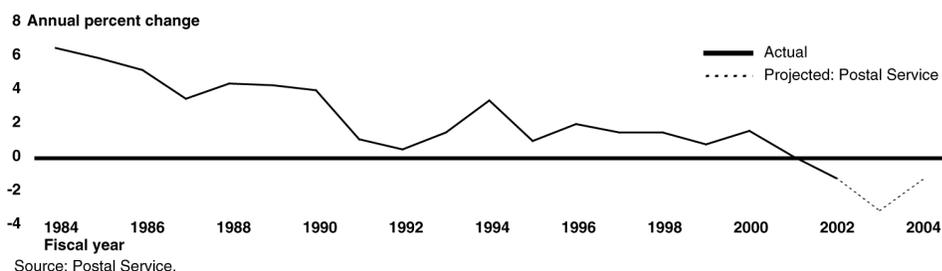
U.S. POSTAL SERVICE

Bold Action Needed to Continue Progress on Postal Transformation

What GAO Found

The Commission found that the Service faces a bleak fiscal outlook. The Service has an outdated and inflexible business model amid a rapidly changing postal landscape. First-Class Mail appears to be on the brink of long-term decline as Americans take advantage of cheaper electronic alternatives. Thus, universal postal service is at risk. These findings are similar to our past work and point to the need for fundamental reforms to minimize the risk of a significant taxpayer bailout or dramatic postal rate increases. The Commission made recommendations to Congress and the Service aimed at achieving such reforms, which GAO believes merit consideration.

First Class Mail Volume Growth from Fiscal Years 1984-2004



GAO agrees with the Commission that now is the time to modernize the nation's postal laws rather than waiting until a financial crisis occurs that limits congressional options. Key aspects of the Service's existing legislative framework that need to be addressed are 1) a broadly defined mission that enables the Service to engage in unprofitable and controversial endeavors, 2) a governance structure that does not ensure governing board members who have the requisite knowledge and skills, 3) the need for additional accountability, oversight, and transparency provisions; 4) a lengthy, burdensome rate-setting process, and 5) provisions that hinder the Service in rationalizing its infrastructure and workforce.

GAO also agrees with the Commission that the Service can take steps now to modernize and increase efficiency and effectiveness, improve its financial position, and rationalize its infrastructure and workforce. The Service has begun to implement its Transformation Plan initiatives, cut its costs and the size of its workforce, and improve its efficiency. However, since the Service issued its Transformation Plan in April 2002, it has not provided adequate transparency on its overall plans to rationalize its infrastructure and workforce; the status of initiatives included in its Transformation Plan; and how it plans to integrate the strategies, timing, and funding necessary to move toward becoming a high-performing organization. The Service's vision of rightsizing its infrastructure and workforce is achievable if approached in a comprehensive, integrated fashion, with appropriate communication and coordination with postal stakeholders.

Chairman Collins and Members of the Committee:

I am pleased to be here today to participate in this hearing on the report of the President's Commission on the United States Postal Service (the Commission).¹ Recently, the U.S. Postal Service (the Service) has gained some financial breathing room because recently enacted legislation has reduced the Service's payments for its pension obligations. The Service has estimated that its net income in fiscal year 2003 will be over \$4 billion, of which about \$3 billion was the result of recent legislation. However, the Service's long-term financial challenges remain, and, accordingly, the Service's long-term outlook and transformation efforts remain on our High-Risk List. Since we placed the Service on our High-Risk List in April 2001, the Service has developed its 2002 Transformation Plan, cut various costs, and improved its productivity. However, these incremental steps cannot resolve the fundamental and systemic issues associated with the Service's current business model.

We have called for actions to address the Service's financial situation and long-term outlook, including overhauling its existing business model. We previously suggested that a commission could be established to study postal issues and make recommendations, and like you, were pleased that the President established the Commission to propose a vision for the future of the Service and recommendations to ensure the viability of postal services. As we testified before the Commission, fundamental changes will need to be made to the Service's business model, and the legal and regulatory framework that supports it, to provide for the Service's long-term financial viability. The Commission proposed far-reaching changes in each of these areas. The vision for the Service set forth in the Commission's report, combined with its comprehensive recommendations, has the potential to fundamentally affect the nature of postal services, their cost, and how they are provided to the American people.

In my testimony today, I will discuss our perspective on the Commission's report and offer suggestions on steps that Congress and the Service need to take for continued progress on postal transformation. My testimony today is based on our analysis of the Commission's report, discussions

¹President's Commission on the United States Postal Service, *Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service*, (Washington, D.C.: July 31, 2003).

with postal stakeholders, prior GAO reports and testimonies on postal transformation issues, and our continuing work in this area.²

Summary

Overall, the Commission's report provides a valuable contribution to assist Congress, the Service, the executive branch, and stakeholders in considering the actions needed to transform the Postal Service to a more high-performing, results-oriented, transparent, and accountable organization. The Commission found that the Postal Service's current business model has not produced the desired results because it has led to poor financial results, difficulty in funding capital needs, lack of incentives for good financial performance, and lack of efficiency. The Commission offered constructive suggestions, some of which require legislative change, and some that can be implemented under the existing statutory framework.

The Commission's recommendations echo many of our prior reports and address concerns that we have previously raised. We agree with the Commission that an incremental approach to Postal Service reform will yield too little too late given the enterprise's bleak fiscal outlook, the magnitude of its financial obligations, the likelihood of declining First-Class Mail volumes, and the limited potential of the Service's legacy postal network. All options for statutory and discretionary change need to be on the table for discussion, including the Commission's findings and recommendations, as well as suggestions from GAO and other stakeholders. Some of the Commission's recommendations, such as those related to rate setting, oversight, and collective bargaining, involve complex and controversial issues that may require further consideration and refinement. Nevertheless, the time has come for Congress to enact comprehensive postal reform legislation that would clarify the Service's mission and role; enhance governance, accountability, oversight, and transparency; improve regulation of postal rates; and make human capital reforms.

In addition to statutory reform, we agree with the Commission that the Service has many opportunities to become more efficient, notably by

²See U.S. General Accounting Office, *U.S. Postal Service: Key Postal Transformation Issues*, [GAO-03-812T](#) (Washington, D.C.: May 29, 2003); *Major Management Challenges and Program Risks: U.S. Postal Service*, [GAO-03-118](#) (Washington, D.C.: Jan. 2003); and *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation*, [GAO-02-355](#) (Washington, D.C.: Feb. 28, 2002).

standardizing its operations and reducing excess capacity in its network. This vision is achievable if approached in a comprehensive, integrated fashion, and supported by postal stakeholders. The impending retirement of much of the Service's workforce provides an opportunity to rightsize the organization with minimal disruption. However, the Service has not provided adequate transparency on its plans to rationalize its infrastructure and workforce, as well as on the status of initiatives included in its Transformation Plan. More constructive engagement on its efforts to rationalize its infrastructure and workforce is needed with the Service's employee organizations, the mailing industry, affected communities, and Congress. To facilitate the Service's progress in implementing actions under the existing system, we recommend that the Postmaster General develop a comprehensive and integrated plan to optimize its infrastructure and workforce, in collaboration with its key stakeholders, and make it available to Congress and the general public. In addition, the Postmaster General should provide periodic updates to Congress and the public on the status of implementing its transformation initiatives and other Commission recommendations that fall within the scope of its existing authority. In discussing our recommendations with postal officials, they agreed to take these actions.

We also share the Commission's concerns about the Service's funding of its \$92 billion in liabilities and obligations, which include about \$48 billion in unfunded retiree health benefits, about \$6.5 billion for unfunded workers' compensation benefits, and about \$5.8 billion for unfunded Civil Service Retirement System (CSRS) pension obligations. Although recent legislation has addressed how the Service will cover its CSRS pension obligations over 40 years, the Service continues to make minimum payments for the other obligations, which are currently financed on a pay-as-you go basis. Based on known demographic trends, the Service's share of its retirees' health insurance premiums is expected to continue rising until about 2040. Under the Service's existing accounting and rate-setting methods, more significant and frequent rate hikes are likely to be needed for future ratepayers to cover the costs of benefits that are being earned by current employees. We recognize that building accrual-based measures of retiree health costs into the current rate base may be difficult considering the pressure to defer rate increases. However, in our view, it would be more prudent to address the unfunded obligations in a manner that is fair and balanced for both current and future ratepayers. The Postal Service has provided Congress with proposals for funding retiree health benefit obligations, which we will address in our forthcoming report in this area.

The Commission's Report Made Valuable Contributions

Overall, the Commission's report provides a valuable contribution to assist Congress, the Service, the executive branch, and stakeholders in considering the actions needed to transform the Postal Service into a more high-performing, results-oriented, and accountable organization. Tomorrow, we plan to hold a forum at GAO with Postmaster General Jack Potter and other national leaders and experts to discuss ways in which Congress and the executive branch can foster federal agencies' and their networks' efforts to become high-performing organizations.

We are pleased that the Commission's report facilitated consideration and debate by presenting the issues in a way that can be understood by a general audience, and we commend the Commission for the open and transparent process used to engage stakeholders in developing its report. We also share the report's emphasis on a customer-oriented Postal Service that can continue to meet the nation's vital need for universal postal service. Citizens and businesses depend on the Service to provide affordable postal services that are essential for communications and commerce on a universal basis.

The Commission's report also made an important contribution by addressing difficult infrastructure and human capital issues. We agree with the Commission that transforming the Service will require a fundamental reexamination and realignment in both of these areas, which collectively account for most of the Service's costs and are the linchpin to delivering high-quality service. As the Commission noted, the nation's communications, technology, and delivery markets have seen vast changes since the Postal Service was created by the Postal Reorganization Act of 1970. New types of electronic communications include the use of e-mail, wireless technology, and electronic bill payment services. These changes appear to have placed First-Class Mail volume in the early stages of what may be a long-term decline.

In this new environment, unless the Service's operating expenses can be reduced correspondingly, with a rightsizing of both its infrastructure and workforce, it is questionable whether affordable universal mail service can be sustained over the long term with a self-financing public institution. Further, it takes time for an organization as large and complex as the Service to make fundamental changes, particularly when some of these may hinge on congressional action. Fortunately, the Commission and others, including the Service, have identified numerous changes, many of them possible within existing law, which can reduce the Service's

operating costs while maintaining and enhancing the quality and value of postal services.

With respect to human capital issues, the Commission has recognized that management reform and improvements in managing the Service's employees will be vital to comprehensive postal transformation. We applaud the Commission's efforts to develop new approaches in these areas. While postal stakeholders may differ over the Commission's recommendations, we share the Commission's view that the status quo is not a viable option. All options for statutory and discretionary change need to be on the table for discussion. If the Service and its employee unions do not believe that some of the Commission's workforce recommendations are viable, we believe that alternative solutions, or a package approach, to the workforce issues raised by the Commission and us in our previous work need to be explored.

The Need for Comprehensive Postal Reform Legislation

The Commission recognized that comprehensive reform to the nation's postal laws is needed so that the Service can successfully meet the formidable challenges it faces and continue to provide affordable and high-quality universal postal services. The Commission reported that "it is the Commission's emphatic view that an incremental approach to Postal Service reform will yield too little too late given the enterprise's bleak fiscal outlook, the depth of current debt and unfunded obligations, the downward trend in First-Class Mail volumes and the limited potential of its legacy postal network that was built for a bygone era." We agree. Our prior reports and testimonies have concluded that comprehensive postal reform legislation is needed and have provided information on key issues to be considered.³ The Commission's findings are generally consistent with our past work, and its recommendations address postal reform issues in a comprehensive manner. Now that the Commission has finished its work, the time has come for Congress to act.

The Commission's recommendations represent a thoughtful package that would preserve the historic values of universal postal service; make important statutory changes in many key areas, including governance,

³GAO-03-812T; GAO-02-355; U.S. General Accounting Office, *U.S. Postal Service: Moving Forward on Financial and Transformation Challenges*, GAO-02-694T (Washington, D.C.: May 13, 2002); *U.S. Postal Service: Financial Outlook and Transformation Challenges*, GAO-01-733T (Washington, D.C.: May 15, 2001); and *U.S. Postal Service: Transformation Challenges Present Significant Risks*, GAO-01-598T (Washington, D.C.: Apr. 4, 2001).

oversight, and human capital; and create a mechanism for making further changes over time. In our view, the Postal Service's current financial breathing room gives Congress an opportunity to carefully consider postal transformation issues and "get it right" when making fundamental decisions about rechartering the nation's postal system for the 21st century.

Consistent with the need for Congress to rethink the role of the federal government in the 21st century, now is the time to rethink and clarify the mission and role of the Postal Service. The Commission's report concluded that a number of trends are driving the need for a sweeping exploration of the Postal Service's role and operations in the 21st century. In this regard, we share the Commission's concerns about the likelihood of declining First-Class Mail volumes in both the short-term and the long-term. First-Class Mail generates more than half of the Service's revenue. The revenue generated by First-Class Mail was used to cover about 69 percent of the Service's institutional cost in fiscal year 2002. The loss of contribution from declining First-Class Mail volume would be difficult to recover from other classes of mail. However, the rate of growth for First-Class Mail has been in long-term decline since the 1980s. First-Class Mail volume has steadily declined since it peaked 2 years ago. Its volume is estimated to have declined by 3.1 percent in fiscal year 2003 and is projected to decline by 1.3 percent in fiscal year 2004 (see figure 1).

Figure 1: First-Class Mail Volume Growth, Fiscal Years 1984 through 2004

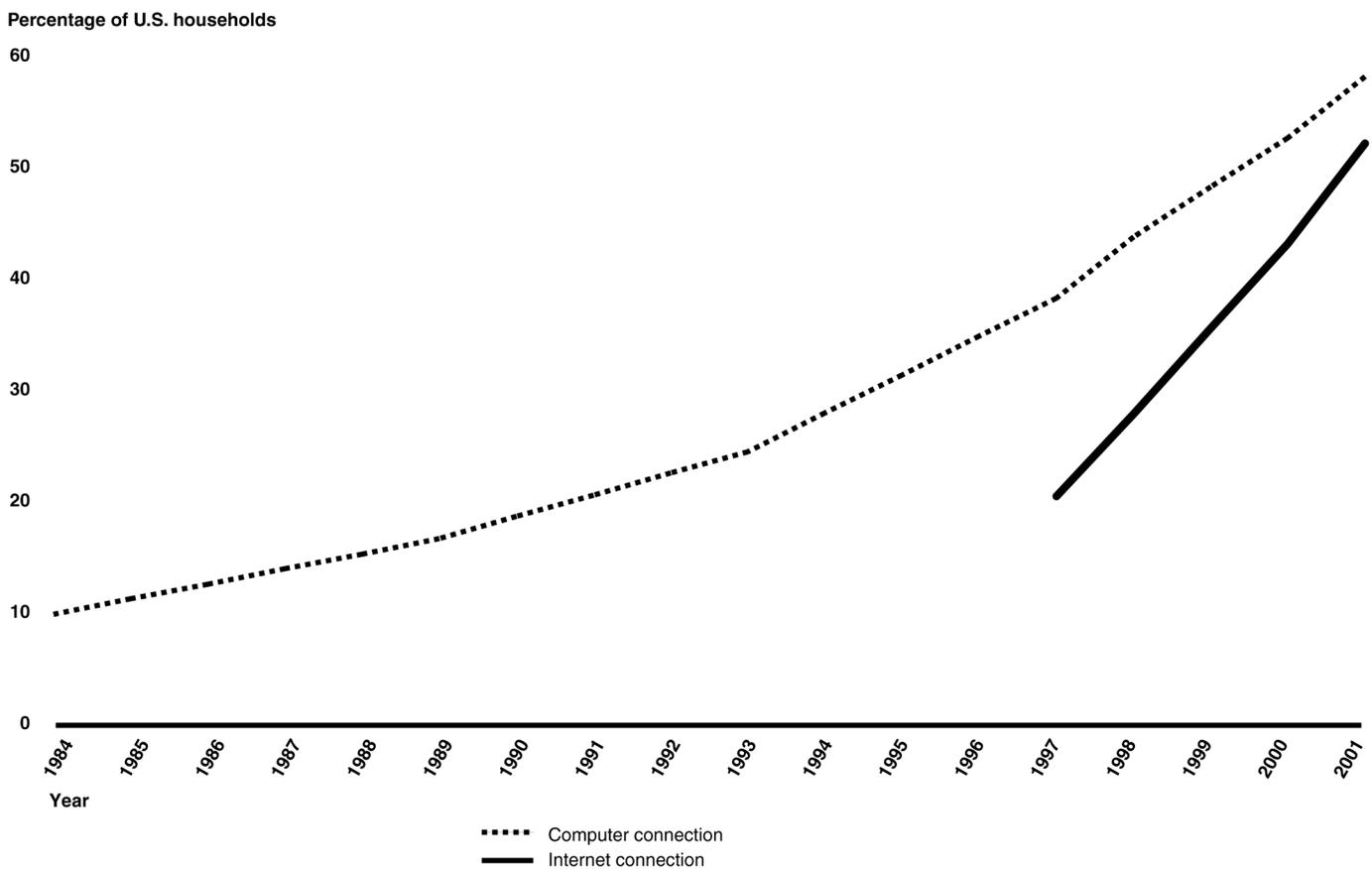


Source: Postal Service.

Looking ahead, we share the Commission’s concern that electronic diversion of First-Class Mail threatens to significantly accelerate the decline in the Service’s mail volume. Although the role of the Internet has been much commented on, it can be easy to overlook the fact that the Internet is a relatively recent historical phenomenon, with use of the World Wide Web greatly increasing in the 1990s. As recently as 5 years ago, only 37 percent of U.S. households had a computer, and only 19 percent of U.S. households were connected to the Internet (see figure 2). The rapid diffusion of computer and Internet technologies has led to high adoption rates among those with high levels of income and education—the same groups that send and receive a disproportionate share of First-Class Mail. Thus, the trend data point to the strong potential for further electronic diversion. Raising postal rates to offset this trend may provide an immediate boost to the Service’s revenues, but over the longer term will likely accelerate the transition of mailed communications and payments to

electronic alternatives, including the Internet. A report prepared for the Commission found that growth in electronic payments is likely to be an important factor in its forecast of gradual declines in First-Class Mail volume.⁴

Figure 2: Percent of U.S. Households with Computers and Internet Connections



Sources: U.S. Census Bureau data; GAO presentation.

Note: Data was reported for 1984, 1989, 1993, 1997, 1998, 2000, and 2001.

⁴Institute for the Future, *Two Scenarios of Future Mail Volumes: 2003-2017*, prepared for the President's Commission on the United States Postal Service (Palo Alto, CA: May 2003).

The Commission's report highlighted why the status quo has not produced satisfactory results and is ill suited for the 21st century. Key weaknesses include:

- **Uncertain financial future:** In theory, the Postal Service is self-supporting through postal revenues. In practice, as the Commission noted, even after recent statutory changes reduced the Service's unfunded liability for Civil Service Retirement System (CSRS) pension benefits, the Service has accumulated about \$92 billion in liabilities and obligations over the past three decades. These liabilities and obligations include debt, large unfunded obligations for retiree health benefits obligations, and remaining unfunded pension and workers' compensation liabilities. Thus, current ratepayers have not fully covered the total costs generated to provide the postal services they have received. A continuation of these trends would be diametrically opposed to the Commission's vision of a fiscally sound Postal Service that can sustain universal postal service, particularly if the Service's core business of First-Class Mail continues to decline in the coming years.
- **Difficulty financing capital needs:** In recent years, the Service has found it problematic to obtain adequate financing for capital needs. Thus, the Service has often increasingly resorted to borrowing to finance its capital improvements. In fiscal year 2001, the Service was faced with insufficient cash flow from operations and with debt balances that were approaching statutory limits. Consequently, the Service imposed a freeze on capital expenditures for most facilities that continued through fiscal years 2002 and 2003. The Service was able to repay some of its debt in fiscal year 2003, primarily because it generated a positive cash flow from a reduction in its pension costs. However, looking forward, it may be difficult for the Service to obtain adequate funds to address its long-term capital needs, including modernizing its aging network of postal facilities, without significantly increasing rates or debt. The Commission's recommendations in the areas of retained earnings and disposition of excess Postal Service real estate represent carefully considered alternatives to help provide the Service with sufficient revenue for both its operating and capital needs.
- **Lack of incentives for good financial performance:** The "break-even" mandate requires the Service's revenues and appropriations to equal its total estimated costs as nearly as practicable. For many years, this mandate has been interpreted to mean that the Postal Service should break even over time. As such, the break-even mandate removes the profit motive, and the rate-setting structure allows the Postal Service to

cover rising costs by raising rates. Further, the lack of a provision for retained earnings also limits incentives for productivity improvement and cost reduction. Under the current structure, whatever cost reductions the Service achieves in one rate cycle are used to reset the estimated costs that the Service is to recover in the next rate cycle. In contrast, a limited retained earnings provision would enable the Service and its employees to benefit from whatever cost reductions are achieved.

- **Lack of efficiency:** The Service has improved its efficiency in recent years, but much more progress needs to be made. The Commission identified significant variation in efficiency among mail processing plants and called for more efficient operations through standardization. We agree with the Commission that the Service has significant opportunities to improve its efficiency through best execution strategies in which those who can do it best and at the best price would perform postal activities while the Service rightsizes its infrastructure and workforce. However, as we have previously reported, both legal and practical constraints have hindered progress in these areas.
- **Disincentives for maximizing allocation of postal costs:** Under the current regulatory model, all classes of mail and types of service must cover their attributable costs, while institutional costs (i.e., common or overhead costs) are allocated based on judgment informed by broad statutory criteria.⁵ In effect, the Postal Service loses pricing flexibility as costs are allocated to specific postal products and services, creating a structural disincentive for the Service to maximize cost allocation to various classes of mail and types of service. Understanding, measuring, and reporting postal costs have greatly improved over the years. However, the proportion of postal costs allocated by the Service has increased by only 9 percent since postal reorganization. Further, cost allocation disputes persist, as illustrated by the different methodologies used by the Service and the PRC for allocating mail processing costs—that is, the Service allocated 58 percent of postal costs in fiscal year 2002, while the PRC allocated 62 percent. We recognize that it may be difficult to use the data that are currently collected by the Service to

⁵The Service proposes domestic postage rates and fees, as required in law, so that each class of mail or type of service must cover the direct and indirect postal costs that are attributable to that class or type of service plus a portion of its other remaining “institutional costs” which include all “common” or “overhead” costs. The requirement that each class of mail must cover its attributable costs has long been interpreted to apply to groupings of mail within classes that are called subclasses.

allocate a higher proportion of costs. Nevertheless, the Commission's conclusion that more postal costs can and should be allocated raises the issue of whether increasing regulatory authority over cost allocation would be necessary to ensure that all costs that can be rationally attributed are properly allocated. Furthermore, improvement in the Service's data collection could also enable greater allocation.

Postal Service Mission and Role Need Clarification

It is important for Congress to consider how best to clarify the mission and role of the Postal Service as part of a fundamental reexamination of the role of the federal government in the 21st century. The starting point is to consider the Commission's recommendation that Congress amend the nation's postal laws "to clarify that the mission of the Postal Service is to provide high-quality, essential postal services to all persons and communities by the most cost-effective and efficient means possible at affordable, and where appropriate, uniform rates." This recommendation is coupled with proposals to create a mechanism for change by giving broad authority to a newly created Postal Regulatory Board, including authority to review and issue binding decisions on certain Postal Service proposals to redefine delivery frequency requirements; uniform postal rates; and the Postal Service's monopoly to deliver mail and place items in mailboxes.

The Commission sought to clarify the nature of the Service's universal postal service mission by recommending that Postal Service activities be limited to accepting, collecting, sorting, transporting, and delivering letters, newspapers, magazines, advertising mail, and parcels and providing other governmental services on a reimbursable basis when in the public interest. The Commission recognized that the nation's postal laws did not envision the challenge of setting appropriate boundaries on the Service's commercial activities and maintaining fair competition between the Service and the private sector. These issues need to be addressed because the Service has repeatedly strayed from its core mission. We have reported on the Service's money-losing initiatives in electronic commerce and remittance processing, among other things.⁶ The Service's ill-fated ventures were also questioned by some postal stakeholders as unfair competition, since they were cross-subsidized by a

⁶U.S. General Accounting Office, *U.S. Postal Service: Update on E-Commerce Activities and Privacy Protections*, [GAO-02-79](#) (Washington, D.C.: Dec. 21, 2001); *U.S. Postal Service: Postal Activities and Laws Related to Electronic Commerce*, [GAO/GGD-00-188](#) (Washington, D.C.: Sept. 7, 2000), *U.S. Postal Service: Development and Inventory of New Products*, [GAO/GGD-99-15](#) (Washington, D.C.: Nov. 24, 1998).

tax-exempt entity that is also exempt from many laws and regulations governing the private sector. Further, such ventures have raised the fundamental issue of why the federal government is becoming involved in areas that are well served by the private sector. Although the current Postmaster General has appropriately focused on the Service's core business of delivering the mail and sharply curtailed its nonpostal initiatives, the Commission recommended codifying this policy. In our view, the time has come for Congress to clarify the Service's core mission and ensure continuity across changes in postal management.

However, it will be important to understand the implications of generally limiting the Postal Service to its traditional role of handling the nation's mail, as the Commission has recommended. In that event, the Service will face the formidable challenge of maintaining affordable universal postal service by growing revenues or significantly cutting its costs as its core business of First-Class Mail declines. In order to achieve net cost savings, the Service's cost-cutting efforts must currently offset billions of dollars in annual cost increases for general wage increases, cost-of-living adjustments, and rising benefits costs, particularly in health insurance premiums, as well as costs associated with having to deliver mail to over 1.5 million new addresses every year. Declining First-Class Mail volume will intensify the financial squeeze by reducing the volume of highly profitable mail. Thus, if the Service is limited to its traditional role, maintaining the quality and affordability of postal services would likely require dramatic improvement in the Service's efficiency. The Service would need to become a much leaner and more flexible organization and rightsize its network of mail processing and distribution facilities. Consistent with our past work and the testimony of many key stakeholders, the Commission recognized that comprehensive reform of the nation's postal laws would be necessary to facilitate changes in these areas. In the next section of this statement, we discuss the Commission's recommendations involving governance, transparency, accountability, rate setting, and human capital. In our view, revisiting these areas may involve taking substantive and political risks, but we agree with the Commission that such risks must be taken if the Service is to remain successful in the coming decades.

In our view, key questions related to clarifying the Service's mission and role include:

- How should universal postal service be defined, given past changes and future challenges?

-
- Should the Service be allowed to compete in areas where there are private-sector providers? If so, in what areas and on what terms? What laws should be applied equally to the Service and to its competitors? What transparency and accountability mechanisms are needed to prevent unfair competition and inappropriate cross-subsidization? Should the Service's competitive products and services be subject to antitrust and general competition-related laws? Should they be subject to consumer protection laws?
 - Should the Service retain governmental authority, including its regulatory responsibilities and law enforcement functions?

On a related issue, the Service's current statutory monopoly on the delivery of letter mail and its monopoly over access to mailboxes have historically been justified as necessary for the preservation of universal service.⁷ However, questions have been raised regarding whether these restrictions continue to be needed, and if so, to what extent and whether the Service should be able to define their scope. A key issue is whether the Postal Service, as a commercial competitor in the overnight and parcel delivery markets, should have the authority to regulate the scope of competition in these areas.⁸ The Commission has recommended separating these functions so that the Postal Service cannot define and regulate the scope of its own monopoly.

As the Commission noted, it is a fundamental premise of American justice that parties that administer laws should not have a financial interest in the outcome. Accordingly, the Commission recommended that an independent entity should be responsible for reviewing the costs and benefits of the monopoly as well as for reviewing the thicket of vague and contradictory regulations in this area and modernizing the law to define the postal monopoly in clear and understandable terms. The independent entity could narrow the postal monopoly over time if and when the evidence shows that suppression of competition is not necessary to the protection

⁷For information on the Service's monopoly on mailbox access, see U.S. General Accounting Office, *U.S. Postal Service: Information About Restrictions on Mailbox Access*, [GAO/GGD-97-85](#) (Washington, D.C.: May 30, 1997).

⁸The Service has used its regulatory power to redefine the scope of the statutory monopoly by suspending the monopoly for urgent letters and outbound international mail. The Service has also defined the scope of its monopoly by issuing regulations that define a "letter" for the purposes of enforcing the statute (39 CFR 310.1(a)) as well as regulations specifying access to mailboxes (Domestic Mail Manual, D041 and P011.2.2).

of universal service without undue risk to the taxpayer. Narrowing or eliminating the monopoly could increase consumer choice and provide incentives for the Service to become more effective and efficient. For example, in recent years, FedEx has expanded its role in delivering residential parcels and UPS has shortened its guaranteed transit time on ground shipments traveling to some of the country's biggest metropolitan areas. As Congress considers the Commission's recommendations relating to the postal monopoly, we believe that key questions include:

- Is a government monopoly needed to enable affordable universal postal service, especially if such service is provided at uniform rates? If so, what scope of monopoly is needed to accomplish its goal?
- Should the Service continue to have the power to define (and redefine) its own statutory monopoly through suspensions and regulations?
- Should a regulatory body have authority to redefine and narrow the postal monopoly and the mailbox monopoly, or should such decisions be made through the legislative process? If authority is delegated to a regulatory body, should a clear statement of congressional intent be provided to guide regulatory decisions, or should the regulator have unfettered discretion to consider options to expand or contract the Service's monopoly? What principles should guide the process, and what key players should be involved?
- Similarly, should the regulator be able to consider opening up access to the mailbox? If so, under what circumstances? Would it be cost-effective for private delivery companies to deliver items to mailboxes if individuals could veto access and redefine mailbox access as they move from one home to another?
- Should any regulatory decisions be governed by process requirements to enable stakeholder input? Should such processes facilitate congressional review of any changes, as is the case for some other types of communications regulated by the federal government?

Protecting the Public
Interest through Enhanced
Transparency,
Accountability and Public
Policy Oversight

The Commission concluded that the Postal Service must have greater flexibility to operate in a businesslike fashion, but that with this latitude comes the need for enhanced transparency to enable effective management and congressional and other oversight. We agree. As the Commission noted, managerial accountability must come from the top, with the Service governed by a strong corporate-style board that holds its officers responsible for performance. The Commission concluded that giving the Service greater flexibility while preserving its monopoly would

require enhanced oversight by an independent regulatory body endowed with broad authority, adequate resources, and clear direction to protect the public interest and ensure that the Postal Service fulfills its duties. The Commission cited reports that we have issued since September 2000 urging greater financial transparency and expressing concern about sharp declines in the Service's financial position that were accompanied by too little explanation.⁹ To enable sufficient accountability, oversight, and transparency, the Commission recommended changes to the Service's governance structure, the creation of a Postal Regulatory Board that would have broad powers, and mechanisms to facilitate and ensure greater transparency of the Service's financial and performance results. Key issues include whether the Commission's recommendations are necessary, have struck the appropriate balance between multiple objectives, and would be practical to implement.

Governance Structure

The Commission found that given its importance to the country and the challenges to its future, the Postal Service should meet the highest standards of corporate leadership, including a strong, strategic Board of Directors coupled with enhanced oversight and financial transparency. Specifically, the Commission concluded that if the Postal Service is to adapt successfully to a changing postal market, overcome its significant financial challenges, and emerge an efficient and more businesslike institution, then it must be guided by a nimble and results-oriented management and corporate governance structure charged with applying the best business practices of the private sector to the public-spirited mission of delivering the nation's mail. We agree. As we have reported, if the Service is to successfully operate in a more competitive environment, the role and structure of a private-sector board of directors may be a more appropriate guide in this area.¹⁰ Having a well-qualified, independent, adequately resourced, and accountable board is critical for a major federal institution with annual revenues approaching \$70 billion and approximately 829,000 employees.

⁹The Commission cited [GAO-03-118](#); [GAO-02-694T](#); [GAO-02-355](#); [GAO-01-733T](#); [GAO-01-598T](#); U.S. General Accounting Office, *U.S. Postal Service Actions to Improve Its Financial Reporting*, [GAO-03-26R](#) (Washington, D.C.: Nov. 13, 2002); and *U.S. Postal Service: Enhancements Needed in Performance Planning and Reporting*, [GAO-00-207](#) (Washington, D.C.: Sept. 19, 2000).

¹⁰[GAO-03-812T](#).

Another concern is what qualification requirements would be appropriate for the Postal Service's governing board to ensure that it possesses the kind of expertise necessary to oversee a major government business. Consistent with this view, the Commission recommended that all directors should be selected based on "business acumen and other experience necessary to manage an enterprise of the Postal Service's size and significance." The report also suggested that the board possess "significant financial and business expertise" and that among other things, board members have no material relationship with the Service or its management team. However, the Commission recommended that these criteria be incorporated into the Board's bylaws or governance guidelines rather than into statute.

In this area, we believe that potential issues include:

- Would the proposed qualification requirements be sufficient to produce a well-qualified board with outstanding and experienced directors, in part because of the flexibility inherent in the appointment process?
- Would the proposed board become politicized, in part because most directors would be subject to approval and removal by a political appointee, (i.e., the Secretary of the Treasury), with no Senate confirmation, no requirement for the board to have a bipartisan membership, and the possibility of removal for any reason?
- Would the pool of qualified candidates be unduly restricted because some corporations have a material relationship with the Service, while some retired corporate leaders would be over the proposed mandatory retirement age of 70 for Service board members?
- Would selection of members of the proposed board of directors by an official other than the President be consistent with the Appointments Clause in Article II, section 2, clause 2 of the Constitution, which requires that the heads of executive branch departments be appointed directly by the President with the advice and consent of the Senate?¹¹

¹¹In *Silver v. U.S. Postal Service*, 951 F.2d 1033 (9th Cir. 1991), the Court held that the Postal Service, as an independent establishment of the executive branch, is subject to the Appointments Clause. The Court further held that the postal governors were the head of the Postal Service, and thus, were required to be appointed by the President and confirmed by the Senate.

-
- We believe that these concerns merit careful consideration, as well as other concerns on which we have previously reported.¹² In particular, it is debatable whether it would be appropriate for the Secretary of the Treasury to have the authority to approve most future appointments to the governing board of the Service, which fulfills vital government functions and includes nearly one-third of the federal civilian workforce. An alternative option may be to have a number of persons, including the Secretary of the Treasury, to advise the President on such appointments. Another key issue is whether these appointments should continue to be made with the advice and consent of the Senate, which is a mechanism to involve the legislative branch in matters of postal governance. However, we agree with the Commission's conclusion that the legacy governance structure of the Service is increasingly at odds with its mission in the modern environment and that the Service's governing structure needs to consist of members with the requisite knowledge and experience.

The Commission's report made a contribution in identifying the fundamental activities necessary for good corporate governance. The report made a number of recommendations for the proposed board of directors to more effectively discharge its duties, including refocusing the board on a high-level strategic focus on cost reduction and service quality, as well as minimizing the financial risk to taxpayers and restoring the fiscal health of the institution as a whole. In this regard, we believe that the current Board of Governors should refocus its activities along the lines suggested by the Commission.

Accountability Mechanisms

We have reported that a major issue related to the Service's mission and role is whether the Service should be held more directly accountable for its performance, and if so, to what extent, to whom, and with what mechanisms.¹³ Specifically, how should the Service's governing board be held accountable? The Commission found that the Service urgently needs a vigilant, broadly empowered and independent regulatory body to focus on its ability to fulfill its core duties in an appropriate and effective manner. The Commission recommended that the Postal Rate Commission be abolished and replaced with a newly created Postal Regulatory Board endowed with broad public policy responsibilities as well as broad

¹²U.S. General Accounting Office, *U.S. Postal Service: Issues Related to Governance of the Postal Service*, [GAO/GGD-97-141](#) (Washington, D.C.: Aug. 14, 1997).

¹³[GAO-03-812T](#).

mandates and authority for accountability and oversight. The regulator would also have authority in numerous areas including rate setting, retained earnings, financial transparency, service standards, performance reporting, and enforcing pay comparability, among others.

A key objective of the Commission's recommendations was to focus the proposed Postal Service board of directors on the business aspects of the Postal Service while transferring public policy responsibilities from the Service to an independent regulator with no stake in the outcome. The recommendations also would transfer key public policy responsibilities from Congress to the regulator. For example, the newly created regulatory body could, over time, redefine the Service's universal service mission and statutory monopoly. The Commission's accountability and oversight provisions would make major changes to the current structure. Thus, the Commission's recommendations in this area raise fundamental issues. In our view, key questions include:

- Who should make public policy decisions regarding the Postal Service: the Service, an independent regulator, or Congress?
- What accountability should apply to a monopoly provider of vital postal services that also is a major competitor in the communications and delivery marketplace?
- How should the Service be held accountable if it remains an independent establishment of the executive branch?
- To what extent should the Service be accountable to Congress and the executive branch without being subject to undue political control?
- To what extent should a regulatory body exercise accountability? For what purpose? With what authority?
- Although additional oversight of the Service appears necessary, would the Service have sufficient management flexibility given the fairly broad authority the Commission proposes be given to the regulatory body?
- How should the regulatory body be structured to preserve its independence from political control and minimize the risk of regulatory capture?

Enhancing Transparency of
Financial and Performance
Information

- What statutory guidance and constraints should apply to regulatory actions, including due process and recourse to judicial and/or congressional review?
- What transparency of financial and performance results is appropriate for the Service as a federal establishment and would be necessary for oversight and accountability? What mechanisms should be established to facilitate and ensure transparency?
- Should the Service comply, either on a voluntary basis or through a statutory requirement, with major Securities and Exchange Commission (SEC) reporting requirements?

The Commission noted that as a public entity, the Postal Service is wholly owned by the American people, who, as the Service's shareholders, are due a regular and full accounting of the fiscal health and challenges facing this vital national institution. The Commission stated that the Service has a responsibility to the public to be transparent in its financial reporting. We agree. Reporting requirements should ensure accountability and transparency of financial and organizational reports. We have recommended that the Postal Service improve its transparency,¹⁴ and to the Service's credit, it has made progress in providing greater transparency on its financial results and outlook. The Service has instituted quarterly financial reports, expanded the discussion of financial matters in its annual report, and included more information and explanation in the financial and operating statements prepared for each 4-week accounting period. The Service has also upgraded its Web site to include these and other reports in a readily accessible format. The Service is clearly moving in the right direction. However, we agree with the Commission that more progress can and should be made.

In an area where we have particular concern that the Service have transparent, appropriate accounting, the Commission recommended that the Service's governing board work with its independent auditor to determine the most appropriate accounting treatment of the Service's unfunded retiree health benefit obligations in accordance with applicable accounting standards. The Commission also recommended that the board consider funding a reserve account to address these obligations to the

¹⁴[GAO-02-355](#).

extent that Postal Service finances permit. These recommendations are similar to our previous statements, which noted that

- the Service’s current accounting treatment does not reflect the legal nature and the economic reality of its related obligation to pay for these costs;
- the Service’s treatment of retiree health benefit costs in its financial statements has not sufficiently recognized the magnitude, importance, or meaning of this obligation to decision makers or stakeholders; and
- because the retiree health benefit obligations are funded on a pay-as-you-go basis, rather than on a full accrual basis, current ratepayers are not paying for the full costs of the services they are receiving.

We continue to believe that the time has come for the Service to formally reassess how it accounts for and discloses these very significant financial obligations. In our view, given the legal nature, economic substance, and stakeholder implication of these obligations, the Service should account for these retiree health costs and related obligations in its financial statements on an accrual basis. We recognize that a change to accrual accounting could have a significant impact on rates. However, the Service could work with the PRC and other stakeholders to determine how best to phase in such a change to mitigate the immediate impact on ratepayers. Regardless of whether the Service changes its accounting for retiree health costs, we continue to believe the Service should disclose the funded status of all of its retiree health and pension obligations.

The Commission enunciated an ambitious standard for the Service when it stated that “As a unifying force in American commerce and society, and as a customer-financed government endeavor, the Postal Service should be setting the standard for financial transparency by which all other Federal entities are judged.” [Emphasis in original.] The Commission also found that given its important public mission and central role in the nation’s economy, changes in the Service’s economic health should not come as a surprise to those responsible for or impacted by its performance. In this regard, the Commission found that while the Service often conducts financial reporting over and above what is required by federal agencies, it remains behind the level of disclosure offered by its corporate peers.

We believe that technical compliance with accounting and reporting requirements should be a floor for financial transparency, not a ceiling. Thus, we were pleased that in keeping with its theme of incorporating best

practices, the Commission said it “strongly recommends” that the Service voluntarily comply with major Securities and Exchange Commission (SEC) reporting requirements. The Service has the opportunity to proactively work with the SEC to define how it could voluntarily comply with SEC requirements in a manner appropriate to its unique legal status.

Enhanced financial transparency is particularly important because the Service is the hub of a \$900 billion mailing industry and is a vital part of the nation’s communications and payment network. Its recent financial difficulties have accentuated the need for stakeholders to be well apprised of the Service’s financial situation and to understand how future operating results may be affected by impending events. Although the Service has traditionally provided a range of detailed financial and operating data to stakeholders throughout the fiscal year, its periodic financial reports did not clearly explain changes in its financial condition, results of operations, and its outlook, and were not always readily available to the public. Thus, in April 2001, we recommended that the Service provide quarterly financial reports to Congress and the public with sufficiently detailed information for stakeholders to understand the Service’s current and projected financial condition and how its outlook may have changed since the previous quarter.¹⁵ In November 2002, we found that the Service’s financial reports provided to date had provided only limited analysis and explanations to help stakeholders understand what had changed, why it had changed, and how these changes affected the Service’s current financial situation and expected outlook.¹⁶ Since then, the Service has improved its quarterly financial reports. We also discussed the SEC’s reporting structure as a model for the Service to consider.

As the Commission recognized, the Service remains a public institution with a monopoly on providing vital postal services to the nation, and enhanced financial information will be essential to improve managerial accountability and public policy oversight. In this regard, there are areas where stakeholders have little information, such as the Service’s unmet financial needs to maintain and modernize its infrastructure, or the true market value of the Service’s vast real estate holdings. Therefore, progress in enhancing the Service’s financial transparency is worthy of continued congressional attention.

¹⁵ [GAO-01-598T](#).

¹⁶ [GAO-03-26R](#).

In addition to the above areas, we have reported on, and continue to have concerns about, the Service's annual performance reporting that is required under the Government Performance and Results Act (GPRA).¹⁷ The Service's recently filed 5-Year Strategic Plan for Fiscal Years 2004-2008 contained a clear mission statement and presented a useful discussion of the prospects for mail volume, including three specific forecasts. However, the plan represented a missed opportunity because it failed to adequately communicate what the Service intends to accomplish over the period covered by the plan. For example, the plan contained little new information on the Service's goals and strategies for network and workforce realignment over the next 5 years. The plan continues a trend in which the Service's GPRA reports have provided less and less new information to Congress, postal stakeholders, and the American people.

We also continue to be concerned that the Service does not communicate its delivery performance for all of its major mail categories, particularly those covered by its statutory monopoly to deliver letter mail. The Service's customers should have a right to know what they are getting for their money, particularly captive customers with few or no alternatives to using the mail. However, the Service's public reporting is limited to on-time delivery of First-Class Mail deposited in collection boxes¹⁸ and does not include bulk mailing of First-Class Mail by businesses. In addition, stakeholders and individuals have expressed concerns about the accuracy of mail delivery, but no public information is provided for this aspect of mail service. The Commission recognized that information about service quality would become even more important if the Service obtains more flexibility and incentives to cut its costs. Accordingly, the Commission recommended that the Postal Regulatory Board be required to prepare a comprehensive annual report assessing the Postal Service's performance in meeting established service standards. If such a report is to be meaningful, the regulator may also need authority to require the Service to collect service performance data.

Without sufficient transparency, it is difficult to hold management accountable for results and conduct independent oversight. The Service has the opportunity to seek out best practices and continually improve as standards evolve and experience accumulates, and its recent track record

¹⁷GAO/GGD-00-207.

¹⁸First-Class Mail measurement is further limited to collection boxes located in 463 ZIP Codes from which most First-Class Mail volume originates and to which it is destined.

Rate-setting Structure

suggests that some improvement is possible. A key issue is whether statutory change is needed to enhance the level of transparency that the Service must provide, particularly if it obtains greater flexibility along the lines recommended by the Commission.

The Commission concluded that it is imperative that the Postal Service, an institution with a statutory monopoly over the delivery of letter mail, have clear, independent regulatory oversight that includes oversight over its postal rates. The Commission found that the current statutory structure produced independent review of postal rates and had the laudable goals of protecting postal customers against undue discrimination while restricting cross-subsidies. However, the Commission stated that the current rate-setting structure should be abolished so that these goals can be accomplished more efficiently and effectively, by establishing an incentive-based rate-setting system. We agree that major changes are needed in this area. As we have testified, improvements in the postal rate-setting structure will be a fundamental component of a comprehensive transformation.¹⁹ The existing statutory structure is increasingly ill suited to meeting the needs of the Postal Service and the American people. Its shortcomings include the following:

- Lengthy and burdensome rate-setting proceedings - The Commission found that the current rate-setting structure imposes a litigious, costly, and lengthy rate-setting process that can delay needed new revenues by more than a year. We agree. The Service and other stakeholders report spending millions of dollars in each rate case on attorneys, economists, statisticians, and other postal experts who pore over many thousands of pages of testimony, interrogatories, and rebuttals. The high cost of participation, coupled with the increasing complexity of rate-setting data and methods, make it difficult for smaller stakeholders to effectively participate in the regulatory process.
- Bias toward adversarial relationships - As the Commission noted, every significant change requires a major proceeding that places the Postal Service in an adversarial relationship with its major customers and at a distinct competitive disadvantage. Rate cases tend to pit the Service and many postal stakeholders against each other, since the zero-sum nature of the revenue requirement provides powerful incentives for parties to attempt to shift postal costs in ways that serve their immediate self-interests. The adversarial rate-setting process has

¹⁹[GAO-03-812T](#).

consumed the attention of all of the parties involved, increasing the difficulty of focusing on constructive efforts to find mutually acceptable approaches to difficult technical issues. During lengthy rate cases, rules against ex parte communications help preserve due process and fairness, but also make it difficult for rate-setting experts at the Service and the PRC to constructively discuss technical issues and resolve problems as they arise.

Despite these structural impediments, rate-setting experts at the Service and PRC have made some progress in improving communications in recent years, notably during the 1999 Data Quality Study on the quality of data used for rate-setting purposes, as well as during subsequent efforts to improve data collection systems.²⁰ We are pleased that the Service has convened periodic briefings with representatives of the PRC, the Service's Office of the Inspector General, and us, in which it engaged with the parties and provided detailed status reports on initiatives to improve rate-setting data systems. We are also encouraged that the Service has started to engage with the PRC in planning some improvements to its rate-setting systems, and we commend the Service for offering public briefings to provide additional transparency on modifications to key data systems. These efforts facilitate constructive dialogue on data quality issues, providing opportunities for the parties to make continuous progress as postal operations, technology, and data systems change.

- Perennial disagreements - Cost allocation issues have been debated for many years and are frequently a key reason why postal rate cases are so lengthy and litigious, since their disposition can directly affect postal rates. The statutory structure seeks to assure all parties due process by enabling them to raise whatever issues they wish, regardless of how many times the same issues may have been considered in the past. The Postal Service has a special opportunity to repeatedly raise issues by building them into its initial proposals for changes to postal rates. For example, the Postal Service and PRC have strongly disagreed on the allocation of mail processing costs in rate cases dating from 1997—to the point that two sets of postal costs are routinely prepared, one according to the Postal Service's preferred methodology and one according to the PRC's methodology. This situation epitomizes the downside of enabling parties to repeatedly litigate the same issues in the name of due process. Although the

²⁰A.T. Kearney, *Data Quality Study* (Alexandria, Va.: Apr. 16, 1999).

Commission noted that interested parties should have an opportunity to participate in rate-setting matters, the need to address complex cost allocations in each and every rate proceeding conflicts with the Commission's vision of a streamlined rate-setting process that can swiftly resolve complaints about postage rates.

- Poor incentives for data quality - The current statutory model gives the Service opportunities to seek advantage in litigious rate-setting proceedings through its control over what data are collected and how those data are analyzed and reported. The PRC cannot compel the Service to collect data, or update data it has collected. The PRC also cannot subpoena data that the Service has collected. The 1999 Data Quality Study found that key postal cost data had not been updated for many years and were used regardless of their obsolescence. Although the Service has worked to address these and other deficiencies identified by the study, as noted above, it is fair to question why the regulatory process had enabled these problems to continue for so many years. Further, regarding the sufficiency of data in the recent negotiated service agreement (NSA) case, the Service provided no mailer-specific cost data corresponding to mailer-specific discounts, creating uncertainty regarding whether the discount was set appropriately in relation to the cost savings that the Service should be expected to achieve as a result of the NSA.
- Disputes over cost allocation - The Service is generally opposed to PRC proposals that would require the Service to provide more detailed annual information on postal costs and information on cost allocation methodologies used to produce that data. In support of its view, the Service has asserted that the current statutory structure generally limits the PRC to a reactive role in considering proposed rates and supporting information provided by the Service in rate and classification cases. This perspective contrasts with the Commission's vision of independent regulatory oversight in which the outcome cannot be unduly influenced through the selective provision of information to the regulator. To this end, the Commission recommended that the Service periodically report on the allocation of costs in accordance with form, content, and timing requirements determined by the Postal Regulatory Board, the recommended successor to the PRC.
- Lack of mailer-specific data - Looking forward, a key issue is what data on the mailer-specific costs, volumes, and revenues of the Postal Service, if any, should be provided to justify mailer-specific discounts that result from NSAs. The Service has generally opposed providing

such mailer-specific data in the future as overly burdensome, unwise, and impractical, in part because its cost measurement systems are geared to providing aggregate data at the subclass level. The PRC is currently reviewing what cost data should be provided to justify mailer-specific postal rates, and key stakeholders have filed conflicting testimony on the issues in this area.²¹ Regardless of the outcome, it is reasonable to ask how the Service can effectively identify, prioritize, and negotiate mutually beneficial NSAs if little reliable data are available on the cost savings that the Service should realize as a result of the mailer-specific requirements of each NSA.

The above problems are well documented. They have been cited in numerous independent reviews over the years, including some by us. The parties are familiar with the status quo, and we suspect that the high stakes involved make parties understandably reluctant to make changes, particularly when the financial consequences are difficult to foresee. In recent public meetings held to discuss possible changes to the rate-setting process within existing law, the Service dismissed many of the suggestions that were made. Moreover, the Service and other stakeholders have reached no consensus about proposals for legislative reform. Therefore, the Commission was advocating bold action when it concluded that the current rate-setting process should be abolished and replaced with a more streamlined structure that continues to impose rigorous standards on rate setting, but does so without impeding the ability of Postal Service officials to manage and lead.

The Commission's report built on the legislative debate in which price cap regulation has emerged as a leading alternative to the current statutory model for regulating postal prices. Specifically, the Commission recommended that the existing system of setting postal rates be abolished and replaced with a price-cap system to regulate the rates of noncompetitive postal products and services, coupled with providing the Service with pricing flexibility for competitive postal products and services, subject to a rule against cross-subsidization. The Commission's proposed price-cap system is intended to enhance the Service's management flexibility to set rates within ceilings established by the Postal Regulatory Board, so that if the rate ceiling is appropriately constructed, the Postal Service will feel intense pressure to rein in spending and improve efficiency and productivity. A price-cap system

²¹See documents filed under PRC Rulemaking Docket No. RM2003-5, available at www.prc.gov.

could enable the Service to implement a strategy of smaller, more frequent changes in postal rates, as opposed to a strategy of more infrequent, significant increases.

The Commission's recommended price-cap system has some similarities with price-cap systems that were offered in successive postal reform bills introduced by Rep. John M. McHugh. These proposals were reviewed in numerous hearings, and the extensive record surfaced many issues and concerns. In our view, key questions include the following:

- Would a price-cap system provide the intended incentives for the Postal Service to maximize its financial performance, since the Service is a public institution that is not accountable to shareholders who hold stock and demand management accountability?
- Would a price cap provide incentives for the Postal Service to reduce the quality of service for captive customers? If so, what transparency and accountability mechanisms would be needed to ensure the quality of universal postal service?
- Could the Service use its flexibility to raise rates within the price cap to unfairly shift the burden of institutional costs away from competitive products and services and onto its most captive customers?
- Should postal rates be required to cover attributable costs? If so, at what level (e.g., mail class, subclass, rate category, etc.)?
- Could the Service generate sufficient revenues if its rates were constrained by a price cap? If not, under what circumstances, if any, should the Service be authorized to raise rates in excess of the cap? How can ratepayers be assured that it would not be too easy for the Service to obtain such increases, which would vitiate the intent of the price cap? What process should apply to such "exigent" rate increases?
- Would a price cap restrain the growth of postal wages? If so, to what extent and would such a result be desirable?
- How would a price cap system affect historic preferences that have been provided to certain mailers, such as mailers of nonprofit mail, periodicals, and library mail?

-
- How could the Postal Service redesign the rate and classification system, as it did through the 1995 reclassification case, if it were subject to a price cap?
 - Would adopting a price cap system be too risky, given the problems that have surfaced in some price-cap models adopted by other regulated industries? How could flexibility be built into the price-cap system itself to minimize risk and handle “the law of unintended consequences?”
 - Should provisions of a price-cap system be specified by the legislative process? If so, which features should be codified in statute and which should be left to the regulatory process?
 - What issues should be considered in adapting price-cap regulation from other industries and foreign postal systems to the unique context of regulating postal rates in the United States?
 - What transition features should be required, such as a “baseline” rate case, in order to successfully implement a price-cap system?
 - Should a revised and streamlined cost-of-service model be considered as an alternative to abolishing the current rate-setting structure and replacing it with a new model? If so, what statutory changes should be considered? Would such changes prove sufficient to remedy the shortcomings of the current rate-setting structure?

As the above discussion demonstrates, the need for changing the postal rate-setting structure is clear. The current structure delays price changes through lengthy, contentious, and burdensome proceedings and has poor incentives for providing quality data. However, many questions remain about what changes should be made to the rate-setting process and the potential problems associated with those changes. Specifically, the option of adopting a price-cap model for regulating postal rates has emerged as a main alternative to a cost-of-service regulatory model but raises many issues that deserve thoughtful consideration. By its very nature, such fundamental change to the rate-setting system would necessarily entail substantial uncertainty, risks, and the possibility for further change to deal with unanticipated consequences. In this regard, the benefits and risks of adopting a price-cap system need to be carefully considered and weighed against the benefits and risks of the status quo. If the Service is to be limited to its core mission, the flexibility inherent in a price cap system could become a key management tool to successfully managing the transition to a leaner, more efficient postal system.

Rate-Setting Oversight

In our view, as long as the Service remains a federal entity protected by the postal monopoly, it is appropriate that the Service's ability to compete with the private sector be balanced with oversight and legal standards to ensure fair competition between the Service and private competitors. The Commission sought to create such a balance by recommending enhanced powers for the newly created Postal Regulatory Board, including a complaint process in which rates can be reviewed against statutory limits that provide for due process and resolution of the complaint within 60 days. Depending on the outcome, the regulator could order rate adjustments to bring rates into conformity with statutory criteria. In our view, clear lines of authority in this area must be established if the rate-setting process is to be streamlined and speeded up. A key issue for Congress to consider is whether the Commission's recommendations have struck the appropriate balance between flexibility and accountability. Another issue is what due process rules should be established in order to enable stakeholders to provide meaningful input and participate in rate-setting matters, including the right to appeal regulatory decisions.

The Commission also proposed requirements for worksharing discounts that are established based on the costs that the Postal Service is estimated to avoid as a result of mailer worksharing activities to prepare, sort, and transport the mail. Specifically, the Commission stated that a specific requirement should be "that no new workshared discount for a non-competitive product should exceed costs saved (including the present value of projected future costs saved) and that the Postal Regulatory Board should have the authority to conduct an expedited, after-the-fact review upon written complaint that such a discount is excessive." In that case, the Commission said the regulator should be authorized to perform an expedited, after-the-fact review upon written complaint to ensure discounts do not exceed savings to the Postal Service. These recommendations raise the issue of whether different standards should apply for new and existing worksharing discounts.

By way of background, worksharing discounts did not exist when the Service was created by the Postal Reorganization Act of 1970. Thus, there is little statutory guidance in this area except for the mandate for the PRC to consider—along with other factors—the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Service. Over time, the PRC developed a guideline for recommending worksharing discounts so that the estimated reduction in Postal Service revenues would equal the estimated reduction in its costs. The objective of this guideline is to create incentives for the lowest-cost provider to perform certain postal activities, which can be

either the mailer performing worksharing activities or the Service performing additional activities when mailers do not workshare. Because worksharing discounts have become an integral part of the rate-setting structure, a key issue is whether statutory guidance would be appropriate in this area; and if so, whether hard-and-fast rules for worksharing discounts should be established in law.

Because postal rate-setting is at the heart of proposals for comprehensive legislative reform, it is important for Members of Congress to be aware of the many issues and questions that have been raised in this area. We believe that some of the issues and questions that arise from the Commission's recommendations include the following:

- Should the break-even mandate continue to govern the postal rate-setting process, or should the Service be allowed to retain a certain amount of earnings?
- How would the proposed Postal Regulatory Board consider postal costing issues under the Commission's proposals, since the Commission would abolish the current mechanism used to resolve these issues on a case-by-case basis (i.e., litigation in postal rate cases)? Specifically, what process should govern regulatory decisions regarding the measurement, allocation, and reporting of postal costs and revenues? Should the regulatory body also be given the authority to compel the Postal Service to collect data, as some have suggested?
- Would meaningful after-the-fact review of changes in postage rates be difficult to accomplish within the recommended 60-day time frame for considering complaints? Should stakeholders also be given the opportunity to obtain information through a discovery process; and if so, would a longer time frame be needed to consider complaints? What due process rules should be established for stakeholder participation in rate complaints and other rate-setting matters?
- Should the Commission's recommendation to allow NSAs be adopted, and, if so, what specific criteria are appropriate in this area? Could NSAs create competitive harm, and, if so, what measures should be taken to mitigate this risk (e.g., prior review and other limitations)?

-
- If mailer-specific discounts are authorized, should data be required on the mailer-specific cost savings that the Postal Service expects to achieve? If so, how should the regulator balance its needs for such information with limitations relating to the practicality and burden of producing it?
 - Is after-the-fact rate review incompatible with the need to ensure fair competition by an organization that can leverage the revenues and infrastructure obtained through its monopoly on delivering letter mail? If not, should measures be taken to limit the potential for unfair competition, such as providing limitations on the introduction of subsidized new products and services? Should the regulator be authorized to order the discontinuance of postal products and services that consistently fail to cover their costs?
 - Would the complaint process, as the only means for stakeholders to seek to alter postal rates under the Commission's proposals, create an incentive for numerous complaints that could become a de facto review of virtually all postal rates?
 - Even if a regulator could order changes in rates after-the-fact, would it be reluctant to exercise that authority, given the potential financial impact and disruption for the Service and the mailing community?
 - The Commission's report did not address whether the proposed Postal Regulatory Board could be held accountable for its actions in the rate-setting area through appellate review. Should the Postal Regulatory Board's actions be subject to appellate review, and if so, under what criteria?
 - Another potential issue is whether a transition period would be needed to successfully implement a vastly different rate-setting system similar to what the Commission has recommended. For example, would a transition period be needed to enable the proposed Postal Regulatory Board to address major unresolved cost allocation issues, as well as for the Postal Service to make improvements to its cost allocation methods and underlying data systems that collect information for costing purposes?

The Need for Progress on Rate-Setting Issues under the Current Structure

The Service and the PRC continue to have long-standing disagreements on rate-setting issues that have added to the length, cost, and burden of litigating rate cases. These issues have been a major focus of contentious rate proceedings, and, if left unresolved, will likely be re-litigated in the next rate case. As noted previously, a key unresolved issue is the

allocation of mail processing costs, which has implications for most postal rates since the Service's mail processing and distribution network handles most mail. Specifically, the Service and the PRC disagree over the extent to which mail processing costs vary with mail volume and thus can be allocated to various mail categories, as opposed to being classified as institutional costs (i.e., overhead costs that the Service incurs regardless of mail volume). This disagreement has generated thousands of pages of evidence in rate cases and disagreements over the underlying assumptions, data, and analytic techniques. Although the arguments on both sides are rather arcane, the resolution of this dispute could have important practical consequences for postal rates and worksharing discounts. The estimated savings resulting from worksharing discounts—which is a key basis for establishing these discounts—is reduced as more mail processing costs are classified as institutional costs, since such costs do not vary regardless of how much mail is processed. Thus, the rates that apply to workshared mail, which accounts for three-quarters of total mail volume, could be affected by the resolution of this technical dispute.

In our opinion, the gap between rate cases provides a rare opportunity for the parties to take a fresh look at the issue of mail processing volume variability. Key postal cost dynamics have changed in recent years, including the shift from increasing to decreasing mail volume, the prospect for further declines in First-Class Mail volume, and the Service's initiative to realign its mail processing and distribution network. Such changes create uncertainty about whether historical relationships between mail volume and mail processing costs continue to apply, since historically mail processing costs increased as mail volume increased and the Service expanded its mail processing infrastructure incrementally. We urge the parties to reconsider their reliance on formal litigation so that this issue can be addressed before the inception of the next rate case. Progress in this area could diminish the burden on the Service and other stakeholders who participate in rate cases. In this regard, we note that the parties have worked hard to reach negotiated settlements to the last rate case and several other rate and classification proceedings since then. Given these outcomes, it is reasonable to expect similar progress in the area of mail-processing volume variability if the parties have the will to resolve their differences. If the parties do not make progress, that will further indicate the need for a new rate-making structure, as the Commission has recommended, so that technical issues can be resolved in a more businesslike and expeditious manner.

Human Capital Issues

The Postal Service's human capital—its people—is critical to providing vital postal services to the American people and achieving a successful postal transformation. The Commission concluded that as valuable as the Postal Service is to the nation, its ability to deliver that value is only as great as the capability, motivation, and satisfaction of the people who make possible the daily delivery of mail to American homes and businesses. We agree. Only through the efforts of its workforce are more than 200 billion pieces of mail delivered, 6 days each week, to the American people. Thus, we agree with the Commission's conclusion that few of the reforms outlined in its report would be possible without the support and contributions of the Service's most mission-critical asset: its people. As we recently reported, an organization's people must be at the center of any transformation effort.²²

For this reason, the Commission focused on serious, long-standing issues in the human capital area that impose both statutory and practical constraints on the transformation of the organization. The problems can be grouped into three areas: (1) poor labor-management relations characterized by poor communication, lack of trust, excessive grievances, and difficulty negotiating labor contracts; (2) difficulty controlling workforce costs, including issues of workforce size, flexibility, pay comparability, workers' compensation, and escalating benefits costs; and (3) inadequate incentives for individual performance and the need for a stronger linkage between individual and organizational goals. The Commission proposed important changes in each of these areas, some of which would require the commitment of the parties to address them in a constructive manner, and some of which would require changes to existing law. Given the central importance of the Service's human capital, all of these proposals deserve close scrutiny and a fair hearing, despite the strong negative reactions that have been voiced by some stakeholders. Rather than declaring such proposals to be politically off-limits, we encourage Congress and the parties to approach these issues with open minds to explore whether a package of changes can be made that is mutually beneficial to the Service, its people, and the public. Much has changed in this area over the past 30 years, and the time is right to consider what statutory structure would be appropriate to enable the

²²U.S. General Accounting Office, *Results-Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, GAO-03-669 (Washington, D.C.: July 2, 2003).

Achieving Effective Labor-
Management Relations Will Be
Fundamental to Making
Progress

Postal Service to incorporate best practices and improve working conditions for its employees.

We and others have reported that adversarial labor-management relations have been a persistent issue for the Service and its major labor unions and have been a root cause of problems in improving the Service's operational efficiency as well as improving its culture and the quality of work life.²³ Poor communications, lack of trust, an excessive number of grievances, and difficulty negotiating labor contracts have been at the heart of labor-management issues. Such problems have increased the difficulty in constructively working on difficult issues involving the size, flexibility, compensation, benefits, incentives, and culture of the workforce. We are encouraged by recent progress in this area, such as reports by union officials of better communications, sharp reductions in the number of outstanding grievances, and labor contracts that were successfully negotiated between the parties without the need for binding arbitration. However, progress has been uneven and much more work remains to be done. We agree with the Commission's bottom line that Postal Service management must repair its strained relationship with postal employees.

Historically, autocratic management, persistent confrontation and conflict, and ineffective performance systems often characterized the organizational culture on the workroom floor. These problems resulted in an underperforming organization with major deficiencies in morale and quality of work life; huge numbers of grievances with high costs for the Service and its employees; and protracted, acrimonious contract negotiations. In our past reports, we found that these conditions have existed over many years because labor and management leadership, at both the national and local levels, have often had difficulty working together to find solutions to their problems. Under these circumstances, it was difficult for the parties to develop and sustain the level of trust necessary for maintaining a constructive working relationship and

²³The National Academy of Public Administration, *Evaluation of the United States Postal Service*, (Washington, D.C.: July 1, 1982); U.S. General Accounting Office, *Labor-Management Problems Persist on the Workroom Floor*, GAO-GGD-94-201A/B, (Washington, D.C.: Sept. 29, 1994); U.S. General Accounting Office, *Little Progress Made in Addressing Persistent Labor-Management Relations Problems*, GAO/GGD-98-1 (Washington, D.C.: Oct. 1, 1997); United States Postal Commission On a Safe and Secure Workplace, *Report of the United States Postal Commission On A Safe and Secure Workplace* (Washington, D.C.: Aug. 31, 2000); U.S. General Accounting Office, *Major Performance and Accountability Challenges*, GAO-03-118 (Washington, D.C.: Jan. 2003).

agreeing on major changes to maximize the Service's efficiency and the quality of work life.

Poor labor-management relations are incompatible with the Commission's vision of achieving a more positive and productive climate necessary for a high-performing organization with a culture of excellence. Such a culture change will require better labor-management relations in which the parties maintain open communications, develop trust, and are willing to take risks to achieve mutually beneficial results.

On the positive side, officials from some of the Service's unions have told us that they have seen improvements in labor-management relations in recent years. They cited examples of improved communication and collaboration at the national and local levels, including

- Quality of Worklife and Employee Involvement programs, in which union and management officials reportedly have successfully communicated and made progress on finding ways to improve efficiency and the work environment;
- Joint Contract Interpretation manuals, as well as training implemented jointly by labor and management officials, which are intended to prevent disputes as well as help resolve current disputes and the backlog of grievances; and
- An Ergonomic Strategic Partnership among the Occupational Safety and Health Administration (OSHA) and postal labor unions to improve workplace safety and reduce risk factors, particularly ergonomic-related hazards.

Reducing Grievances

As the Commission noted, employee morale is an essential element of an incentive-based culture, but is undermined when employee-management relations are acrimonious. We agree with the Commission that the high number of remaining grievances and the large backlog of grievances pending arbitration are an indication of strained relations between postal managers and workers, to the detriment of morale, productivity, and, ultimately, service to ratepayers. As the Commission concluded, satisfied employees are of far more value to the nation's postal endeavor than those in a contentious relationship with their employer. Thus, we agree with the Commission that it is imperative that the Service give clear direction that settlement of problems and cooperative labor-management relations are a

priority. Rather than allowing problems to fester on the workroom floor, better communications and improved working relationships are needed to resolve problems as they arise, minimizing the need to resort to the grievance process to resolve disputes. This will require greater accountability for both supervisors and those they supervise, as well as for top management. We agree with the Commission that the Service must hold managers accountable for any behavior that results in poor labor-management relations, and we believe this principle should apply equally to employees at all levels of the organization.

The Commission noted that encouraging progress is being made by the Service and the National Association of Letter Carriers in resolving grievances using a restructured and streamlined grievance process. It recommended that such progress be used as a model, with the Service working diligently with other unions to institute procedures aimed at reducing the time to process grievances and the number of grievances appealed to arbitration. Recognizing that the success of any process depends on the collective commitment of the parties, we encourage the Service and its unions to make continued progress in this area.

Difficulty Negotiating Labor Contracts

Since postal reorganization, the Service and its major labor unions have often found it difficult to negotiate labor contracts without resorting to binding arbitration. The Commission criticized the collective bargaining process as overly lengthy and litigious, providing few incentives for the parties to reach negotiated settlements. It made detailed statutory recommendations to improve the process, including mandating the use of a “mediation and arbitration” approach and specific deadlines for completing various process steps and accelerating final resolution period. Postal union officials have strongly opposed these recommendations, stating that the parties have used the “mediation and arbitration” approach in the past and have the flexibility within existing law to mutually agree on any process for contract negotiations. Union officials have also said that existing deadlines are already difficult to meet, in part due to scheduling difficulties involving the availability of mediators and arbitrators. In their view, success is dependent on “people” issues, including good working relationships, communications, and trust, rather than on the formal process. They also have noted that the current contracts between the Service and three of its four major postal labor unions were negotiated without the use of an arbitrator and asserted that these outcomes demonstrate that progress has been made within the existing structure. We recognize these points, but believe that, as with other human capital

Difficulty Controlling
Workforce Costs

issues, the time has come to re-examine all aspects of a structure that was developed more than 30 years ago.

Progress on controlling human capital costs will be critical to efforts to achieve “best execution” to sustain affordable universal postal service and to enhance the value of the mail. The Postal Service employed about 829,000 people at the end of fiscal year 2003, whose pay and benefits accounted for more than three-quarters of the Service’s expenses. In this regard, we note that a recent analysis prepared by PRC staff showed that for the period between fiscal years 1998 and 2002 postal wage costs increased by 3.3 percent over inflation and postal benefits costs rose 28.1 percent over inflation. The Commission concluded that the size of the workforce largely determines its costs, observing that it will be critical for management and labor to work together constructively to determine the right size of the postal workforce and to ensure appropriate flexibilities in its deployment. As we have previously reported, nearly half of the Service’s career workforce will reach retirement eligibility by 2010, creating an opportunity for the Service to gain resource flexibility through the attrition of retiring employees, while also minimizing disruption to its workforce.

We note that the Postmaster General initiated a constructive working relationship between national postal management and the leadership of its labor unions and management associations to deal with issues of mail security after anthrax was found in the mail. Such communication and partnerships cannot be legislatively mandated. However, better working relationships would help the Service and its employee organizations address difficult workforce size and flexibility issues in a manner that would allow the Service to rightsize its workforce in the least disruptive manner possible, including the ranks of both managers and their employees. All issues should be on the table, including work rules that constrain greater efficiency; working conditions that constrain the treatment, morale, and discretionary effort of the workforce; and constraints on having the most effective and efficient provider perform postal activities, including limitations on outsourcing.

Unresolved Pay Comparability Issues

We agree with the Commission’s conclusion that the most thorny issue in collective bargaining today is pay and benefit comparability. Although the parties disagree about whether a wage and benefit premium exists and about the basis for making these comparisons, the Service’s ability to control costs in this area will be critical to achieving a more efficient

organization. As we have previously testified, one of the limitations in the existing collective bargaining process is that the interests of all postal stakeholders, such as ratepayers, do not appear to have been sufficiently considered.²⁴ The Commission recommended that the Postal Reorganization Act be amended to clarify the term “comparability” and that the new Postal Regulatory Board should be authorized to determine comparable total compensation for all Postal Service employees. These recommendations have been strongly opposed by the Service’s major labor unions, variously opposing them as “draconian” measures that would “destroy” collective bargaining for postal workers. The unions have also questioned why a regulatory body headed by three political appointees should have the power to effectively set a cap on postal wages.

With respect to clarifying the comparability standard, one option could be to revisit the guiding principles incorporated into the statutory wage and comparability standard so that it would more fully reflect all stakeholder interests and the Service’s overall financial condition and outlook. These principles could specify that comparability includes total wage, compensation, and benefit costs, as well as the relationship of these costs to total costs, their impact on rates and revenues, and the Service’s overall financial condition. Another option could be to delete pay comparability provisions from the statute, as some postal union officials have suggested. This option would raise the issue of what, if any, standard would remain to guide negotiators and arbitrators in the collective bargaining process.

With respect to shifting authority over total postal compensation to a newly created regulatory body, we note that this change would appear contrary to the Commission’s principle that the Service needs additional flexibility to manage its operations. A related issue is how the Service will be able to pay competitive compensation for certain skills. We also question why a second body—in addition to the system of third-party arbitration—should be added to the already complex processes for determining postal pay and benefits. Thus, it is not clear whether this recommendation would add value to the collective bargaining process.

Another controversial Commission recommendation was that the Postal Service pension and postretirement health benefit plans should be subject to collective bargaining—meaning that the Service and its unions should have the flexibility to develop new plans that are separate and apart from

²⁴[GAO-03-812T](#).

existing federal pension and retiree health benefit plans. The Commission recognized that such a change could have an uncertain impact on the entire federal pension and retiree health benefit programs. Although the Service may have the authority under existing law to withdraw from the federal health program for its current employees under certain circumstances, it would still be required to contribute to the health costs of its current retirees. The Commission recommended that the Service work with the Department of the Treasury, the Office of Personnel Management (OPM), and other pertinent parties to determine the potential impacts that separate funds would have. Because these recommendations could have major effects on all federal employees, much more information would be needed in order to determine the potential impact of statutory changes in this area on the federal budget and employees. It is also not clear whether, as a practical matter, expanding the scope of collective bargaining to all postal benefits would result in cost savings for the Postal Service. For example, where the Service has flexibility, the Service has agreed in collective bargaining agreements to pay a higher percentage of health insurance premiums for its employees as compared to other federal agencies (about 85 percent vs. up to 75 percent).

Addressing Retiree Benefits Obligations

We agree with the Commission that the Service's substantial obligations for its retirement-related benefits need to be addressed, including benefits for pensions and retiree health. Key issues include how to assign responsibility and structure a mechanism for covering the costs of providing retirement-related benefits and how the accounting standards should be applied. In addition, concerns have been raised about how changes in funding these obligations could impact the federal budget, as well as postal ratepayers.

The recently enacted law (P.L. 108-18) changed the method by which the Service funds the Civil Service Retirement System (CSRS) pension benefits of its current and former employees to prevent a projected overfunding from materializing, while at the same time shifting responsibility for funding benefits attributable to military service from taxpayers to postal ratepayers. The law also required that, beginning in fiscal year 2006, the difference between the Service's contributions under the new and old funding methods—the "savings"—be held in an escrow account until the law is changed. To facilitate consideration of which agency—the Postal Service or the Treasury Department—should fund military service costs, the law required the Postal Service, the Office of Personnel Management, and the Treasury Department to each submit

proposals to the President, Congress, and the GAO by September 30, 2003. The law also required the Postal Service to submit a proposal to the same recipients on how it planned to use the future “savings.” We, in turn, have until November 30, 2003, to analyze these proposals and will provide our reports to Congress before Thanksgiving.

The Service submitted two proposals for use of the “savings,” both of which would affect postal rates to varying degrees.²⁵ The first proposal recommends that the Service be relieved of the burden of funding benefits attributable to military service, and that the Service, in turn, would prefund its retiree health benefits obligations for current and former employees, which has been estimated at approximately \$50 billion. This proposal is consistent with the Commission’s recommendation that responsibility for funding CSRS pension benefits relating to the military service of postal retirees should be returned to the Department of the Treasury. The second proposal is based on the premise that the Postal Service will remain responsible for funding military service benefits as currently required by P.L. 108-18. Under this proposal, the Service said that it would fund its retiree health benefits obligations only for its employees hired after fiscal year 2002 and use the remaining “savings” in priority sequence, to repay debt; and to fund productivity and cost-saving capital investments. This proposal appears consistent with the Commission recommendation that the Service should consider funding a reserve account for unfunded retiree health care obligations to the extent that its financial condition allows.

There are a number of key questions related to the Service’s proposals that we are considering as part of our mandated review, including

- What is the relationship of military service to federal civilian service and benefits?
- What have been the historical changes to the funding of CSRS benefits to Postal Service employees and retirees?

²⁵The Service has estimated that the additional rate increase impact in fiscal year 2006, above any inflationary increase, would be 2.0 percent under its first proposal and 0.3 percent under its second proposal.

-
- What correlation exists between the cost attribution and funding methods of the Federal Employees Retirement System (FERS) and the current CSRS methods applicable to USPS?
 - How have other self-supporting agencies funded CSRS benefits?
 - What are the various options for allocating military service costs?
 - What would be the effects of the Service's proposals on the unified federal budget? On ratepayers? On the Service's overall financial situation and transformation efforts?
 - What alternatives exist for funding health benefit obligations to existing postal retirees and employees and distributing that responsibility between current and future ratepayers?
 - What issues need to be addressed regarding the Service's accounting treatment of retiree benefit obligations?
 - What are the potential consequences to the Service and postal rates should the Service be required to make payments, beginning in fiscal year 2006, into an escrow account without the authority to spend the escrowed funds for postal purposes?

Reforming Workers' Compensation

Another benefit area where costs have been difficult to control is the Service's workers' compensation benefits.²⁶ The Commission found that under the Federal Employees' Compensation Act (FECA), the Service has maintained a broad and effective workers' compensation program and that recent efforts have lowered injury rates considerably. However, the Commission also concluded that the Service, given its unique status, should be provided relief from FECA provisions that were creating costly unintended consequences. The Commission recommended making the Service's workers' compensation program more comparable to programs in the private sector in order to control costs, provide adequate benefits, and address the Service's unfunded liability of \$6.5 billion in this area. We

²⁶U.S. General Accounting Office, *Recent GAO Reports on the Federal Employees' Compensation Act*, [GAO/T-GGD-97-187](#) (Washington, D.C.: Sept. 30, 1997); *Federal Employees' Compensation Act: Issues Associated With Changing Benefits for Older Beneficiaries*, [GAO/GGD-96-138BR](#) (Washington, D.C.: Aug. 14, 1996).

Inadequate Performance Incentives

believe that placing workers' compensation benefits on a par with those in the private sector merits careful consideration.

As the Commission pointed out, a key goal of human capital reform should be to establish an incentive-based culture of excellence. We have reported that leading organizations use their performance management systems to accelerate change, achieve desired organizational results, and facilitate communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing.²⁷ Modern, effective, and credible performance appraisal systems are a key aspect of performance management. The Commission concluded that the level of success achieved by the Postal Service will hinge on its ability to successfully deploy and motivate a talented, capable, nimble workforce of a size appropriate to the future postal needs of the nation and to give its employees a personal stake in the success of the institution's ambitious goals.

In this regard, we have reported that the need for results-oriented pay reform is one of the most pressing human capital issues facing the federal government today.²⁸ Successful implementation of results-oriented pay reform, commonly referred to as "pay for performance," requires modern, reliable, effective, and as appropriate, validated performance management systems. Such systems need adequate safeguards, including reasonable transparency and appropriate accountability mechanisms. In fiscal year 1995, the Service implemented a pay-for-performance system for its executives, managers, postmasters, supervisors, and other nonbargaining employees. This system was discontinued in fiscal year 2002, in part because of concerns that large payouts were made when the Service was recording large deficits. The Service revised its merit-based pay program for its executives and officers in fiscal year 2002 and revised its merit-based pay program for its postmasters, managers, and supervisors in fiscal year 2004.

²⁷U.S. General Accounting Office, *Results-Oriented Cultures: Using Balanced Expectations to Manage Senior Performance*, [GAO-02-966](#) (Washington, D.C.: Sept. 27, 2002).

²⁸U.S. General Accounting Office, *Results-Oriented Cultures: Modern Performance Management Systems Are Needed to Effectively Support Pay for Performance*, [GAO-03-612T](#) (Washington, D.C.: Apr. 1, 2003).

Given the concerns that led to the overhaul of the Service's previous merit-based pay systems, it is important that these systems be evaluated to ensure that they are administered fairly and provide meaningful incentives. Such incentives would require valid measures that correspond with individual and organizational performance goals, as well as targets that are sufficiently challenging that they are not met automatically. For example, any productivity-based measures should result in real and measurable savings.

In addition, as we have reported, proposed changes to the Senior Executive Service could provide a model for better linking pay and performance of senior executives.²⁹ For example, the proposed Senior Executive Service Reform Act of 2003 includes a number of important reforms that would increase the pay cap for senior executives while also linking their pay more closely to performance. Similar issues would appear to apply to lifting the statutory pay cap for postal executives.

Over the years, the Service's major labor unions have consistently opposed extending a pay-for-performance system to craft employees. Presidential Commissioner Norman Seabrook shared their concerns, stating that in practice, pay for performance systems are characterized by nepotism, favoritism, and horrible morale among the workers. Union concerns also include tying employee compensation to results that depend in part on external events beyond their control as well as on the quality of postal management. It is reasonable to question whether a pay-for-performance system could be agreed on, implemented, and successful in the face of strong opposition of national and local union leaders. Union concerns are understandable because past history has led some union officials to question whether a pay-for-performance system could be successfully implemented.

Nevertheless, as the Commission pointed out, properly designed performance-based compensation can serve as a powerful communications and motivational tool, helping employees understand how they can contribute to the Service's financial health and success—and be rewarded for their efforts. In our view, aligning the interests of individual workers with the specific performance goals of the Service will be essential for the future. As the Commission concluded, the desire of the

²⁹U.S. General Accounting Office, *Human Capital: Building on the Current Momentum to Address High-Risk Issues*, [GAO-03-637T](#) (Washington, D.C.: Apr. 8, 2003).

workforce to make the modernization of the nation's postal network a success, along with its willingness to make possible the Service's ambitious goals to rein in costs while improving productivity and service, will in no small part determine the success or failure of the entire transformation endeavor, and, ultimately, the fate of universal service at affordable rates.

As the above discussion illustrates, human capital reform is necessary, but many issues remain to be resolved. We believe that key questions for Congress to consider include:

- What statutory changes can be made that would provide additional incentives for the Service, its employee organizations, and its employees to resolve their differences in an appropriate and expeditious manner, including through the grievance process and at the bargaining table? What opportunities exist to facilitate better communication, streamline lengthy processes, and minimize their cost?
- Should the existing statutory standards for comparability of postal wages and benefits be clarified to include specific performance criteria and factors upon which a comparison must be made, such as the Service's overall financial condition and outlook?
- If comparability standards are retained, should they be enforced by an outside regulatory body or should they be considered self-enforcing through the collective bargaining process?
- What practical consequences could be expected if all postal benefits, including all health and retirement benefits, became subject to the collective bargaining process? What would be the potential effects on the financing of benefits for employees of both the Service and the rest of the federal government? Could increases in postal benefits costs also be expected over time, given the Service's history of agreeing to pay a larger share of insurance premiums than other federal agencies pay?
- Should workers' compensation benefits for Service employees be greater than those generally available to private sector employees? What opportunities exist to provide incentives to minimize workers' compensation costs?
- Should the statutory pay cap on postal executives be lifted, and, if so, how would executive pay be linked to performance? Would increased accountability apply to postal executives for individual and organizational results, particularly when problems arise? What

disclosure of postal executive compensation—including bonuses and other forms of compensation—would be appropriate to incorporate best practices that have been put into place in the private sector?

The Postal Service Needs to Maximize Progress within Its Current Legislative Structure

While the Commission made a number of recommendations that require legislative changes, it also made suggestions for improving efficiency and service that can be implemented under the current law. These recommendations centered on standardizing and streamlining the postal network, both the processing and distribution infrastructure and retail facilities, with major efficiency gains accruing from changes in the processing and distribution network. The Commission commended the Postal Service for undertaking an ambitious effort, the Network Integration and Alignment project, to rationalize the processing and distribution network. We agree that this project could exert meaningful influence on the Service's efficiency, but we have concerns about the lack of publicly available information on the Service's plans and related funding strategies in this area. The Commission also pointed out that better postal data would aid the Service's efforts to increase efficiency. We believe that the availability, accuracy, and relevance of postal data should be central to any meaningful transformation effort.

The Commission recommended a core philosophy for an improved national mail service—the concept of best execution. This concept, as described by the Commission, includes employing corporate best practices in all operations, as well as selecting the provider who can perform the service at the highest level of quality for the lowest cost. Best execution has important implications for the Postal Service because it means that the Service should consider who could perform the work best, postal employees or private sector providers, when considering outsourcing and expanding worksharing opportunities. Some postal union officials have stated that the Service can provide better execution than private sector providers. While this may be true, best execution may be difficult to realize under the existing environment due to

- lack of incentives to perform at the highest level possible;
- an outdated, inefficient infrastructure; and
- insufficient data to assess the true cost of operations.

We have addressed the issue of lack of incentives in a previous section. In the next sections we will discuss the importance of economy and efficiency in the postal network and related data issues.

Factors That Hinder Economy and Efficiency in the Postal Network

The Commission characterized the current postal network as too costly, too inefficient, too large, and lacking standardization. It envisioned a streamlined, standardized network capable of delivering universal service in the most efficient and cost-effective manner possible. We believe this vision is achievable if approached in a comprehensive, integrated fashion, and supported by postal stakeholders. However, practical impediments may hinder the Postal Service from rightsizing its infrastructure. Historically, the Service has encountered resistance from employees, mailers, communities, and Congress when it attempted to close facilities. Proactively working with stakeholders to garner input and support for its infrastructure initiatives may address legitimate concerns and thereby alleviate some of this resistance. Another impediment has been the Service's limited options for funding capital improvements. Earlier we discussed how retained earnings could increase the Postal Service's funding flexibility. However, this change would require legislative action. If the Service is to achieve best execution, it should increase current efforts to address problems with its infrastructure. The Service also needs to identify its funding needs for implementing its plans in this area. For purposes of our discussion we have separated the postal infrastructure into two distinct, yet inter-related, areas: (1) the network of post offices and other retail facilities and (2) the network of mail processing and distribution facilities.

Difficulties in Optimizing the Postal Retail Network

The Commission concluded that the Service needs to constructively address the fact that many of the nation's post offices are no longer necessary to fulfill the universal service obligation. We understand that making changes to retail operations is often controversial because communities do not like to lose their local post offices and changes in this area are often perceived as a reduction in services. Unfortunately, the Postal Service has not done enough to inform the public of the many retail options currently available. Currently there are over 70,000 locations where stamps are sold, such as ATMs, grocery and other retail stores, and postal vending machines. Stamps can also be purchased via the Internet, through the mail, or from rural carriers. In addition, the Service is extending retail access to 2,500 self-service kiosks and Hallmark Gold Crown card shops. Yet, about 80 percent of all stamp revenue is still generated at the retail counter. Two Commission recommendations in this area that we concur with were: (1) the Service should dramatically

escalate its efforts to increase alternative access to postal services, and (2) the Service should market these alternatives more aggressively.

We believe that the Service should strive to improve accessibility to postal retail services as it implements its strategy of rationalizing its retail network, including closing post offices. The Service's Transformation Plan stated that the Service would create new, low-cost retail alternatives to extend the times and places that its services are available, including self-service, partnerships with commercial retailers, and Internet access to retail services. The plan said that the Service has begun a retail network optimization process, in which redundant retail operations would be consolidated, starting with poor-performing contract postal units, and replaced with alternative methods of retail access. The optimization process involves a national retail database that is to be used with a criteria-based methodology for modeling retail optimization and restructuring scenarios. The Service has also said it intends to expand retail service in markets where it is underrepresented, while reducing retail infrastructure in markets where it is overrepresented.

Under current law, the Service is not allowed to close post offices for economic reasons alone. The Commission recommended that legal restrictions that limit the Service's flexibility in this area be repealed and that the Service be allowed to close post offices that are no longer necessary for the fulfillment of universal service. While we agree that the Service should have the ability to align its retail network with customer needs in order to fulfill its universal service obligation in a cost-effective, efficient manner, we also believe that the Postal Service must assure Congress that the alignment will be done in a fair, rational, and fact-based manner.

In contemplating the Commission's recommendation to repeal the post office closing law, we have identified the following key questions:

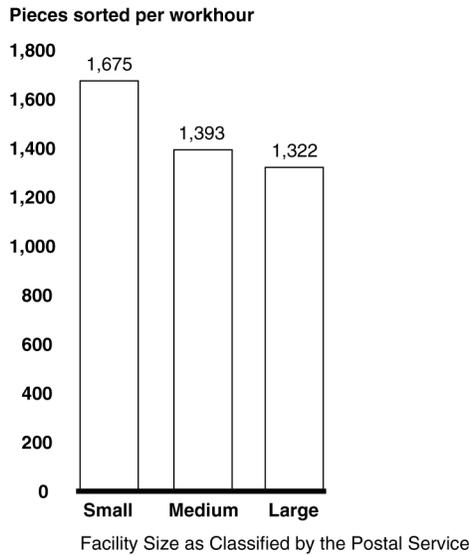
- What national standards, if any, should apply to universal access to postal retail service?
- What criteria and process should be used to realign the Service's retail infrastructure?

Difficulties in Optimizing the
Postal Processing and
Distribution Network

- Should the Service have greater freedom to reshape its retail infrastructure, or should Congress have involvement in such decisions, possibly by using a model such as the military base-closing process to close post offices that are no longer needed?
- Should current statutory restrictions on closing post offices be retained, modified, or repealed?
- What transparency and accountability is appropriate in this area?

The Commission found that the Service's processing and distribution network is plagued with problems, including lack of standardization, inefficiency, and excess capacity. The Service has approximately 500 facilities dedicated to processing the mail that do not share a standard footprint for architectural design, equipment complement and layout, or mail processing procedures. The lack of standardization may be one of the contributors to variations in productivity among mail processing facilities. Smaller facilities, as measured by volume, number of employees, and physical space, tend to have higher productivity, which is a possible indication of diseconomies of scale. For example, on average, small facilities tend to handle more mail, relative to work hours expended, than large facilities (see fig. 3). Standardizing operations across facilities may minimize diseconomies of scale and should be considered as part of planning plant consolidations or closings. In addition, standardization of processing and distribution facilities is widespread in process-oriented industries where standardization is viewed as vital to increased flexibility and efficiency. It may be difficult for the Service to become a world-class organization without establishing a standard footprint throughout its processing and distribution network.

Figure 3: Productivity of Mail Processing Plants, by Facility Size, in Fiscal Year 2001



Source: Postal service data; GAO analysis.

In addition to the lack of standardization, the Service’s processing and distribution facilities may not be optimally located. To a large degree, the processing and distribution network has evolved gradually in response to volume growth. Figure 4 shows the location of the Service’s processing facilities in the continental contiguous United States. Distributing mail between these facilities utilizes thousands of transportation lanes and results in too many partially full trucks traveling between plants. Better utilization of trucks and lanes may save the Postal Service money and, if properly executed, could improve service.

Figure 4: Location of Postal Service Mail Processing Facilities



Source: GAO based on Postal Service data.

Another issue raised by the Commission related to the processing and distribution network is the assertion that the Postal Service has too many facilities, and the ones it has are not always used effectively, resulting in excess capacity throughout the network. Excess capacity can be very costly as it may require increased maintenance, facility, and labor costs. With changes in the types and volumes of mail and advances in both processing and information technology, the current network may be too large. We caution, however, that any consolidation plan should consider the effects of potential diseconomies of scale. Consolidating small facilities that may be more efficient into inefficient large facilities may not achieve the desired cost savings or service improvements. To achieve sustained cost savings, the Service will need to take a critical look at how to standardize and rightsize the processing and distribution network to maximize efficiency. As we have previously reported, any effort to rationalize the Service's processing network must also take into

No Public Plan and Limited Stakeholder Engagement on Network Rationalization Strategy

consideration the increased safety and security needs created by the anthrax attacks and the proper extent and location of mail safety equipment.³⁰ Other considerations also include how network realignment could affect the need for a mix of workforce skills and abilities, as well as workforce diversity and demographics.

The Commission noted the importance of the Service working with stakeholders to successfully implement best execution strategies, streamline the postal network, and decide the fate of unnecessary postal facilities. We agree. However, to date, the Service has not made public a comprehensive infrastructure rationalization plan and has had limited engagement with stakeholders who may be affected. Such a plan should lay out the Service's vision and how it plans to reach it, including the criteria, process, and data it uses to make its decisions. In our view, the lack of this type of information will likely lead to suspicion and lack of trust about the objectivity, fairness, and impartiality of Service decisions and the lack of input from stakeholders could prevent the Service from achieving the goal of a more efficient network. Further, we believe that it is essential for the Service to engage its stakeholders in its plan development process to address legitimate concerns and minimize disruption, thus alleviating some of the resistance that is often encountered when the Service tries to close facilities.

A comprehensive network integration and rationalization plan will be important for Congress to have regardless of whether a commission is established to consider network rationalization. One of the most important deliverables in the Service's Transformation Plan, the Network Integration and Alignment (NIA) project, is a set of processes and tools used to analyze the optimal number, locations, and functions of mail processing and transportation facilities. The NIA strategy was to have been developed by the fall of 2002. The Service did not meet this time frame, and the Commission has reported that the Service hopes to begin putting the new strategy into effect at the end of this year. It has already begun to close some types of facilities and build others, without disclosing how these activities fit into the NIA strategy.

To succeed in optimizing its networks, the Service must work with its key stakeholders, including employee organizations, the mailing industry, affected communities, and Congress. However, based on difficulties it has

³⁰ [GAO-03-812T](#).

encountered in the past, the Service appears to be reluctant to divulge its network optimization plans, including the timing and funding needs associated with these plans, to Congress or its stakeholders. We believe that the Service will face more resistance if it approaches transformation in an insular, incremental fashion. For example, some union representatives have acknowledged that the Postal Service needs to rationalize its infrastructure, and they have committed to working with the Service to achieve this goal. However, they have received limited information to date concerning the Postal Service's plans for closings and consolidations. Likewise, various mailers have expressed concern that the Postal Service does not adequately seek input regarding customer needs when planning major changes. This concept is anathema to best practices employed in private sector service industries.

Recognizing the difficulties the Service has experienced in rationalizing its network, including closing unneeded facilities, the Commission recommended that Congress establish a Postal Network Optimization Commission (P-NOC), similar to the base-closing model and provisions in proposed postal reform legislation introduced by Senator Carper. The P-NOC would be charged with making recommendations to Congress and the President relating to the consolidation and rationalization of the Service's mail processing and distribution infrastructure. Under the Commission's proposal, P-NOC recommendations would become final unless Congress disapproves them in their entirety within 45 days. The intent of this recommendation corresponds with our observation that a base-closing model may prove necessary to address politically sensitive changes to postal facilities.

Regardless of whether or not a P-NOC is implemented, the following three key factors will be needed to guide decisions:

- principles for rationalizing infrastructure that are fact-based, clearly defined, and transparent;
- players who should be involved in making the decisions; and
- processes that should govern how decisions are made and implemented.

Identify Funding Needs and Strategies

To accomplish major transformation, the Service will need to identify its funding needs related to its major transformation initiatives and its strategies for funding these initiatives. Historically, postal policy has been to fund capital expenditure as much as possible through cash flow from

operations, with shortfalls financed through debt. By law, the Postal Service's total debt cannot exceed \$15 billion, and annual increases in the Service's outstanding debt cannot exceed \$3 billion. In fiscal year 2001, the Service was faced with insufficient cash flow from operations and with debt balances that were approaching statutory limits. Consequently, the Service imposed a freeze on capital expenditures for most facilities that continued through fiscal years 2002 and 2003. Implementing best execution strategies is difficult under these circumstances, especially since the Service has not specified what its funding needs will be to rationalize its infrastructure and implement other Transformation Plan initiatives. More information in this area would be useful for Congress and other stakeholders to understand the Service's future financial needs. It would also be useful for the Service to assess what funding it could receive from continuing to identify and dispose of surplus real estate.

The Commission recommended that the Postal Service be encouraged to include policy and goals related to the active management of its real estate in future strategic plans. Disposing of surplus real estate would not only save the Postal Service maintenance and repair expenses but may also provide a source of funds that can be used to finance capital projects. Furthermore, aggressive management of its underutilized real estate assets could also facilitate local redevelopment. In addition, passage of the Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 108-18) provided the Postal Service with some financial relief. Outstanding debt at the end of fiscal year 2004 is budgeted to be \$2.6 billion to \$3.1 billion, down from an estimated \$7.3 billion at the end of fiscal year 2003 and \$11.1 billion at the end of fiscal year 2002. We believe the Service has a window of opportunity for financing major infrastructure changes that may not last long if First-Class Mail volumes continue to decline. Taking advantage of this opportunity could better position the Service for the future.

Opportunities to Strengthen Information Technology Investment Management

As the Service has recognized, improving its information technology (IT) infrastructure should be considered as part of any network rationalization project. We share the view of the Commission that transformation should include enhanced information systems because streamlined and integrated operations will require a strong IT infrastructure. The Service has a number of IT initiatives designed to enhance the efficiency of the processing and distribution network that are currently at various levels of deployment. Among these is the Intelligent Mail program, the Surface Air Management System, and the Transportation Optimization Planning and Scheduling system. While the Service's IT initiatives may provide enhanced IT capabilities, it is not clear how they will be integrated or when they will be fully deployed.

As we have previously reported, the Service has established significant capabilities for managing its IT investments, but shows mixed progress in managing its IT investments as a portfolio. The Service has not utilized criteria that adequately address cost, benefit, schedule, and risk so that it can effectively analyze, prioritize, or select its investments from a portfolio perspective. Also, the Service does not regularly evaluate completed projects and currently has no institutionalized processes that enable it to learn from its current practices and investments and from other organizations. Accordingly, the Service cannot ensure that it is selecting leading-edge IT investments that will maximize returns to the organization and achieve strategic change.³¹

Data Issues Related to
Achieving Greater Efficiency

Accurate cost and performance data are the cornerstone of efficiency improvements and are vital if the Service is to achieve best execution. In this regard, the Commission noted that the Service could use better real-time information on the location of individual mail pieces and the containers they travel in to improve its efficiency, such as re-routing mail to less busy facilities to ensure its more rapid processing, as well as adjusting for weather conditions or vehicle breakdowns. In addition, to determine best execution, the Service would need to know how much each process, function, and operation actually costs to perform and how these functions interrelate. For example, when determining what portion of overall operations may be performed cheaper by the private sector, it would be necessary to know what the actual cost and quality of each function is and what the effect on overall costs and quality would be if this function were contracted out. Some unions, mailers, and other groups have raised concerns about the information used to make outsourcing decisions, as well as the accuracy of data systems used to measure performance and productivity.

Recognizing that it will need improved cost information, the Service reports that it is currently implementing an activity-based costing system in over 380 mail processing facilities, which is intended to provide specific data to managers to help them evaluate and reduce operational costs. In addition, the Service has continued implementing the recommendations of the 1999 Data Quality Study to improve key postal cost data. Data quality

³¹U.S. General Accounting Office, *United States Postal Service: Opportunities to Strengthen IT Investment Management Capabilities*, GAO-03-3 (Washington, D.C.: Oct. 15, 2002).

issues continue to be of interest to the House Committee on Government Reform, which has asked GAO to follow up on the Service's progress in this area. Others with expertise in postal data quality issues, such as the Postal Rate Commission and the Postal Service's Office of Inspector General, may have insights on costing and performance data necessary to address issues that have been raised by the Commission's proposals. Later this year, the Postal Rate Commission plans to host public sessions where staff from the Service will provide briefings on changes the Service has made to update data systems related to carrier costs and on recent changes in the Service's accounting and reporting systems. Such constructive exchanges help to further mutual understanding and progress on data quality issues. Continued focus on improving the quality of postal costing and performance data would also be necessary to successfully implement the Commission's proposals.

Conclusion

We and the Commission agree that the Service faces an uncertain future. Also, we agree that both congressional action on comprehensive postal reform legislation and continued actions by the Postal Service to make improvements under its existing authority are necessary to ensure the future viability of the Postal Service. The Commission's key conclusions, consistent with our past work, were that the Service faces financial pressure due to its outmoded business model, significant financial obligations, operating inefficiencies, electronic diversion and mail volume trends, and statutory and practical constraints. The Service's current business model is not sustainable in today's competitive environment. Thus, we believe that now is the time to "get it right" and modernize the statutory framework that governs the Service.

In addition to statutory reform, we agree with the Commission that the Service can and should do more within its existing authority to work toward "best execution" that incorporates corporate best practices and enables those who can perform best and for the best price to provide postal activities, whether that is the Service, the mailing industry, transportation firms, or other companies. The Service has many opportunities to become more efficient, such as by standardizing its operations and reducing excess capacity of its network. Impending retirement of much of the Service's workforce also creates an opportunity for the Service to realign its workforce through attrition. The Commission's vision of rightsizing the Service's infrastructure and workforce is achievable if approached in a comprehensive, integrated fashion, and supported by postal stakeholders.

However, since the Service issued its Transformation Plan in April 2002, it has not provided adequate transparency on its plans to rationalize its infrastructure and workforce; the status of initiatives included in its Transformation Plan; and how it plans to integrate the strategies, timing, and funding necessary to implement its plans. In addition, the Service has had limited constructive engagement with employee organizations, the mailing industry, affected communities, and Congress with regard to its efforts to implement its key transformation initiatives related to rationalizing its infrastructure and workforce. As the Service knows from the difficulties it has encountered when it has tried to make changes to its facility locations in the past, these decisions can be highly controversial. However, if those who are potentially affected by such decisions do not have sufficient information about how they may be impacted by proposed facility changes, the Service is unlikely to gain the necessary support to successfully achieve a much more efficient network.

Matter for Congressional Consideration

In view of the Service's continuing financial, operational, and structural problems, as well as trends that increase the urgency of making rapid progress in transforming its organization, we believe that Congress should consider the Commission's recommendations as well as GAO's reform suggestions and enact comprehensive postal reform legislation. Some of the key areas that need to be addressed as part of comprehensive reform legislation include clarifying the Service's mission and role; enhancing governance, accountability, oversight, and transparency; improving regulation of postal rates; and making human capital reforms.

Recommendation for Executive Action

To facilitate the Service's progress in implementing actions under the existing system, we recommend that the Postmaster General develop an integrated plan to optimize its infrastructure and workforce, in collaboration with its key stakeholders, and make it available to Congress and the general public. In addition, the Postmaster General should provide periodic reports to Congress and the public on the status of implementing its transformation initiatives and other Commission recommendations that fall within the scope of its existing authority. Postal officials have agreed to take these actions.

Chairman Collins, that concludes my prepared statement. I would be pleased to respond to any questions that you or the Members of the Committee may have.

Contact and Acknowledgments

For further information regarding this testimony, please call Bernard L. Ungar, Director, Physical Infrastructure Issues, on (202) 512-2834 or at ungarb@gao.gov, or call Linda Calbom, Director, Financial Management and Assurance, on (202) 512-8341 or at calboml@gao.gov for pension and retiree health issues. Individuals making key contributions to this testimony included Teresa Anderson, Gerald P. Barnes, Joshua Bartzen, Alan Belkin, Amy Choi, Margaret Cigno, Keith Cunningham, William Doherty, Brad Dubbs, Kathleen A. Gilhooly, Kenneth E. John, Roger Lively, Scott McNulty, and Lisa Shames.

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
 TDD: (202) 512-2537
 Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548