

July 2004

U.S. POSTAL SERVICE

USPS Needs to Clearly Communicate How Postal Services May Be Affected by Its Retail Optimization Plans

This report was initially issued on July 13, 2004. It was reissued on July 16, 2004, with the following changes to page 3, paragraph 1, sentences 3 and 4:

“about 95 percent of USPS’s customers” was changed to “most of USPS’s customers”

“about 40 percent of customers” was changed to “about 32 percent of customers”

“about 33 percent of customers” was changed to “about 41 percent of customers”

In addition, in the first line of figure 7 on page 23, the following change was made:

“Provided mail delivery to almost 37 million addresses” was changed to “Provided mail delivery to almost 35 million addresses”



Highlights of [GAO-04-803](#), a report to the Chairman, Committee on Governmental Affairs, U.S. Senate

July 2004

U.S. POSTAL SERVICE

USPS Needs to Clearly Communicate How Postal Services May Be Affected by Its Retail Optimization Plans

Why GAO Did This Study

A key element of the ongoing postal reform deliberations before Congress is the U.S. Postal Service's (USPS) ability to carry out its mission of providing universal mail delivery and retail services at reasonable rates. Many are concerned that USPS's mission is at risk in the current operating environment of increasing competition and decreasing mail volumes. Preserving universal service, particularly in rural areas, is a goal of postal reform. GAO was asked to discuss (1) how USPS provides universal mail delivery services and access to postal services in both rural and urban areas; (2) what changes USPS is making or plans to make related to providing postal services, including changes that may affect rural areas; and (3) what are the major issues that have been raised related to how USPS provides postal services.

What GAO Recommends

To provide convenient and cost-effective services, GAO is recommending that the Postmaster General provide improved transparency and communication to Congress and other stakeholders through additional information related to its retail optimization initiative, including the criteria USPS will use to guide its decisions; USPS's process for involving stakeholders; the impact on customers; and the time frames for implementation. USPS agreed to review its communication processes, but not to specify its criteria or time frames.

www.gao.gov/cgi-bin/getrpt?GAO-04-803.

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

What GAO Found

USPS provides its customers, regardless of where they live, with services that include mail delivery at no charge and access to retail services. However, differences exist in how, when, and where USPS provides these services. These differences have always existed due to the nation's geographic diversity and changes in technology, transportation, and communications. Universal postal service is not defined by law, but appropriations legislation requires 6-day mail delivery and prohibits USPS from closing small, rural post offices. Delivery and retail decisions are made primarily by local USPS officials with overarching guidance provided by national policies and procedures. Local decisions are based on cost and service factors, including the number and location of deliveries, quality of roads, employee safety, and mail volume.

Postal Services Have Been Provided in Different Ways Over Time



In the early 20th century, customers relied on their local post office to obtain postal services. Changes in technology and demographics have helped bring about the development of new ways to access postal services, such as from self-service machines or through the Internet.



2004

Sources: Minnesota Historical Society, USPS.

USPS has taken actions, and is planning future actions, to improve the efficiency of its delivery and retail networks. Overall, customers in urban and rural areas will probably not see significant changes in delivery services since most changes are focused on operational improvements. On the retail side, USPS plans to provide more cost-effective and convenient service by developing new, low-cost alternatives; moving stamp-only transactions away from post office counters; and optimizing its retail network. USPS's retail optimization involves tailoring services to communities' needs and replacing "redundant, low-value access points with alternative access methods." It remains unclear how customers in rural areas will be affected by these retail initiatives since most are planned for high-growth, high-density areas.

Generally, postal customers are satisfied with the services provided to them. The issues that have raised the greatest concerns from customers include inconsistent mail delivery and the threat of post office closings or reductions in post office hours. Also, concerns have been raised about USPS's limited communication regarding its planned changes to its networks. USPS's retail optimization could be an opportunity for USPS to reduce its costs while improving customer service. However, USPS needs to provide additional transparency and accountability mechanisms to better communicate its retail optimization plans and raise stakeholders' confidence that decisions will be made in a fair, rational, and fact-based manner.

Contents

Letter

Results in Brief	1
Background	3
Differences Exist in How USPS Provides Delivery and Retail Services	5
Actions to Improve Delivery and Retail Services	9
Key Issues Include Delivery Inconsistencies and the Uncertain Future of Retail Network	26
Conclusions	30
Recommendation for Executive Action	37
Agency Comments and Our Evaluation	38

Appendixes

Appendix I: Objectives, Scope, and Methodology	40
Appendix II: Number of Post Offices by State, Year-end 2003	42
Appendix III: Agency Comments from the United States Postal Service	44

Tables

Table 1: Key Events in Postal History, 1775-2004	6
Table 2: Key Delivery Decisions Made by Local Officials	10
Table 3: USPS Policies and Procedures for Establishing Carrier Routes	12
Table 4: Information on Selected Route Types, Fiscal Year 2003	13
Table 5: Post Offices, Stations, and Branches: Fiscal Year 1980 Compared with Fiscal Year 2003	24
Table 6: Customer Issues Documented by USPS, First 2 Quarters of Fiscal Year 2004	32

Figures

Figure 1: Number of Post Offices per Capita Has Been Decreasing	8
Figure 2: Rural Routes Cumulatively Have Grown at a Much Greater Rate Than City Routes	14
Figure 3: Rural Routes Are Becoming More Dense	15
Figure 4: USPS's Different Modes of Delivery, Fiscal Year 2003	16
Figure 5: Modes of Delivery, Fiscal Year 2003	18
Figure 6: Overview of the Retail Network	20
Figure 7: Retail Alternatives Moving Away from Traditional Post Offices	22

Abbreviations

NALC	National Association of Letter Carriers
NDCBU	Neighborhood Delivery Collection Box Unit
NRLCA	National Rural Letter Carriers Association
PRC	Postal Rate Commission
USPS	United States Postal Service

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.



United States Government Accountability Office
Washington, D.C. 20548

July 13, 2004

The Honorable Susan M. Collins
Chairman, Committee on Governmental Affairs
United States Senate

Dear Chairman Collins:

The challenges facing the U.S. Postal Service (USPS)—that is, record declines in mail volumes for some high-margin products, difficulties in controlling costs and enhancing revenues, and increases in competition—are not temporary problems that will fade away. Nevertheless, a common message voiced by many postal stakeholders is that although change is needed to address these and other significant challenges, the concept of universal postal service needs to be preserved. These stakeholders believe that providing universal postal service is the cornerstone of USPS's mission; is essential to the nation's communications network and economy; and is vital to the American people, many of whom rely upon the consistency of mail delivery and convenient access to the retail postal network. The concept of universal postal service, however, is not clearly defined in law and has evolved over time with changes in technology, transportation, and communications. These changes are continuing today, raising some concerns about how they may affect future postal services—including those in rural areas. USPS has noted that rural delivery continues to provide a vital link between urban and rural America. Some Members of Congress have stated that post offices are fundamental to the identity of small towns, providing them with an economic and social anchor.

A key discussion point in ongoing postal reform deliberations in Congress is USPS's ability to carry out its mission of providing universal mail delivery and postal retail services at reasonable rates. In April 2001, we reported on the financial, operational, and human capital challenges that threaten USPS's ability to carry out its mission in the 21st century and remain self-supporting through postal revenues. We placed USPS's transformation efforts and long-term outlook on our high-risk list and recommended that USPS develop a comprehensive plan to determine the actions needed to address its major challenges. USPS issued its Transformation Plan a year later, which identified steps to guide future USPS operations. This plan included specific actions aimed at making the delivery and retail networks more efficient and convenient for customers, including promoting more efficient delivery routes and utilizing low-cost retail transactions. The President also recognized the importance of USPS's role and mission and

established the President's Commission on the United States Postal Service (the President's Commission) to examine USPS's future. The President's Commission issued a report in July 2003 that put forward a proposed vision for USPS and recommendations to ensure the future viability of postal services.¹ The report emphasized the importance of maintaining 6-day-a-week, affordable, universal postal service and acknowledged that USPS's mission is at risk in the current operating environment of increasing competition and decreasing mail volumes. In addition, Congress is also interested in maintaining a high level of postal services for the American people and has held a number of hearings recently on postal reform issues. We testified in November 2003, January 2004, and March 2004 about the information in the report issued by the President's Commission, the challenges facing USPS in carrying out its mission, and the key elements of postal reform.²

In response to your request, this report addresses three objectives: (1) how does USPS provide universal mail delivery service and access to postal services in both rural and urban areas; (2) what are the changes USPS is making and planning to make related to providing postal services, including changes that may affect rural areas; and (3) what are the major issues that have been raised related to how USPS provides postal services?

Our review of USPS's delivery and retail services is based upon an analysis of USPS policies and procedures; the roles and responsibilities of postal officials involved in making delivery and retail decisions; delivery and retail data provided to us from USPS; proposed changes in related documents, such as the Transformation Plan and the President's Commission's report on the U.S. Postal Service; and interviews with key postal stakeholders, including USPS officials, representatives from employee unions and management associations, and the Postal Rate Commission (PRC). We assessed the reliability of the data provided to us from USPS and found them to be sufficient for our purposes of providing a basic description of USPS's delivery and retail networks. A more detailed discussion of our

¹The President'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).

²U.S. General Accounting Office, *U.S. Postal Service: Bold Action Needed to Continue Progress on Postal Transformation*, GAO-04-108T (Washington, D.C.: Nov. 5, 2003); *U.S. Postal Service: Key Elements of Comprehensive Postal Reform*, GAO-04-397T (Washington, D.C.: Jan. 28, 2004); and *U.S. Postal Service: Key Reasons for Postal Reform*, GAO-04-565T (Washington, D.C.: Mar. 23, 2004).

objectives, scope, and methodology is included in appendix I. We conducted our review at USPS headquarters in Washington, D.C., between June 2003 and June 2004 in accordance with generally accepted government auditing standards. We requested comments from USPS on a draft of this report, and its comments are discussed later in this report and reproduced in appendix III.

Results in Brief

USPS customers are provided, regardless of where they live, with postal services that include mail delivery at no charge and access to USPS's retail services. Differences exist, however, in how USPS provides these services, particularly in how, when, and where mail delivery service is provided and how customers have access to the postal retail network. For example, although most of USPS's customers receive delivery service 6 days a week, deliveries are made less frequently to businesses that are not open 6 days a week, seasonal areas that are not open year-round, and some customers in remote areas. Also, about 32 percent of customers who receive carrier delivery receive mail at their front doors; about 41 percent of customers receive it at curbline mailboxes; and about 27 percent of customers receive it at centralized delivery points that contain multiple receptacles in one location. Further, on the retail side, there is no standard for customer access requirements. Customers in more densely populated areas generally have access to postal services at more locations than customers in less densely populated areas. These differences have existed throughout the more than 200 years of postal services in the United States and have developed due to the nation's geographic diversity and changes in technology, transportation, and communications. USPS's statutory framework establishes general postal service policy but does not specifically define USPS's universal service obligation or how USPS is to carry it out. However, in USPS's annual appropriations acts, Congress requires USPS to continue its 6-day-a-week delivery and rural delivery service and prohibits the consolidation or closure of small rural or other small post offices. USPS has interpreted its universal service obligation by establishing a set of overarching national policies and procedures that provide the basis for field staff, such as postmasters who are in charge of post offices, to make decisions related to the local provision of delivery and retail services. These field officials, who are familiar with the daily operations of the areas being served, make their decisions by considering such cost and service factors as the number, location, and projected growth of delivery points in the area; the quality of the roads and transportation; employee safety; mail volume; projected costs and efficiency; customer demand; and the type of service offered in nearby areas.

USPS has taken actions, and is planning future actions, to improve the efficiency and effectiveness of its delivery and retail networks. In the delivery area, USPS is continuing efforts to make delivery operations more cost-effective by utilizing efficient routes and delivery locations (e.g., to curbline boxes). USPS also is implementing several initiatives—such as standardizing its operations and deploying new automation to reduce manual mail sortation—aimed at improving the consistency of delivery time, reducing delivery workhours, and increasing the number of deliveries per route. These actions will not likely result in a noticeable change in delivery service for customers in urban or rural areas because most of the changes are focused on operational improvements. On the retail side, USPS has instituted a strategy of providing low-cost retail alternatives that may decrease reliance on post offices; moving simple transactions such as stamp purchases away from post office counters; and optimizing its retail network. USPS stated in its Transformation Plan that the objective of its retail network optimization initiative is to tailor retail services to the individual needs of communities and to replace “redundant, low-value access points with alternative access methods.” It is not clear how customers in rural areas may be affected by these planned retail changes, because most of USPS’s initiatives are planned for high-growth, high-density areas.

USPS survey data show that postal customers are generally satisfied with the postal services provided to them; however, when customers have raised issues, they generally involve inconsistent services on the delivery side and the potential threat of post office closings or reductions in post offices hours on the retail side. In addition, customers, postal employees, and Congress have raised issues regarding limited communication about USPS’s plans to optimize its retail network. Specifically, customers have raised issues about how their access and convenience to services may be affected; employees have raised issues about how their jobs and compensation may be affected; and some Members of Congress are concerned about how USPS plans to make decisions related to optimizing its infrastructure. USPS has also raised concerns about legal requirements and practical constraints that limit its flexibility to make changes to the postal network.

We agree that finding efficiencies in the retail network is important for USPS and that USPS’s retail optimization initiative could be an opportunity for a “win-win” outcome for both USPS and its stakeholders. Through improved communication and collaboration with affected stakeholders, USPS could demonstrate that it wants to effectively partner with its

customers in communities, both urban and rural, to provide more convenient and cost-effective services, while preserving facilities needed to support universal postal service. We are recommending that the Postmaster General provide improved transparency and communication to inform Congress and other stakeholders of the actions USPS plans to take regarding its retail optimization strategy, including the criteria that will guide its decisions; the process that will be used to involve postal stakeholders; the impact on customers, including those in rural areas; and the time frames for implementing all phases of its retail optimization initiative. In commenting on a draft of this report, USPS concurred with “the spirit of the report’s findings” that improved transparency and communication are needed and said it would be reviewing its process for communicating changes to the retail network with its local districts and other stakeholders. USPS also stated that the criteria used for retail decisions vary throughout the postal network, and that it could not provide a time frame for implementing all phases of the retail optimization initiative. We believe that it is important to establish and communicate the criteria it considers as the basis for its retail decisions to help stakeholders feel confident that decisions are made in a fair, rational, and fact-based manner. Furthermore, we believe that time frames can, and should, be established for the different phases of USPS’s retail initiatives in order to not only provide postal stakeholders with information on when these initiatives will be deployed, but also to help USPS and stakeholders evaluate the performance of these initiatives in terms of how they fit into the network optimization plans as a whole and their impact on costs, rates, and mailers’ business plans.

Background

USPS is an independent establishment of the executive branch with a mission to bind the nation together through the personal, educational, literary, and business correspondence of the people. The Postal Reorganization Act of 1970 reorganized the former U.S. Post Office Department into the United States Postal Service. USPS’s current legal framework

- requires it to break even over time and intended it to be self-supporting from postal operations;
- requires it to provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining; and

-
- prohibits it from closing small post offices solely because they are operating at a deficit, it being the specific intent of Congress that effective postal services be insured to residents of both urban and rural communities.³

USPS's mission and role, and the processes used to carry out mail delivery and retail services, have evolved over time with changes in technology, transportation, and communications. Key events in postal history are listed in table 1.

Table 1: Key Events in Postal History, 1775-2004

Year	Event
1775	Benjamin Franklin appointed first Postmaster General under the Continental Congress—customers received mail delivery at post offices
1823	Navigable waters designated post roads by Congress
1838	Railroads designated post routes by Congress
1847	U.S. postage stamps issued
1858	Street letter boxes installed
1860	Pony Express started
1863	Free city delivery instituted; postage rates became uniform regardless of distance
1901	Number of post offices reached its peak at 76,945 offices
1902	Rural free delivery became permanent service
1907	United Parcel Service founded
1911	First carriage of mail by airplane
1913	Parcel Post instituted
1950	Residential deliveries reduced from twice a day to once a day
1964	Self-service post offices opened
1970	Postal Reorganization Act created the United States Postal Service
1972	Stamps by Mail instituted
1973	Federal Express began operations
1987	Stamps by Phone instituted

³39 U.S.C. § 101(b).

(Continued From Previous Page)

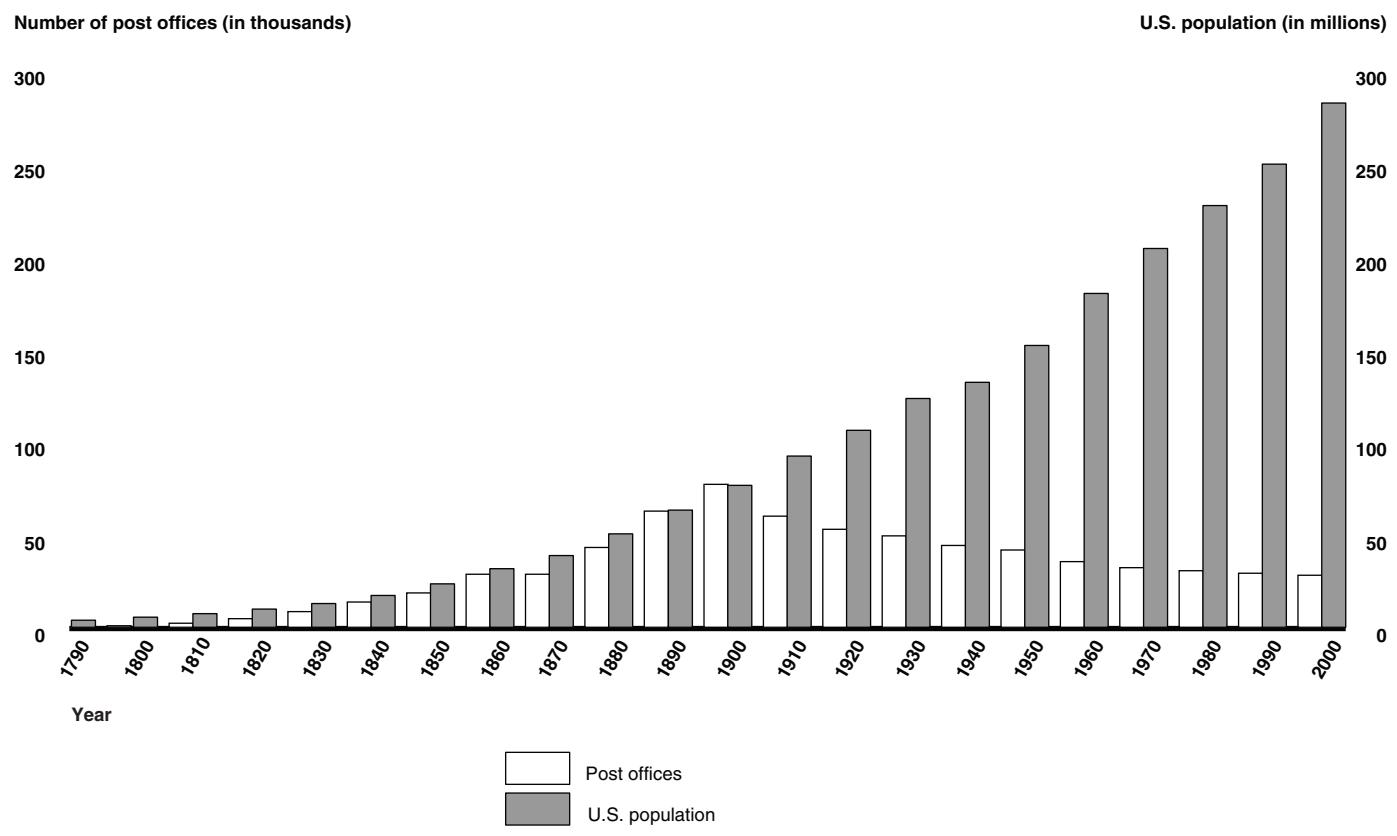
Year	Event
1990	Easy Stamp allowed computer purchase of stamps
1992	Stamps sold through ATMs
1997	Stamps Online instituted
2004	Automated Postal Center self-service machines deployed

Sources: USPS, www.fedex.com, www.ups.com.

Most customers in the early development of the national post office had to pick up their mail from a post office. The first step toward universal delivery service was taken in 1863 when Congress declared that free city delivery would be established at post offices where income from postage was sufficient to pay all expenses of delivery. Mail delivery service was gradually extended to smaller cities and was later extended to rural areas in 1902. Advances in the delivery of mail coincided with transportation improvements. Various transportation modes developed throughout history have been used to transport mail, ranging from stagecoaches in the 1700s; steamboats, trains, and the Pony Express in the 1800s; and finally by airplanes, automobiles, and trucks in the 1900s. Furthermore, advances in transportation were particularly important in rural areas; rural delivery helped stimulate road improvements to these areas because passable roads were a prerequisite for establishing new delivery routes.

Throughout the nation's history, the post office has been a key component in the provision of postal services. Post offices proliferated throughout the 1800s as the United States' territory grew and new postal routes were established. At the turn of the 20th century, the number of post offices reached its peak with nearly 77,000 offices, which was an average of 1 post office for every 1,000 residents in the country (see fig. 1).

Figure 1: Number of Post Offices per Capita Has Been Decreasing



Sources: USPS, U.S. Bureau of the Census.

The number of post offices per capita declined throughout the 20th century, to an average of 1 post office for every 10,000 people in 2000. As transportation improved, it became easier for rural carriers to deliver mail to a wider area, which decreased reliance on post offices for being the primary delivery and collection point. Furthermore, rural carriers provided retail services as part of their routes, so customers did not have to travel to a post office for these services.

Differences Exist in How USPS Provides Delivery and Retail Services

Providing mail delivery and access to retail postal services is central to USPS's mission and role. According to USPS officials, all USPS customers are eligible for free mail service and most receive delivery 6 days a week. Furthermore, all customers have access to retail services provided through the postal network, including the ability to purchase stamps from post offices or other retail facilities. Differences exist, however, in how USPS provides these services, particularly in where, when, and how customers receive the mail and have access to the postal network. These differences have always existed and have evolved with changes in technology, transportation, and communications. Delivery and retail decisions are made primarily by local staff (i.e., district employees and local postmasters), with overarching guidance provided by national USPS policies and procedures. These local field staff consider such factors as the number and location of delivery points in the area, the quality of the roads and transportation, employee safety, mail volume, projected costs, and the type of service offered in nearby areas. The following information in this section provides an overview of the current USPS delivery and retail networks, recent trends, and how decisions about delivery and retail networks are made.

Overview of USPS's Delivery Services

USPS's legal and statutory framework provides the basis for its delivery services. For example, USPS is to

- “provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities”;
- “provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining”;
- “receive, transmit, and deliver throughout the United States...written and printed matter, parcels, and like materials”; and
- “serve as nearly as practicable the entire population of the United States.”⁴

⁴39 U.S.C. § 101(a), 39 U.S.C. § 101(b), and 39 U.S.C. § 403(a).

These provisions are considered key parts of universal service and provide the general operational guidance for USPS. USPS has the ability to establish delivery service within these broad provisions but by law must operate in a break-even manner. A long-standing provision in the appropriations acts for USPS requires the continuation of 6-day delivery and rural delivery service.⁵

According to USPS officials, delivery decisions are made at the local levels. National policies outline overall operational guidance, but discretion is provided to local officials, including area and district managers and postmasters, to make delivery decisions in their respective areas. These local officials—who, according to national USPS officials, are most familiar with the area to be served—make decisions related to the type, frequency, and location of delivery service that will be provided to a given address. A summary of key decisions is included in table 2, and additional information on each of these decisions is provided in the following sections.

Table 2: Key Delivery Decisions Made by Local Officials

Key decisions	Options	Useful statistics
Type of service	Carrier service or delivery to a USPS retail facility to be collected by the customer	Approximately 86% of delivery points are served by a carrier.
Frequency of service	6 days a week or less than 6 days a week	Most deliveries are 6 days a week.
If carrier service is selected, the following decisions are made:		
Type of carrier route	City, rural, or highway contract route	67% of all routes are city routes. Rural routes, however, have been increasing in the last 10 years, while the number of city routes has recently declined.
Modes of delivery	Door, curbline, or centralized delivery	41% of deliveries are to curbline mailboxes, 32% are to the door, and 27% are to centralized boxes.

Source: USPS.

According to USPS, local officials select the delivery method that provides service in the most efficient and cost-effective manner. They consider such factors as the number and location of delivery points in the area, the quality

⁵For example, Transportation, Treasury, and Independent Agencies Appropriations Act, 2004, Pub. L. No. 108-199, div. F, title IV, 118 Stat. 340 (Jan. 23, 2004); and 39 U.S.C. § 403 note. The provision states that “6-day delivery and rural delivery of mail shall continue at not less than the 1983 level.”

of the roads and transportation, employee safety, mail volume, projected costs, and the type of service offered in nearby areas. These local officials also are provided with specific manuals that contain national guidance on establishing delivery service, as well as on how to carry out these operations on a day-to-day basis.

Type of Service

USPS customers are entitled to receive mail delivery service at no charge in one of two ways: via mail carrier or via the customer retrieving his or her mail at a designated postal facility. The majority of USPS's residential and business deliveries are made by mail carriers—about 86 percent in fiscal year 2003. Approximately 14 percent of USPS's deliveries are where customers travel to a USPS facility, primarily a post office, to retrieve their mail. These customers receive mail service either via box service or general delivery pick up. Box service may be provided (1) at no charge to customers who are not eligible for carrier service—this would represent their free mail delivery service—or (2) at a fee to customers to supplement their existing delivery service. Customers who are not eligible for carrier delivery and whose retail facility does not provide box service are provided with general delivery service where they retrieve their mail from a post office counter at no charge.

While current mail recipients have access to mail delivery service at no charge—the cost of delivery is borne by postal ratepayers—the process by which customers are eligible for free delivery has recently been clarified. In the 1996 Mail Classification Case before the PRC, USPS proposed eliminating the fee for box service that it charged customers who were not eligible for carrier delivery. At the time of this case, USPS estimated that about 940,000 boxes would be offered free of charge as a result of this policy. This proposal, however, did not require USPS to offer a free box to all customers ineligible for carrier delivery, such as those ineligible due to their proximity to a postal facility (i.e., the quarter-mile rule).⁶ These customers would only be allowed to receive general delivery service at no charge. The PRC, in its ensuing recommendation, raised issues about inequities regarding customer eligibility for free box delivery and urged USPS to rectify them. USPS dropped the quarter-mile-rule provision during the following 1997 rate case, and, as such, customers ineligible for carrier service became eligible for free box service.

⁶Under the quarter-mile rule, USPS exempted itself from providing carrier delivery service to customers who reside within a quarter-mile of noncity delivery post offices (within a half-mile for the smallest post offices).

Frequency of Service	According to USPS officials, most customers receive mail delivery 6 days a week, but there are customers who do not. These customers include businesses that are not open 6 days a week; resort/seasonal areas that are not open year-round; or areas that are not easily accessible due to transportation constraints, such as remote areas that may require the use of boats or airplanes to deliver the mail. For example, mail is transported by mules for delivery in the Grand Canyon, by snowmobiles for delivery in some areas of Alaska, and by boats for delivery on islands in Maine and other states.
Type of Carrier Routes	As previously stated, the majority of USPS customers receive carrier service. Once it is determined that a customer is eligible for carrier service, USPS determines the type of carrier route service that will be provided. USPS has three primary carrier route categories—city, rural, and highway contract routes—and has national policies and procedures that contain the criteria used to establish, manage, and operate the three types of routes. Excerpts from these policy and procedure manuals are provided in table 3.

Table 3: USPS Policies and Procedures for Establishing Carrier Routes

City delivery

Establishment is considered when the following requirements are met:

- Within the area to be served there is a population of 2,500 or more or 750 possible deliveries.
 - At least 50 percent of the building lots in the area to be served are improved with houses or business places. Where a house or building and its yard or ground covers more than one lot, all lots so covered are considered improved.
 - The streets are paved or otherwise improved to permit travel of USPS vehicles at all times, without damage or delay.
 - Streets are named and house numbers are assigned by the municipal authorities in accordance with Management Instruction DM-940-89-03, Addressing Conventions.
 - The street signs are in place and the house numbers are displayed.
 - The rights-of-way, turnouts, and areas next to the roads and streets are sufficiently improved so that the installation and servicing of boxes are not hazardous to the public or USPS employees.
 - Satisfactory walks exist for the carrier when required.
 - Approved mail receptacles or door slots are installed at designated locations.
-

Rural delivery

Establishment of rural delivery service is considered when the following requirements are met:

- **Customer Density:** A newly established route should serve an average of at least one residential or business delivery per mile. On routes of less than 10 miles, an average of at least six deliveries per mile should be eligible for service before a route is established. Unusual conditions such as the volume and type of mail should be considered.
 - **Minimum Workloads:** In post offices with no existing rural delivery service, the proposed route evaluation should reflect sufficient workload to meet minimum rural carrier scheduling requirements efficiently.
 - **Roads:** Roads should generally be public and must be well maintained and passable for delivery vehicles year-round. Rural delivery service is not established over roads that are not kept in good condition, that are obstructed by gates, or that cross unbridged streams that are not fordable throughout the year. If travel over private roads is proposed, the person responsible for road maintenance must provide a written agreement to keep the road passable at all times. If these conditions are not met, delivery can be withdrawn.
-

(Continued From Previous Page)

Highway contract box delivery

Established after USPS solicits contracts for the transportation of mail between post offices or other designated points where mail is received or dispatched. These contract carriers are not USPS employees.

- Highway contract route advertisements and contracts state whether box delivery, collection service, or other mail services are required and specify the area to be served.
 - In addition to usual box delivery and collection service on some routes, carriers are required to provide retail functions, such as selling stamps, delivering and accepting special service mail, and accepting money order applications.
-

Source: USPS.

USPS's "rural" designation does not necessarily reflect geographically defined rural areas, and there is no population threshold for a USPS-designated rural or city route.⁷ Rural carrier routes encompass a wide range of geographic areas and may cover both less-densely populated areas generally considered to be rural as well as suburban areas generally considered to be urban. A USPS rural route such as one in Charlotte, North Carolina, or Jacksonville, Florida, may cover a geographically defined suburban area and may contain a similar number of delivery points as a city route. USPS officials explained that many suburban areas met rural route criteria when they were originally established. However, they also stated that although the population may have grown in an area that now may be considered suburban, USPS maintains existing operations in this situation. Thus, it retains the rural route classification. A brief overview of these route types is provided in table 4.

Table 4: Information on Selected Route Types, Fiscal Year 2003

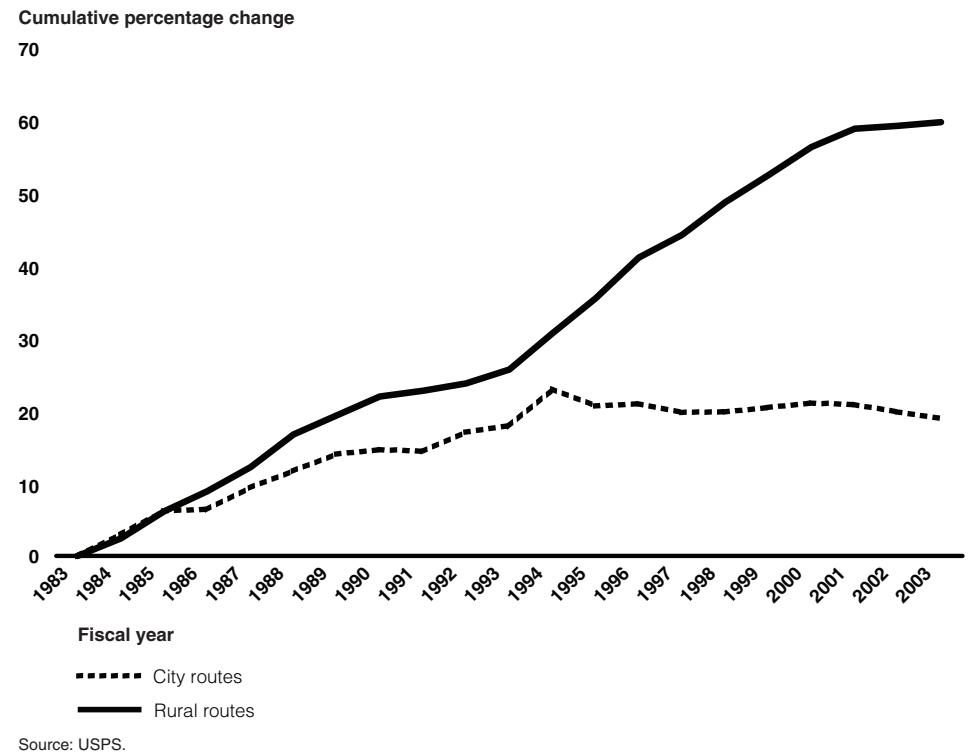
Type of carrier route	Possible deliveries (millions)	Routes	Average deliveries per route	Carriers
City	84.7	164,975	513	229,404 (USPS employees)
Rural	34.5	72,743	474	Full-time: 61,611 (USPS employees) Part-time: 56,451
Highway contract	2.2	10,065	220	5,864 (route is served by a contract employee)

Source: USPS.

⁷USPS policies that establish city delivery state the following: "The postal customer population may vary greatly from the general census population because of different boundary interpretations and designations."

City routes (67 percent of all routes) tend to be located in densely populated areas with high concentrations of delivery points. As figure 2 shows, growth in city routes has stagnated since 1994 and has been declining since 2000, while growth in rural routes continues.

Figure 2: Rural Routes Cumulatively Have Grown at a Much Greater Rate Than City Routes

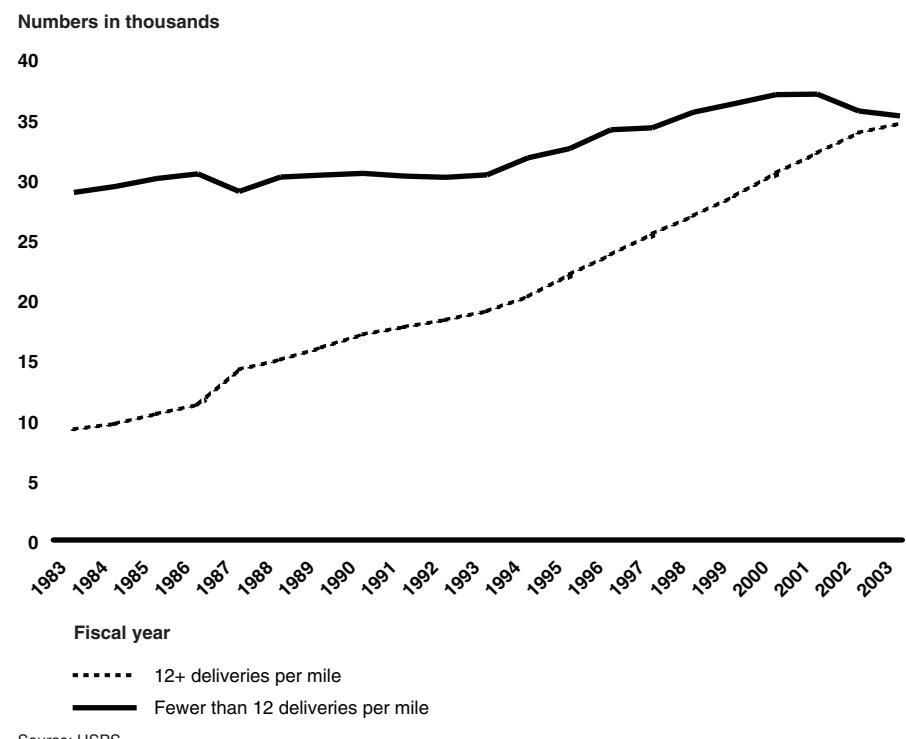


Source: USPS.

Rural routes, accounting for only about 29 percent of all routes, are the fastest growing type of route. Of the 1.8 million delivery points added in fiscal year 2003, 1.2 million delivery points are located on rural routes. Rural routes encompass a wide range of areas, with some of the larger routes serving hundreds of delivery points and some smaller routes having just 1 delivery per mile. Not only are rural routes the fastest growing route type, the number of deliveries per route (route density) is also increasing. Figure 3 shows that rural routes with 12 or more deliveries per mile have been increasing at a much faster rate than rural routes with fewer than 12 deliveries per mile. Furthermore, as shown in table 4, the average deliveries

per route for city routes and rural routes are relatively similar, 513 and 474, respectively.

Figure 3: Rural Routes Are Becoming More Dense



Source: USPS.

The remaining 4 percent of routes are highway contract routes (10,065 in fiscal year 2003), which serve areas that are not serviced by city or rural routes. On some of these routes, deliveries are made along the line-of-travel to individual addresses as mail is being transported from one facility to another.

Modes of Delivery

USPS has guidance to help determine the physical location where the mail will be delivered. USPS works with local real estate developers when determining the locations of delivery for new addresses and has three general modes of delivery that specify the physical location of the delivery: door, curbline, or a centralized unit that contains mail receptacles for multiple customers. Figure 4 provides the number of these modes of delivery as of the end of fiscal year 2003.

Figure 4: USPS's Different Modes of Delivery, Fiscal Year 2003



Curbline - 49 million

Other (primarily door) - 39 million

Centralized - 33 million

Sources: USPS, GAO.

Note: This figure includes the modes of delivery that are used on carrier service. It does not include the nearly 20 million deliveries made to USPS retail facilities (i.e., to post office boxes or general deliveries).

Door delivery once was the norm in urban settings; however, USPS changed its policy in 1978 to limit additional door deliveries to further enhance delivery efficiencies (door deliveries remain the most expensive mode of delivery). As a result, curbside delivery and centralized delivery are the fastest growing modes of delivery. According to USPS delivery officials, the only instance where new delivery points would receive door delivery would be if the new delivery point is established on a block that currently receives door delivery. Centralized units include cluster boxes, Neighborhood Delivery Collection Box Units (NDCBU), and apartment-style boxes. Cluster box units are centralized units of individually locked compartments, while NDCBUs are centralized units of more than eight individually locked compartments. Between fiscal years 2001 and 2003, the number of curbside boxes increased by more than 2 million; the number of centralized boxes has grown by about 1.8 million; and the number of other deliveries (primarily door), which are not available for most new deliveries, decreased by almost 400,000.

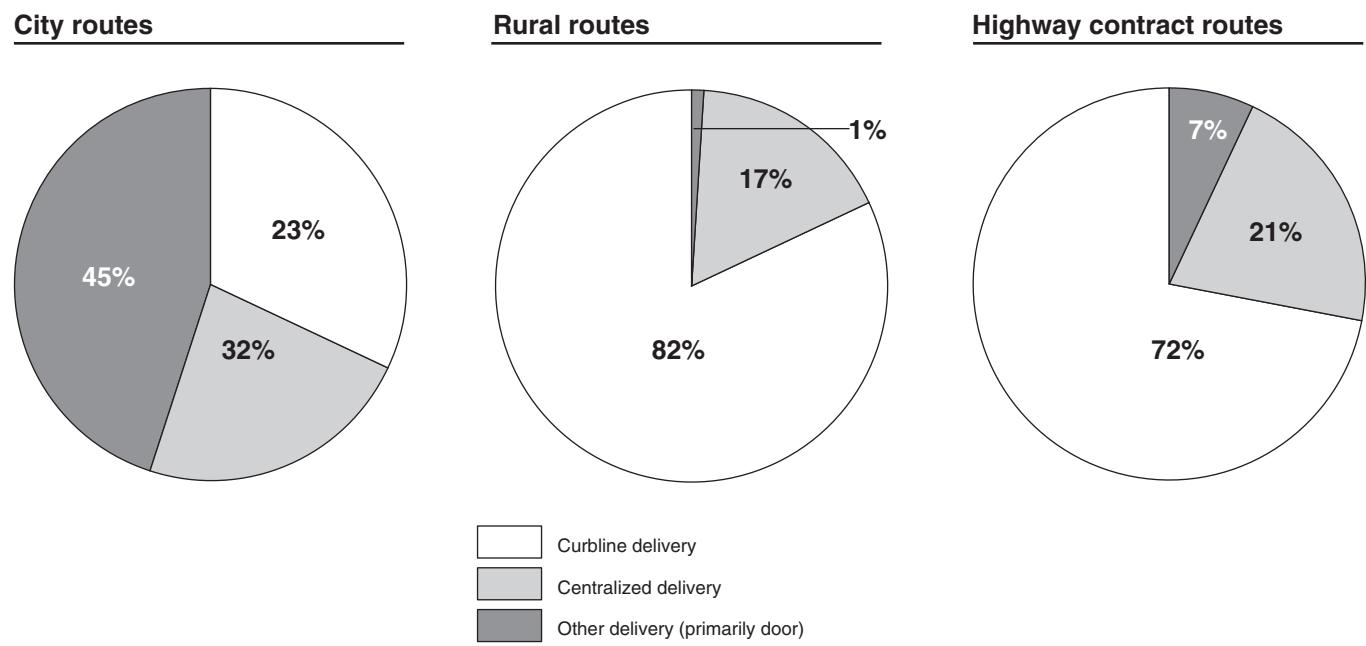
Differences in Delivery Service Are Based on Cost and Service Considerations

According to USPS, it must balance the legal requirement to operate as a break-even entity with the need to serve its customers in a competitive environment. As such, the following cost and customer convenience trade-offs are associated with each of the previously discussed delivery decisions.

-
- *Carrier service v. the customer collecting mail from a USPS facility.* If carrier service is provided, USPS incurs the cost of providing the personnel and transportation to support these services, but most customers receive their mail closer to their residences or businesses. On the other hand, requiring customers to travel to their respective post office to collect mail may be more inconvenient for the customer, but USPS does not have to incur personnel and transportation costs associated with carrier delivery.
 - *6-day-a-week delivery v. something less than 6-day-a-week delivery.* According to USPS, the more days that delivery is provided, the higher the cost of providing this service. On the other hand, customers, Congress, and the President's Commission have noted the importance of 6-day-a-week delivery. USPS studied the impact of eliminating Saturday delivery and found that the possible savings were not significant enough to offset the potential risks that any reduction in delivery days would have a negative impact on USPS's competitive position.
 - *City v. rural v. highway contract box delivery routes.* Although the delivery service provided on each of these routes is generally similar, carriers on rural and highway contract routes provide retail services, such as stamp sales, while city carriers do not. A USPS official stated that there are significant cost differences between the different types of routes. USPS estimated that the additional annual cost in fiscal year 2003 for each city door delivery (\$295) was more than twice as expensive as rural delivery (\$143) and over three times as expensive as highway contract deliveries (\$90). The USPS official stated that a key factor in determining the total cost of a route is the carriers' compensation systems, which differ for each group of carriers. The systems for city and rural carriers are collectively bargained between USPS and their associated unions—the National Association of Letter Carriers (NALC) represents city carriers, and the National Rural Letter Carriers Association (NRLCA) represents rural carriers. Generally speaking, city carriers are compensated on an hourly basis, while rural carriers are compensated on a salary basis. Agreements entered into by these groups also establish duties and responsibilities for the carriers and USPS management. Compensation for contract carriers are established via the contract posted by USPS.
 - *Door v. curbline v. centralized modes of delivery.* According to USPS, the cost per delivery generally increases as the delivery is made closer to the customer's door. Delivery to a customer's door is the least

efficient mode of delivery because the carrier has to dismount from the vehicle. Deliveries to centralized units, such as cluster boxes and NDCBUs, are the most efficient form of carrier delivery because carriers can make multiple deliveries in one stop. The mode of delivery to be provided is considered by USPS when determining the type of service that will be used. For example, most deliveries on rural and highway contract routes are farther away from the customer's front door than deliveries on city routes. Figure 5 shows that most rural and highway contract deliveries in fiscal year 2003 were to the curb rather than at the door.

Figure 5: Modes of Delivery, Fiscal Year 2003



USPS local officials select the delivery option that provides service in the most efficient and cost-effective manner, and they consider numerous cost and customer service factors when making these decisions. This balance between cost and customer convenience is further illustrated in our discussion of USPS's retail network.

Overview of USPS's Retail Services

As part of meeting its universal service obligation, USPS is required to do the following:

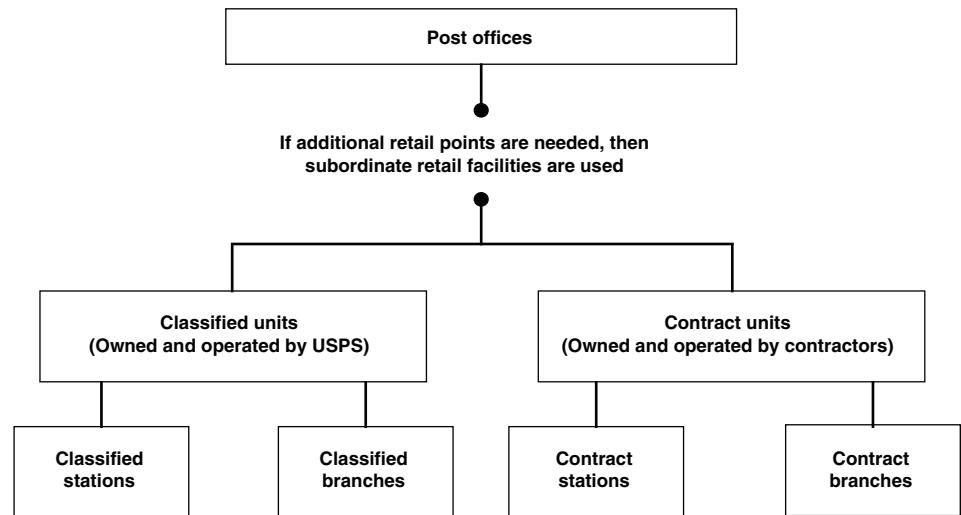
- USPS should serve as nearly as practicable the entire U.S. population and provide postal facilities in such locations that give postal patrons ready access to essential postal services consistent with reasonable economies of postal operation.⁸
- USPS should provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of Congress that effective postal services be insured to residents of both urban and rural communities.⁹

Historically, post offices, stations, and branches served as the primary access points for providing postal services to most customers. These facilities were located in towns and communities across the country and provided key locations where mail could be collected and delivered. Figure 6 illustrates the current network of these retail facilities.

⁸39 U.S.C. §§ 403(a) & (b)(3).

⁹39 U.S.C. § 101 (b).

Figure 6: Overview of the Retail Network



Source: USPS.

Note: Branches are units of a main post office located outside the corporate limits of a city or town, while stations are units of a main post office located inside the corporate limits of a city or town. Also, in small communities where the main post office has been discontinued, a contract postal unit will be designated as the Community Post Office.

In addition to traditional brick-and-mortar retail facilities, USPS currently offers retail services through other alternatives, such as self-serving vending machines, ATMs, grocery and drug stores, and the Internet. Figure 7 illustrates many of these retail alternatives.

[This page has been intentionally left blank]

Figure 7: Retail Alternatives Moving Away from Traditional Post Offices



Consignment Program/ATMs

First-Class stamps are distributed to participating retailers (e.g., grocery stores, drug stores, and ATMs). These services were available in about 40,000 locations in fiscal year 2003. Partnership with Hallmark Gold Crown Stores for use of postage meters and retail services at almost 500 stores at end of fiscal year 2003 (and 700 more in fiscal year 2004).



Self-Service Platform/Automated Postal Center

Funding approved for manufacture and deployment of 2,500 units by November 2004. Self-service kiosks designed to replace aging self-service vending equipment. Provide 80% of the services provided at a retail counter and make payments using debit/credit cards. Deployed in post office lobbies and high-traffic areas (both postal and nonpostal).



Vending Machines

There were 29,325 revenue-generating machines in 21,292 locations in fiscal year 2003. Located in post offices and other high-traffic areas (both postal and nonpostal). Includes stamp machines (both single and booklets) and multicommodity machines (includes various types of postage and telephone cards).



Rural and Highway Contract Mail Carriers

Provided mail delivery to almost 35 million addresses in fiscal year 2003. Rural carriers provide/sell stamps; Express, Priority, and package services; certified or registered mail service; and money orders. Contract carriers generally provide similar services as rural carriers, but is dependent on the contract.



1-800-STAMPS24 and Stamps by Mail

Allow customers to purchase stamps by telephone and by mail. Stamps are delivered with the customer's regular mail.

U.S. POSTAL SERVICE STAMPS BY MAIL® ORDER FORM			
AREA CODE	DAYTIME PHONE NUMBER	503	05/03
Last Name	First Name	Middle Initial	
Company Name (if applicable)		Mailing Address/PO Box	Apt./Suite
		City	State ZIP+4
ITEM DESCRIPTION		PRICE	QTY. COST
First Class Mail® Rate			
1 (100) 37¢ Stamps-1 Roll, Self adhesive		\$37.00	
2 (20) 37¢ Stamps-1 Booklet, Self adhesive		\$7.40	
Each "Love Mail" rate item			

www.usps.com

Designed to handle most retail transactions that take place in local post offices. Received over 175 million visits in fiscal year 2003, an increase of 38% from fiscal year 2002. Provides Stamps On-line (for a \$1 fee). New Click-N-Ship program aimed at improving customers' ability to send packages.

Sources: USPS, National Rural Letter Carriers Association, www.usps.com, GAO.

Postal services available through these access points can include purchasing stamps and postage, mailing packages, and sending money orders. Differences exist, however, in how access to retail service is provided to customers across the country. These differences (1) exist in terms of what types of retail options customers have access to and where these retail options are located and (2) are based on cost and customer service determinations made by local USPS officials. This section identifies access points currently provided by USPS, describes differences in the network, and explains why these differences exist.

The wide variety of retail options currently offered by USPS differs significantly from its original retail network. Changes in technology, transportation, and geography diminished the need for a large network of post offices, and the number of post offices per capita has consistently declined since the early 1900s (see fig. 1). Table 5 shows that over the last 20 years, the number of post offices, stations, and branches has decreased by over 1,900 units. This decrease reflects USPS's movement toward fewer "bricks-and-mortar" facilities.

Table 5: Post Offices, Stations, and Branches: Fiscal Year 1980 Compared with Fiscal Year 2003

Facility type	FY 1980	FY 2003	Change	Percentage change
Post offices	30,326	27,556	-2,770	-9.1%
Classified branches and stations	4,109	5,796	1,687	41.1
Contract branches and stations	3,346	2,777	-569	-17.0
Community Post Offices	1,705	1,450	-255	-15.0
Total	39,486	37,579	-1,907	-4.8%

Source: USPS.

USPS still has almost 28,000 post offices nationwide, and these post offices remain a key access point for USPS's nationwide retail network. USPS does not have specific standards for establishing post offices on the basis of population density or distance between post offices. The number of post offices and retail facilities compared with the population of the area served differs throughout the country. Appendix II provides information on the number of retail postal facilities in each state, along with each state's population. For example, states such as North Dakota and South Dakota that have a relatively low-population density tend to have a lower ratio of

people per USPS retail facility (i.e., fewer than 2,000 residents for every USPS retail facility). On the other hand, states such as Florida and California that have a relatively high-population density tend to have a higher ratio of people per USPS retail facility (i.e., about 15,000 residents for every USPS retail facility).

Postal officials told us that customers of smaller post offices tend to be more dependent on their post office for access to the postal network. Survey data collected for the President's Commission showed that rural customers reported visiting their post offices more often than customers in urban areas. This issue of dependency is important to note when considering retail access because USPS recognizes that customer use of post offices versus other retail alternatives varies. For example, according to USPS, many of the new retail alternatives, such as consignment with private retailers such as grocery stores and ATMs, have been deployed primarily in high-growth, high-population areas (coincidentally, these areas are where many retail competitors to USPS are located). Customers in these high-growth, high-population areas may not be as dependent on a post office for meeting their daily postal needs, and therefore they utilize these alternative methods of accessing USPS's retail network.

Retail Decisions Are Based on Cost and Customer Access Considerations

Differences exist throughout the postal network in terms of how and where customers have access to USPS's retail network. USPS officials stated that USPS's approach to the retail network requires a balance of cost and service considerations and incorporates such factors as customer demand, the population of the surrounding area, the post office's physical location, mail volumes, costs, and revenues.

Many of USPS's retail alternatives are aimed at offering more efficient, accessible ways of providing retail service, particularly in high-growth, high-revenue areas. When deciding where to deploy these alternatives, USPS officials told us that they consider both (1) the location where a retail option is needed and (2) the type of retail options that should be deployed. They also consider customer access needs while balancing economy and efficiency concerns. For example, it is more costly for USPS to provide retail service at a post office counter than via its Web site—www.usps.com. Some customers, however, may not have Internet service or may prefer going to their local post office to conduct their postal transactions. Moreover, USPS has stated that opening new post offices is considered only when area service needs cannot be met through its current facilities or by less costly alternatives. USPS has stated that whenever possible it

establishes contract postal units, which can provide equal service without the costs associated with building and operating new post offices. These units are privately owned and operated and, as such, are less expensive. USPS opened 666 contract stations and branches in fiscal year 2003.

Actions to Improve Delivery and Retail Services

USPS faces the continuing challenge of providing high-quality postal services while absorbing the costs associated with an ever-increasing delivery network. USPS estimated that serving its new delivery points in fiscal year 2003 would add roughly \$270 million in annually recurring delivery costs. At the same time, USPS's revenue per delivery declined each year since fiscal year 2000. USPS and other stakeholders have recognized these challenges, which have been highlighted as part of USPS's Transformation Plan and the President's Commission's report. USPS has taken actions, and is planning future actions, to deal with these challenges and improve the efficiency and effectiveness of its delivery and retail networks. These actions will include the following: on the delivery side, emphasizing cost-effective routes and delivery locations (i.e., to curbside boxes); and on the retail side, providing low-cost alternatives and optimizing its retail network. The actions planned in the delivery area may not result in a noticeable change of service for people in rural areas. Customers in rural areas may experience greater access to USPS's retail network via improvements to www.usps.com, but actions to promote other low-cost alternatives are primarily targeted toward customers in high-growth, high-density areas. Furthermore, it is not clear how rural customers may be impacted by USPS's efforts to increase efficiencies by optimizing its retail network. This section provides an overview of the actions that USPS is planning to take, in both the delivery and retail areas, and what these actions are intended to achieve.

Actions to Improve Efficiency and Effectiveness in USPS's Delivery Network

USPS has high costs related to its nationwide infrastructure and transportation network, which includes delivering mail 6 days a week to most of the 141 million addresses nationwide. Achieving efficiencies in this area is difficult because the network grows by approximately 1.7 million new addresses each year. Mail volumes have recently been decreasing, and USPS is facing increasing per-piece delivery costs since carriers must make deliveries even if they have fewer letters to deliver. As previously discussed, USPS has already taken actions to improve delivery efficiency, including promoting rural routes and emphasizing curbside and centralized

modes of delivery. These actions are likely to continue in both suburban and rural areas.

USPS's initiatives for increasing rural delivery efficiency may not be noticeable to rural customers because they relate to improving internal USPS operations, rather than changing residential delivery. These initiatives include sending managers through a training program to ensure that they understand the basic concepts of managing rural delivery; distributing electronic operations newsletters that provide specific strategies for reducing rural workhours and raising awareness of the need to focus on rural management; and implementing a rural time review, which is a process to examine and analyze the timekeeping, recording, and reporting process for rural delivery.

On a more comprehensive, nationwide basis, USPS has implemented initiatives aimed at increasing the efficiency of the overall delivery network. USPS has established a route optimization effort meant to help determine the best way to route carriers. USPS hopes this effort will lead to a reduction in workhours, vehicle mileage, and costs, while at the same time improving safety. According to USPS, automation improvements, such as the Delivery Point Sequencing of mail, will increase efficiency by automating some of the mail sorting activities that are currently done manually by mail carriers.¹⁰ This automation would decrease the amount of time that a carrier would spend sorting the mail and increase the amount of time that a carrier could be out making more deliveries.

Actions to Improve Efficiency and Customer Access to USPS's Retail Network

Both USPS and the President's Commission have recognized that USPS needs to adjust its retail network so that it provides the optimal level of retail access at the lowest possible cost. The retail service options available to rural customers will largely remain the same, with the exception of rural customers who have access to the Internet (www.usps.com). USPS officials stated that USPS plans to deploy most other new retail alternatives in high-growth, high-density areas, such as fast-growing suburbs. However, it is not clear why some retail alternatives that offer greater customer convenience, such as stamp purchases at grocery or other retail stores, may not be provided to those in rural areas. Further, it is not clear how rural customers may be impacted by USPS's retail optimization efforts to

¹⁰Delivery Point Sequencing is an automated process by which mail is sorted according to the individual addresses on the delivery route.

close and/or consolidate retail facilities. In its Transformation Plan, USPS stated that its planned efforts to improve access to retail services for all customers while becoming more cost-effective include three key initiatives:

(1) *Create new, low-cost retail alternatives.* USPS identified ways to provide cost-effective services that improve customer convenience and access by utilizing low-cost retail alternatives, such as the Internet, ATMs, and supermarkets. According to USPS, most of the alternatives are aimed at providing additional access to high-growth, high-revenue areas where demand for services is more concentrated and will not be available in less-populated areas. For example, many of the 666 contract postal units opened in fiscal year 2003 were in urban areas such as Los Angeles, California, and Orlando, Florida. However, USPS noted two alternatives that would be available to most customers, including those in rural areas—the Internet, for customers with access, and the recently implemented “Click-N-Ship” program. USPS’s Internet Web site is available to customers 24 hours a day, 7 days a week, and was designed to handle most retail transactions that take place in local post offices, such as printing shipping labels and postage for packages, buying stamps, sending money orders, and filing address changes. USPS’s Click-N-Ship program allows customers to print shipping labels for packages and pay for postage using their computers. Customers can arrange to have their mail carrier pick up the package, or they can leave it in a mail collection box or at their local post office. This carrier pick-up service is currently available in urban and suburban areas, and USPS and the NRLCA have recently agreed to conduct a nationwide pilot that would test this program on rural routes.

(2) *Move stamp-only transactions away from the post office window.* The new, low-cost retail alternatives provide USPS with an opportunity to increase the efficiency of postal transactions. In fiscal year 2003, about one-third of the visits to USPS retail facilities included stamp purchases, and over 130 million visits were for stamp-only purchases. Smaller post offices tend to conduct a higher percentage of stamp-only transactions. As indicated in its Transformation Plan, window service at a post office is a relatively expensive way to provide stamp purchases when compared with low-cost alternatives, such as providing stamp purchases from ATMs, through the mail, from the Internet, or from a grocery store. In addition, residents on rural and highway contract routes can purchase stamps and other retail services from their mail carriers. USPS has begun to promote the use of these alternatives for postal transactions; in November 2002, USPS launched a national campaign promoting alternative access to postal

products to create customer awareness of stamp-purchasing alternatives. Between fiscal year 2002 and 2003, the number of stamp-only visits at postal facilities decreased by about 25 million (a 16 percent reduction), and the number of stamp transactions decreased by about 60 million (a 10 percent reduction).

(3) *Optimize the retail network.* As simple transactions such as selling stamps and printing shipping labels are redirected to lower cost alternatives, USPS plans to take actions to tailor retail services to the individual community needs and provide the optimal level of retail access at the least possible cost. USPS has established a nationwide database of its retail network that includes about 150 data points for each of its retail postal facilities, such as operating costs, revenues, proximity to other retail points, number of deliveries, and customer demographics. This database provides USPS with a baseline for evaluating its network, from which it plans to first focus its retail strategy on “underserved” locations. USPS then plans to focus on high-revenue locations, most of which are located in urban and suburban areas. Lastly, USPS will focus on “overrepresented” areas. The Transformation Plan stated that USPS would replace “redundant, low-value access points” with alternative access methods, but it did not provide information on the specific criteria that USPS would use to make this determination. It is unclear how post offices in rural areas may be affected by this initiative, because, as USPS stated in its Infrastructure and Workforce Rationalization Plan to Congress, “the savings from closing small post offices are minimal, since the potential savings in personnel and office rent are often more than offset by the additional cost of rural delivery service needed in lieu of post office box delivery.” Another approach, recommended by the President’s Commission, would be for USPS to optimize its retail network by assessing its “low-activity” post offices to determine if they are needed to ensure the fulfillment of universal service. If USPS determines that these post offices are needed, they should be retained, even if they are not economical. If not, the President’s Commission stated that USPS should work with the affected community to consider how to dispose of excess facilities.

USPS has begun taking actions to optimize its retail network by lifting the self-imposed moratorium established in 1998 on closing post offices and by adjusting post office hours. During fiscal year 2003, USPS formally closed about 440 post offices and other retail facilities, more than half of which USPS had placed on emergency suspension. A post office can be placed on emergency suspension due to circumstances such as a natural disaster, sudden loss of the post office building lease when no suitable alternative

quarters are available, or severe damage to or destruction of the post office building. An emergency suspension is one of three circumstances that may prompt USPS to initiate a feasibility study to determine whether to close a post office. The other two are (1) a postmaster vacancy and (2) special circumstances such as the incorporation of two communities into one. USPS plans to close 311 post offices in fiscal year 2004 that were placed on emergency suspension between February 1983 and June 2003. An additional 65 post offices that were placed on emergency suspension between August 2002 and November 2003 are not scheduled to close. USPS has reported that post office closures will continue, and that in a normal year about 100 to 200 small, rural post offices are closed when the communities in which these offices are located essentially disappear.

According to USPS, it has also adjusted hours at existing post offices from time to time to reflect customer demand. Although USPS could not provide information on the number of post offices where changes in hours occurred in fiscal year 2003, it did provide a description of how hour adjustments are made. According to USPS officials, postmasters are responsible for establishing window service hours based on the needs of the community within the funding resources. Officials noted that they periodically assess the number of transactions and customer visits throughout the day to determine the appropriate hours, and that hours may be extended or shortened in response to customer demand. USPS reported that its efforts to increase efficiencies in its retail area have resulted in a decrease of almost 5 million workhours from fiscal years 2002 to 2003.

Key Issues Include Delivery Inconsistencies and the Uncertain Future of Retail Network

USPS and the President's Commission both have recognized the need for establishing a postal network that is capable of providing universal service in an efficient and cost-effective manner. The actions identified by USPS that were discussed in the previous section illustrate that future service decisions are being planned with a focus on increasing efficiency and customer service. According to surveys conducted both by USPS and for the President's Commission, customers are generally satisfied with the services provided by USPS. However, when issues are raised by postal stakeholders, including Members of Congress, customers, and USPS employees, they generally relate to inconsistent delivery services and limited communication related to planned changes to the retail network. USPS has also raised issues about legal requirements and practical constraints that limit its flexibility to make changes to the postal network. Progress toward optimizing the postal retail network will require USPS to collaborate and communicate more effectively with stakeholders in order

to raise their confidence that USPS's actions will result in improved customer service and more cost-efficient operations.

Customer Satisfaction and Issues

Data reflect that customers are generally satisfied with the services provided by USPS. USPS customer satisfaction data showed that 93 percent of households nationwide continue to have a positive view of USPS. USPS's Customer Satisfaction Measurement survey gathers information from households and businesses throughout the country, and the residential survey includes questions on such topics as mail delivery service, retail options, time waiting in line at post offices, and USPS advertising. A survey was also conducted as part of the President's Commission's work to determine the public perception of USPS. This survey reported that customers throughout the country, including those in cities and rural areas, have a favorable view of USPS.¹¹

Although it is reported that overall customer satisfaction is high, when customers do raise concerns, many relate to inconsistencies in delivery services and changes in access to retail services.¹² For example, in the first 2 quarters of fiscal year 2004, USPS's customer telephone system—Corporate Customer Contact—documented over 1.3 million calls that raised customer issues. As table 6 shows, these issues fell into five general categories. The delivery/mail pickup category contained the most customer complaints with over 88 percent of the total customer issues. These calls included issues about late deliveries, changes in the location of the customers' deliveries, and misdeliveries.

¹¹Peter D. Hart Research Associates, *A Consumer Survey About the U.S. Postal Service*, May 2003.

¹²Concerns raised by customers through telephone calls or letters are not necessarily representative of the concerns that the whole population of customers may or may not have.

Table 6: Customer Issues Documented by USPS, First 2 Quarters of Fiscal Year 2004

Category	Number of documented issues	Percentage of total documented issues
Delivery/Mail pick-up	1,163,578	88.0%
Personnel	106,684	8.1
Post office/Equipment	35,337	2.7
Retail	14,443	1.1
Web site/Contacting USPS	1,965	0.1
Total	1,322,007	100.0%

Source: USPS.

We reviewed a sample of letters received by Members of Congress involved in the oversight of USPS in 2002 and 2003. Of the 134 letters that we reviewed, the most common delivery-related concerns pertained to the mode of delivery that was used and mail arriving late or at inconsistent times. On the retail side, the issues raised most frequently were concerns about potential post office closings or relocations. Several customers wrote that closing or relocating post offices would make it difficult or inconvenient for them to access retail postal services.

Congressional Issues

In addition to constituent letters containing specific questions about USPS operations, Congress has raised long-standing issues about the basic provisions of universal service and retail access, particularly to customers in rural areas. The Postal Reorganization Act contained specific provisions requiring that effective postal services would be ensured to residents of both urban and rural communities. Congress had additional concerns about community involvement in decisions to close or consolidate post offices. In 1976, it amended the Postal Reorganization Act and established specific requirements for USPS when attempting to close a post office, including that USPS must consider the effects on the community served, the employees of the facility, and economic savings to USPS that would result from the closure, as well as provide notice to customers.¹³ This amendment sought to involve communities in decisions, which would help to ensure that these decisions were made in a fair, consistent manner. The amendment also established an appeals process to the PRC to allow for

¹³39 U.S.C. § 404 (b).

independent review of decisions to close or consolidate post offices. Congress has long included language in USPS annual appropriations legislation forbidding the closure or consolidation of small, rural post offices.

The closure requirements added by this amendment, however, did not apply to postal facilities that were to be expanded, relocated, or newly constructed, and Congress remained concerned that communities were not sufficiently involved in decisions regarding their post offices. In 1998, USPS responded to these concerns by establishing regulations relating to the expansion, relocation, or new construction of post offices that required local officials and citizens to be notified, provided affected customers with a chance to provide comments, and required USPS officials to consider this community input.¹⁴ However, postal facilities placed in emergency suspension were not subject to the post office closure or consolidation requirements. A 1999 congressional hearing focused on USPS's closure process when some stakeholders raised concerns that USPS might be using its emergency suspension procedures to avoid post office closure requirements. We issued a report on emergency suspensions in 1997 and found that between the beginning of fiscal year 1992 through March 31, 1997, USPS had suspended the operations of 651 post offices, some of which had been in suspension over 10 years.¹⁵ After USPS lifted its 1998 moratorium on closures in 2003, USPS began to close most of its suspended post offices.

Concerns remain about the extent to which customers are included in retail decisions as evidenced by the fact that current Members of Congress continue to introduce legislation related to USPS's process for closing post offices and ensuring that communities are involved in the decision-making process.¹⁶

¹⁴39 C.F.R. § 241.

¹⁵U.S. General Accounting Office, *U.S. Postal Service: Information on Emergency Suspensions of Operations at Post Offices*, GAO/GGD-97-70R (Washington, D.C.: Apr. 23, 1997).

¹⁶S. 1534, Rural Post Office and Community Preservation Act of 2003 and H.R. 3432, Post Office Community Partnership Act of 2003.

USPS Employee Issues

Employee groups are concerned with USPS's attempts to make changes to the postal network. For example, these groups have raised issues about the perceived lack of communication from USPS about how it makes these decisions. Carrier unions have also raised issues related to actions taken by USPS to establish and categorize carrier routes. Carrier compensation represents a significant portion of the total delivery costs, which is a key consideration in USPS's delivery route decisions. For a number of years, USPS, the NALC, and the NRLCA have had a continuing dispute over the assignment of work jurisdictions for mail delivery. These disputes pertain to the conversion of city delivery to rural delivery, or vice versa, and the assignment of new deliveries (whether a new route will be a city route or a rural route). There were an estimated 1,300 disputes at the national and local levels related to this issue at the end of 2003. USPS and the two unions established a joint task force in May 2003 to expedite resolution of outstanding city/rural jurisdictional disputes. Furthermore, additional disputes regarding the process for conducting mail counts and route inspections have also been raised. Mail counts and route inspections are key factors in determining carrier duties and compensation, and thus total delivery costs. Mail counts and route inspections are used to identify the amount of mail sorted and handled by carriers during an average workday and what determines the efficiency of the current route structure.

USPS Issues

USPS has raised issues about its lack of flexibility to make necessary changes to its delivery and retail networks. Changes to USPS's retail infrastructure are limited by both legal requirements and practical constraints. As previously mentioned, USPS by law cannot close a small post office solely because it is operating at a deficit. Furthermore, Members of Congress and other stakeholders have often intervened in the past when USPS has attempted to close post offices or consolidate postal facilities. Proposed post office closures have provoked intense opposition because local post offices are sometimes viewed as (1) a critical means of obtaining ready access to postal retail services, (2) a part of American culture and business, and (3) critical to the viability of certain towns or central business districts. In regards to its delivery network, USPS appropriations acts have included provisions on 6-day-a-week delivery and rural mail service, and there is strong stakeholder opposition to cuts in the frequency or quality of postal services. The President's Commission agreed that USPS might need additional flexibility as part of establishing the proper configuration of a 21st century postal network; however, the commission stated that mechanisms are needed to ensure accountability and oversight.

Retail Optimization Communication Issues

The Postmaster General has stated that without greater flexibility, it may become increasingly difficult for USPS to continue achieving cost savings, and that if USPS is unable to significantly restrain its costs, it may have to reconsider universal service as it is provided today. Although USPS faces some constraints to making changes, the previous section of this report illustrates that there are actions USPS could take to improve efficiency in the delivery and retail areas while improving customer service. For example, low-cost retail alternatives, such as the Internet, provide USPS with an opportunity to enhance customer access nationwide, while at the same time offering cost-effective and convenient ways to provide service. However, without more information about how USPS will make decisions related to changing its postal network, including closures or consolidations of existing facilities, it is difficult for customers to understand how they may be affected by these decisions. It is particularly important that customers in rural areas, who may be more dependent on their local post offices, are informed about how they may be affected by these decisions.

We agree that actions are needed to restrain costs and that some legal and practical restraints limit USPS's flexibility to make changes to its network. However, USPS's communication with Congress and stakeholders about what it intends to do and how it intends to optimize its retail network is important so that stakeholders will have more confidence in USPS's decisions. Stakeholders, who are a critical component of implementing successful changes, have raised concerns about potential changes to USPS's network. Specifically, as previously mentioned, stakeholders have been concerned about a perceived lack of communication throughout USPS's decision-making process. Examples include insufficient information regarding potential changes such as closing post offices or making adjustments to post office hours. Furthermore, recent postal reform legislation reflects concerns about the future provision of delivery and retail services. Both the House and Senate postal reform legislation introduced in May 2004—The Postal Accountability and Enhancement Act, H.R. 4341 and S. 2468—included provisions that required a study of universal postal service and what the future of universal service may entail. The Senate bill required USPS to provide Congress with a discussion of potential changes to its infrastructure, including its delivery and retail networks. This proposed plan provides an opportunity for USPS to provide Congress with additional information that will facilitate better understanding of what USPS hopes to accomplish through its optimization efforts and how it plans to make its decisions in this area.

We have previously reported on the importance of keeping Congress and stakeholders informed throughout the decision-making process to successfully transform the Postal Service.¹⁷ Last November, we recommended that USPS develop an integrated plan to optimize its infrastructure and workforce, in collaboration with its key stakeholders, and make the plan available to Congress and the public.¹⁸ USPS agreed with this recommendation and in January 2004 presented its Infrastructure and Workforce Rationalization Plan to the House and Senate oversight committees. The plan included a section on improving its retail network by increasing access and customer convenience in a cost-efficient manner. Although this plan included a general discussion of initiatives that USPS is planning for its retail and delivery network, it did not explain how USPS planned to make decisions—that is, what specific criteria would be used as the basis for USPS decisions. For example, USPS has discussed general principles that it has established as a basis for its retail optimization strategy as outlined in its Transformation Plan and Transformation Plan Update. We previously discussed these principles, and they included targeting underserved areas, particularly in high-growth areas, and replacing redundant, low-value access points with alternative access methods. However, the plan did not discuss how USPS would define “underserved” areas for determining where new self-service options are to be located, or “redundant, low-value access points” that are to be replaced. It is not clear if USPS has consulted its customers, including those in rural areas, in developing its network optimization plans to determine their needs, their preferences on retail alternatives, and which postal facilities may be needed to provide postal services. Further, it is not clear if USPS’s optimization strategy related to removing redundant or excess postal facilities would follow the existing process for closing post offices, which essentially is a local decision in response to local circumstances, such as a postmaster vacancy, lease expiration, building damage, or an emergency. If such an incremental approach based on local decisions is used to implement USPS’s retail optimization strategy, it is not clear that the implementation would lead to the desired result of a systemwide optimal network overall.

¹⁷U.S. General Accounting Office, *U.S. Postal Service: Deteriorating Financial Outlook Increases Need for Transformation*, GAO-02-355 (Washington, D.C.: Feb. 28, 2002).

¹⁸GAO-04-108T.

Conclusions

USPS's retail optimization strategy could be an opportunity for a "win-win" outcome for both USPS and its customers, including those in rural areas, in that USPS could reduce its costs while at the same time improving access for its customers. According to USPS, it is already in the process of providing its customers with greater access to its services through a variety of new, more convenient alternatives. USPS has also initiated efforts that have increased efficiencies and cut costs and plans further actions in the future. However, many stakeholders, including Members of Congress, are concerned about the limited information and communication USPS has provided regarding its network optimization plans and how customers will be affected by its proposed changes. Without more information about how USPS will make decisions related to changing the current postal network, including closures or consolidations of existing facilities, it will be difficult for customers to understand how they may be affected—particularly those in rural areas who may be more dependent on their local post offices.

Effective communication is needed to demonstrate that USPS wants to partner with its customers in communities nationwide to provide more convenient and cost-effective delivery and retail services and to preserve post offices needed to support universal service. Improved transparency and accountability mechanisms are also needed to raise stakeholder confidence that decisions will be made in a fair, rational, and fact-based manner. Such mechanisms could include a clear process to ensure that key stakeholders are consulted and properly informed of decisions that may affect them. Increasing communication and collaboration with key stakeholders may also help facilitate better understanding of the different challenges and needs facing USPS and its customers in urban and rural areas, the rationale for decisions, the cost implications related to budget and rate decisions, and the trade-offs involved with actions to achieve a more efficient and effective network.

Recommendation for Executive Action

To facilitate USPS's progress in implementing its planned actions aimed at improving efficiency in its postal network while increasing customer service, we recommend that the Postmaster General provide improved transparency and communication to inform Congress and other stakeholders of the actions it plans to take regarding its retail optimization strategy, including (1) the criteria USPS will use to make decisions related to changing its retail network; (2) the process it will use to communicate with postal stakeholders throughout the decision-making process; (3) the

impact on customers, including those in rural areas; and (4) the time frames for implementing all phases of its retail optimization initiative.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from the Acting Vice President of Delivery and Retail for USPS in a letter dated June 30, 2004. USPS's comments are summarized below and reprinted in appendix III. USPS officials also provided technical and clarifying comments, which were incorporated into the report where appropriate. USPS's letter concurred with "the spirit of the report's findings" and acknowledged that USPS must continue to take steps to improve the efficiency and effectiveness of its delivery and retail networks. In response to the four specific provisions included in our recommendation, USPS stated the following:

- The criteria used to make retail decisions vary because retail optimization is a dynamic and evolving process, and the key to making any postal decision is quality service to customers. There are, however, specific criteria for certain elements of the retail network (e.g., 300 books of stamps must be sold by the retailer each month in order to participate in the consignment program).
- USPS will continue to advise postal stakeholders (e.g., congressional staff, management associations, labor unions, and employees) of changes that affect the retail network.
- It is USPS's policy to notify customers of changes that impact their services. USPS will review how best to communicate those types of changes to customers and develop a process for the field to notify headquarters of changes in operating hours that could potentially impact the community.
- The retail optimization initiative does not have a fixed time frame because it is an evolutionary process. As such, USPS said that "it would be impossible to provide a time frame for implementing all phases of the retail optimization initiative."

We agree that the retail optimization effort is a dynamic and evolving process, and that the actions described by USPS to improve communication with its local districts and other stakeholders about changes to the retail network are a step in the right direction. However, even though there are constant changes in the retail network, it is

important for stakeholders to feel confident that USPS's retail decisions are made in a fair, rational, and fact-based manner. Therefore, we continue to believe that establishing and communicating the criteria that provide the basis for USPS's retail decisions would help to raise this level of confidence. Furthermore, although USPS says it has not identified a fixed time frame for its retail optimization efforts because it is an evolutionary process, this does not mean that time frames for specific projects or initiatives are not needed. Time frames can, and should, be established for the different phases of USPS's retail initiatives to provide postal stakeholders with information on when these initiatives will be deployed so that interested parties, such as mailers, can determine the implications for their own business plans. In addition, time frames are needed so that USPS and stakeholders can evaluate the performance of these initiatives and how they fit into the network optimization plans as a whole, including the potential impact on costs and rates.

We will send copies of this report to the Ranking Minority Member of the Senate Committee on Governmental Affairs, the Chairmen and Ranking Minority Members of the House Committee on Government Reform and the House Special Panel on Postal Reform and Oversight, Senator Thomas R. Carper, the Postmaster General, the Chairman of the Postal Rate Commission, and other interested parties. We will also make copies available to others on request. In addition, this report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you have any questions about this report, please contact me at (202) 512-2834 or at goldsteinm@gao.gov. Key contributors to this assignment were Teresa Anderson, Joshua Bartzen, and Heather Halliwell.

Sincerely yours,



Mark L. Goldstein
Director, Physical Infrastructure Issues

Objectives, Scope, and Methodology

To meet our first objective, which was to provide information on the U.S. Postal Service's (USPS) policies, procedures, and practices for providing rural delivery services, and how they compare with those in urban areas, we discussed USPS's basis for providing delivery and retail services, the legal framework under which these decisions are made, and the process used to carry out these decisions with USPS officials. We supplemented this information with (1) USPS documents and manuals describing letter carrier duties and the roles of USPS officials in managing delivery services and (2) USPS operational guidance for providing service, including establishing delivery routes and locations of deliveries, retail alternatives, and services/locations of these alternatives. Also, because USPS is subject to legal and statutory considerations when making retail and delivery decisions, we reviewed the applicable statutes that establish USPS's mission and role as a provider of universal postal service and the collective bargaining contracts established with its two sets of bargaining employees—the National Rural Letter Carriers Association and the National Association of Letter Carriers. We discussed USPS's current policies and procedures with various USPS officials who were knowledgeable about the retail and delivery networks, as well as with letter carrier and postmaster representatives and Postal Rate Commission officials. We obtained, reviewed, and analyzed delivery and retail data pertaining to routes, delivery points, and retail network from various sources, including USPS officials, the Annual Report, and the Comprehensive Statement of Operations. We assessed the reliability of data provided by USPS by reviewing the data for inconsistencies and checking for duplicate or missing values. In those cases where we found discrepancies, we worked with USPS to address the problems. We determined that these data were sufficiently reliable for the purposes of this report.

To meet the second objective, which was to discuss changes USPS is making, and planning to make, related to providing postal services to rural areas and the potential impact of these proposed changes, we reviewed, analyzed, and discussed with USPS officials actions that were planned as part of its Transformation Plan and its related updates, growth plans, operational strategies, Infrastructure and Workforce Rationalization plan, as well as the recommendations to USPS as part of the President's

Commission on the United States Postal Service (the President's Commission) report.¹

To meet our third objective of identifying issues that USPS may need to consider when making decisions related to providing postal services in rural areas, we interviewed various USPS officials, such as retail and delivery managers, customer contact representatives, and administrators of the Customer Satisfaction Management Survey. To gather additional information on stakeholder issues and preferences, we interviewed representatives from the letter carrier and postmaster groups, analyzed stakeholder comments raised before the President's Commission, reviewed the Hart Study that was conducted on behalf of the commission, reviewed USPS documentation related to its planned actions, and examined newspaper reports of customer concerns about changes in delivery and retail access.² Due to the current legislation proposed in both houses of Congress, we reviewed this proposed legislation as well the pertinent legislative history of congressional concerns in the delivery and retail areas.

To gain an additional understanding of customer issues with USPS, we met with USPS Congressional Relations staff to gather information on the types of written customer inquiries that are sent to Members of Congress. These staff provided us with a sample of letters related to retail and delivery issues that were sent to Members of Congress who then forwarded these concerns to USPS for resolution. USPS established categories for documenting these issues (e.g., delivery service, delivery method, and retail service). We requested copies of letters in selected retail and delivery categories that in 2002 and 2003 were sent to Members of Congress who provided oversight of USPS. We analyzed these letters and established our own set of delivery and retail categories on the basis of information presented in the letters. We felt it was necessary to establish our own set of categories because some letters contained issues that were raised across categorization areas.

¹The President'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).

²Peter D. Hart Research Associates, *A Consumer Survey About the U.S. Postal Service*, May 2003.

Number of Post Offices by State, Year-end 2003

USPS retail facilities^a

State	Post offices	Classified stations and branches	Contract stations/branches (and Community Post Offices)	Total USPS retail facilities	Population ^b	Residents served per retail facility ^b
AK	184	34	79	297	626,932	2,111
AL	558	83	34	675	4,447,100	6,588
AR	582	57	35	674	2,673,400	3,966
AZ	198	97	147	442	5,130,632	11,608
CA	1,056	721	351	2,128	33,871,648	15,917
CO	381	88	64	533	4,301,261	8,070
CT	233	91	26	350	3,405,565	9,730
DC	1	61	10	72	572,059	7,945
DE	53	17	4	74	783,600	10,589
FL	457	377	271	1,105	15,982,378	14,464
GA	606	153	72	831	8,186,453	9,851
HI	72	32	21	125	1,211,537	9,692
IA	892	34	112	1,038	2,926,324	2,819
ID	226	19	37	282	1,293,593	4,587
IL	1,225	190	96	1,511	12,419,293	8,219
IN	716	77	64	857	6,080,485	7,095
KS	603	44	111	758	2,688,418	3,547
KY	785	56	71	912	4,041,769	4,432
LA	468	75	36	579	4,468,976	7,718
MA	398	234	54	686	6,349,097	9,255
MD	394	110	44	548	5,296,486	9,665
ME	433	20	44	497	1,274,923	2,565
MI	822	140	252	1,214	9,938,444	8,187
MN	734	90	153	977	4,919,479	5,035
MO	912	119	105	1,136	5,595,211	4,925
MS	407	42	51	500	2,844,658	5,689
MT	312	14	55	381	902,195	2,368
NC	741	149	81	971	8,049,313	8,290
ND	341	7	52	400	642,200	1,606
NE	479	38	65	582	1,711,263	2,940
NH	227	20	26	273	1,235,786	4,527
NJ	520	234	30	784	8,414,350	10,733

Appendix II
Number of Post Offices by State, Year-end
2003

(Continued From Previous Page)

State	Post offices	USPS retail facilities ^a			Population ^b	Residents served per retail facility ^b
		Classified stations and branches	Contract stations/branches (and Community Post Offices)	Total USPS retail facilities		
NM	286	47	66	399	1,819,046	4,559
NV	85	53	21	159	1,998,257	12,568
NY	1,513	438	124	2,075	18,976,457	9,145
OH	996	251	158	1,405	11,353,140	8,081
OK	576	57	49	682	3,450,654	5,060
OR	332	61	93	486	3,421,399	7,040
PA	1,711	292	128	2,131	12,281,054	5,763
RI	51	48	7	106	1,048,319	9,890
SC	360	66	51	477	4,012,012	8,411
SD	338	6	59	403	754,844	1,873
TN	533	93	52	678	5,689,283	8,391
TX	1,409	355	283	2,047	20,851,820	10,187
UT	176	32	93	301	2,233,169	7,419
VA	809	182	61	1,052	7,078,515	6,729
VT	270	15	19	304	608,827	2,003
WA	443	128	100	671	5,894,121	8,784
WI	718	53	106	877	5,363,675	6,116
WV	759	36	40	835	1,808,344	2,166
WY	176	7	17	200	493,782	2,469
Total	27,557	5,743	4,180	37,480	281,421,546	7,509

Sources: USPS, U.S. Bureau of the Census.

^aThere are 200 retail facilities in the following United States territories that were not included in this analysis: American Samoa, Federated States of Micronesia, Guam, Marshall Islands, Northern Mariana Islands, Puerto Rico, Palau, and Virgin Islands.

^bPopulation figures are from the 2000 Census. The average number of residents per retail facility is an estimate and might be affected by changes in population between 2000 and 2003.

Agency Comments from the United States Postal Service

William P. Galligan
Acting Vice President, Delivery and Retail



June 30, 2004

Mr. Mark L. Goldstein
Director, Physical Infrastructure Issues
United States General Accounting Office
Washington DC 20548-0001

Dear Mr. Goldstein:

This is in response to your letter dated June 4 to Postmaster General John E. Potter regarding GAO-04-803. Thank you for providing the Postal Service the opportunity to review and comment on the draft report entitled, "U.S. Postal Service: USPS Needs to Clearly Communicate How Postal Services May be Affected by its Retail Optimization Plans."

We concur with the spirit of the report's findings and acknowledgement that the Postal Service has, and will continue, to take steps to improve the efficiency and effectiveness of its delivery and retail networks.

Postal customers are provided, regardless of location, with services that include free mail delivery and access to its retail services. It has been our experience, and your report confirms, that postal customers are generally satisfied with the vast array of services provided to them.

The report recommends that the Postal Service provide improved transparency and communication to inform Congress and other stakeholders of the actions it plans to take regarding its retail optimization strategy, including (1) the criteria Postal Service will use to make decisions related to changing the retail network; (2) the process it will use to communicate with postal stakeholders throughout the decision process, (3) the impact on customers, including those in rural areas, and (4) the timeframes for implementing all phases of its retail optimization initiative.

We will address each recommendation individually:

- (1) Retail optimization is a dynamic and evolving process, therefore, the criteria the Postal Service uses to make decisions related to changing the retail network vary. As stated in your report, we look at a variety of data, such as current population and projected growth, types of postal purchases, business locations, etc. to provide a basis for the areas and districts to determine if they need brick and mortar, stamps on consignment, self service kiosks, a Contract Postal Unit (CPU), etc. There are, however, more specific criteria for certain elements of the network. For example, in order to participate in our consignment program, 300 books of stamps must be sold per month and for the Automated Postal Center (APC), part of the criteria used is that it must be a high revenue generating location. The key to any postal decision is quality service to our customers.
- (2) We will reinforce the need for our local districts to advise congressional staff of any changes that will affect their districts. We will continue to advise our management associations, labor unions, and employees through a variety of media and pursuant to contract agreements of any changes that affect the retail network.

475 L'ENFANT PLAZA, SW, RM 7017
WASHINGTON DC 20260-1600
202-268-5100
FAX: 202-268-3331
WWW.USPS.COM

Appendix III
Agency Comments from the United States
Postal Service

- 2 -

- (3) It is our policy to notify customers of changes that impact their services. In the few instances where an office is discontinued or relocated, the process is very formal and structured. The process is less formal, for instance, when there is a change in hours of operation. We will review how best to communicate those type of changes to our customers. We will also develop a process for the field to advise us of changes in operating hours that could potentially impact the community. The goal is to improve service to our customers at their point of access, whether it is in the retail lobby, through their carrier, or now even from their computer.
- (4) The retail optimization initiative does not have a fixed timeframe and is evolutionary and not a fixed timeframe solution. Therefore, it would be impossible to provide a timeframe for implementing all phases of the retail optimization initiative. New approaches and technology are constantly evolving and have impact on the decisions that are made in regard to the network. For example, APCs are rolling out to 2,500 locations between now and the end of the calendar year. We anticipate tremendous results in terms of access and customer satisfaction, but actual field performance and results will help us determine the impact on the network and where these access point's best fit into the network. In addition, the Postal Service has also expanded to the internet through USPS.com to make it easier for customers to conduct business by bringing postage purchases and other postal transactions right to their computer. It is an example of how we are working to make the Postal Service universally accessible to the American household, now and in the future.

In conclusion, the network optimization initiative is not a fixed formula, but an evolutionary process that is dependent on many factors from customer preferences to the economy. The Postal Service is committed to providing convenient access to the American people.

Sincerely,


William P. Galligan

GAO's Mission

The Government Accountability 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 GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

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. Government Accountability 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

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

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

**United States
Government Accountability Office
Washington, D.C. 20548-0001**

**Official Business
Penalty for Private Use \$300**

Address Service Requested

**Presorted Standard
Postage & Fees Paid
GAO
Permit No. GI00**

