
**Hearing before the Subcommittee on Federal Workforce,
Postal Service, and the District of Columbia
Committee on Oversight and Government Reform
United States House of Representatives**



**Oral Statement
On the
Financial Stability of the Postal Service**

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**David C. Williams
Inspector General
United States Postal Service**

Mr. Chairman and members of the subcommittee, the Postal Service's current financial condition is fragile, and the future is uncertain. The Postal Service lost \$2.8 billion in 2008 and may lose more than \$6 billion this year. Yet these losses should be placed in context. Without the payments to prefund retiree health benefits, the Postal Service would have earned \$2.8 billion in 2008, and its anticipated net loss in 2009 would be \$1 billion.

Mail volume has declined for the last eight quarters, and the rate of decline is accelerating.

- Single-piece First-Class Mail volume continues to give way to the Internet as expected.
- New declines in business and advertising mail are closely connected to the condition of the hardest hit sectors in this historic economic crisis.
- The Postal Service must make eight more annual payments averaging \$5.6 billion each to prefund retiree health benefits.
- The Postal Service's annual borrowing limit of \$3 billion may not be enough to cover the gap between revenue declines and cost cutting measures. This could cause the Postal Service to run short of cash to pay all of its bills.

As a near term strategy, the Postal Service is chasing revenue declines with cost cuts to limit losses. For example —

- Even before the recent volume losses, the Postal Service had reduced its workforce through attrition by more than 134,000 career employees since 1999. This year, the Postal Service has set a challenge of reducing the equivalent of 48,000 full-time employees.
- The Postal Service has streamlined its network operations, closing airport mail centers, annexes, and remote encoding centers. It is increasing its efforts to consolidate processing facilities. However, if staff reductions are not coordinated with facility reductions, the Postal Service runs the risk of having protracted anemic staffing within an oversized network.
- Working with the city and rural carriers, the Postal Service has started restructuring its delivery routes to reflect declining mail volume.
- The Postal Service is reducing authorized staff at headquarters and area and district administrative offices.
- Through a new “rapid negotiation” program, the Postal Service plans to work with its contractors to cut more than \$1 billion from existing contracts.

But cost reductions must be done carefully. One concern is that the Postal Service may cut costs so rapidly and broadly that it will be difficult to monitor the changes and guard against unintended consequences. Aggressive cost reduction in the short term could adversely affect service, productivity, and the Postal Service’s ability to offer innovative products, and paradoxically reduce its profits in the long term.

Even if the Postal Service achieves its desired cuts, there will still be a gap between costs and revenues of as much as \$6 billion if current estimates hold.

Actions beyond the Postal Service's authority may be needed:

- The Postal Service has requested limited prefunding relief. I support its request. Moreover, in this current economic climate, it may be appropriate to skip the mandated prefunding payment for 1 year or restructure the payments. The large prepayments of more than \$5 billion a year are greater than the Postal Service's annual net income in its very best years. The Postal Service is forced to borrow to meet this aggressive payment schedule. Borrowing today to set aside money for a debt that will be due in the future is an unusual practice.
- Removing the annual \$3 billion debt limit should be considered. The current limit of \$3 billion per year may encourage unnecessary borrowing to retain cash as a hedge against future needs.

Beyond the current crisis, the larger issue that must be explored from an elevated vantage point is the unfolding information revolution. New social dynamics and technological innovations such as the Internet are bringing great changes to the use of shipping and mailing services. Other sectors such as newspapers, periodicals, and telecommunications are also being transformed. Close monitoring and in-depth analysis are needed to ensure that the essential roles of these industries are fulfilled and that the needs of all Americans, including those in rural and poor urban areas, continue to be met.

The Postal Service, along with its stakeholders, must focus strategically on its future to discover viable options and find its place with other information age industries. Change, however beneficial, is disruptive, and my office is very cognizant of the fact that more than 700,000 families directly depend on the Postal Service for their livelihoods. However, these families are at risk of becoming the first casualties if the Postal Service is unable to adapt rapidly to this new and changing environment.