



# **Barriers to Retail Network Optimization**

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## Executive Summary

The retail presence of the U.S. Postal Service has changed very little since 1971. Whereas 45,000 Post Offices were closed between 1901 and 1971, when Congress was footing the bill for unneeded retail facilities, only 4,000 have closed in the 40 years since then. But a consensus is finally emerging that the retail network needs modernization. The U.S. Postal Service Office of Inspector General has shown how location economics and retail best practices can devise an optimized network that aligns retail supply to demand and serves current lifestyles better than the legacy network and at lower cost.<sup>1</sup> However, any effort to optimize the network faces a daunting array of obstacles that have emerged over years of conflict about closing Post Offices.

The obstacles standing in the way of retail modernization have many sources. Statutory restrictions prevent closing Post Offices for economic reasons and impose requirements for onerous notice, consultation, and appeal procedures. Regulatory obstacles take the form of a time-consuming and expensive review of individual consolidation decisions by the Postal Regulatory Commission as well as a broader determination whether optimization would entail a nationwide change in the nature of postal services. Political obstacles are raised by well-organized and highly motivated opponents of consolidation or closure, by the absence of allies in legislative and regulatory proceedings, and by the common impulse of members of Congress to oppose changes in public facilities within their constituencies. Yet another category of obstacles is institutional within the Postal Service itself, and largely self-imposed.

Efforts to optimize and modernize the retail network need to address the adverse impact of these statutory, regulatory, and political barriers, but mitigating these barriers may take time and is not entirely within Postal Service control. In the interim, management should focus on the institutional barriers that it can control. These obstacles include a lack of sustained management attention to the need to revamp the retail function, a lack of comprehensive cost data that prevents the Postal Service from placing a value on savings available from modernization, past dependence on a highly decentralized bottom-up process for identifying redundant locations, and the absence of a strategic retail vision that would elevate the debate from the tired battle over closing Post Offices.

Although recent history is discouraging, the Postal Service appears to be renewing its optimization efforts. Obstacles to retail modernization are not insurmountable, and policymakers are increasingly aware of the need for change in the postal system. Some tactical alterations such as enhancing data quality and articulating a positive vision of

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<sup>1</sup> U.S. Postal Service Office of Inspector General, *Analyzing the Postal Service's Retail Network Using an Objective Modeling Approach*, Report No. RARC-WP-10-004, June 14, 2010, [http://www.uspsoig.gov/foia\\_files/RARC-WP-10-004.pdf](http://www.uspsoig.gov/foia_files/RARC-WP-10-004.pdf).

retail optimization and modernization including a top-down component could improve chances for success. Alternatively, if optimization seems unobtainable, the Postal Service may want to again seek a public service appropriation, as Congress provided from 1971 to 1982 and is still authorized, to cover the costs of the legacy network. Even if the Postal Service is able to successfully optimize the network, the Postal Service might want to request appropriations to cover those Post Offices that are needed for universal service yet cannot be turned from cost centers into profit centers.

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## Barriers to Retail Network Optimization

### Introduction

Virtually every contemporary study of the Postal Service's business model has identified the need for the Postal Service to revamp its vast retail network as a result of changing demand for postal services. A series of reports by the Government Accountability Office (GAO), the Postal Service's 2002 Transformation Plan and its current Action Plan for the Future, and even Congress itself in passing the Postal Accountability and Enhancement Act (PAEA) have all urged the Postal Service to adjust its retail network of 36,000 retail facilities. In June 2010, the U.S. Postal Service Office of Inspector General (OIG) took the next step and issued a report offering an objective approach to retail optimization based on economic modeling. Drawing on public facility location research and best practices, the report presented an economic model to estimate the optimal number, size, spacing, and staffing of Postal Service retail facilities for maximizing public benefit by matching the demand for retail services to the cost of providing them.<sup>2</sup>

*Virtually, every contemporary study of the business model has identified the need to revamp the retail network.*

While the Postal Service and many of its stakeholders can see the value of using economic modeling to plan an optimal retail presence, devoting effort to perfecting this approach may seem impractical given the traditional sensitivity that Post Office location decisions have involved. A century-long history of efforts to bring retail facilities in line with changing American demographics and lifestyles has left a legacy not only of 36,000 facilities established many decades ago, but also an array of obstacles to change that have discouraged modernization efforts in both distant and recent memory. This white paper takes a fresh look at the obstacles and barriers that seemingly prevent the Postal Service from developing an optimal modern retail network as described in the OIG report. It begins with an interpretive summary of the history of past efforts to adapt retail locations to a changing society, then identifies and analyzes the statutory, regulatory, political, and institutional barriers that have impeded past efforts, and concludes with some suggestions that might help remove some of these barriers and permit a rational, comprehensive approach to retail modernization.

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<sup>2</sup> Ibid.

## Efforts to Optimize the Retail Network

In the 19<sup>th</sup> century, as the nation expanded westward and commercial agriculture became its leading occupation, the Post Office Department kept pace by establishing new Post Offices in every town and hamlet for citizens to post letters and collect mail and packages. Home delivery was confined to cities. By the beginning of the 20<sup>th</sup> century, there were 76,945 Post Offices, one for every thousand residents, forming a vast network that helped bind the growing nation together. In 1902, however, Congress extended free delivery to rural areas. It was no longer necessary for patrons to visit an office to send or pick up mail. Since the Post Office Department was subsidized by appropriations, Congress kept up pressure to economize, resulting in a rapid and sustained reduction in Post Offices through most of the century. This was not especially controversial, because rural patrons felt they were better off with free delivery. Rural carriers provided retail services as part of their routes. Also, with

*Under the Post Office Department, Congress kept up the pressure to economize by closing Post Offices.*

urbanization, annexation, and steady improvements in transportation, thousands of small towns disappeared as distinct entities along with the Post Offices that had served them. Growth in urban areas was typically accommodated not by the creation of new independent Post Offices, but by the establishment of stations (inside city limits) and branches (outside city limits) which had most of the

functions of a Post Office but were not headed by a postmaster. Instead, these branches and stations were under the jurisdiction of a city's single main Post Office. As shown in Figure 1, by the time the Postal Service was established in 1971, there were 31,947 Post Offices — a reduction of nearly 45,000 since the high point in 1901. In addition, there were 3,906 Postal Service-operated stations and branches and 6,434 retail units operated by contractors.<sup>3</sup>

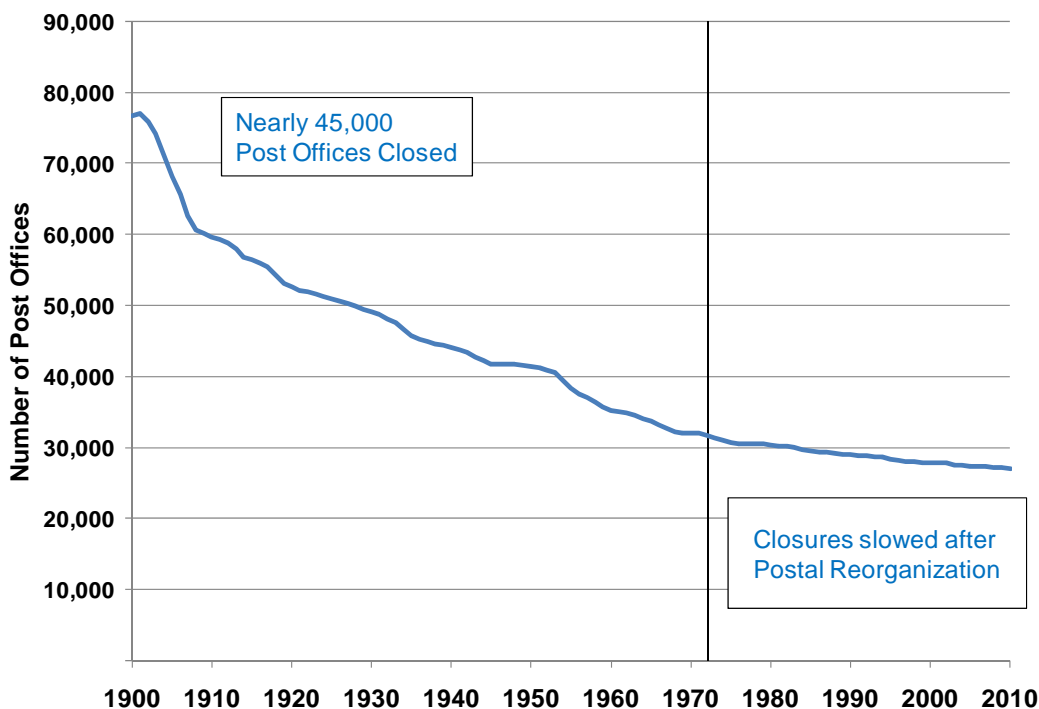
Once Congress no longer had to bear the cost burden of unneeded facilities through appropriations, the pace of Post Office closings began to fall sharply. Since the Postal Service became independent, there has been only a modest reduction in the total number of Post Offices, stations, and branches operated by the Postal Service from 35,853 in fiscal year (FY) 1971 to 31,871 in FY 2010, a net reduction of 4,000 units over 40 years, or an average of 100 per year.<sup>4</sup> Although the General Accounting Office (GAO — now the Government Accountability Office) issued a series of reports urging that efficiencies were to be gained by consolidation of rural retail facilities, Congress was not supportive. Until it began to suffer real financial problems in this century, there was no concerted Postal Service initiative to reduce or modernize its retail presence. As its financial condition has deteriorated, however, the Postal Service has focused new attention on the cost burden of excess facilities.

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<sup>3</sup> U.S. Post Office Department, Annual Report of the Postmaster General, 1971, p.23.

<sup>4</sup> Ibid. and U.S. Postal Service, *2010 Annual Report*, <http://www.usps.com/financials/pdf/usps2010annual-report.pdf>, p. 83.

Figure 1: Number of Post Offices, 1900-2010



Source: U.S. Statistical Abstracts and U.S. Postal Service Annual Reports

### Recent Retail Modernization Initiatives

In 2002, the Postal Service Transformation Plan established a goal of reducing the number of “redundant, low-value” retail facilities. While the plan gave some examples of revenue-losing units, the Postal Service offered no definition of value or redundancy nor did it adopt a facility or cost-reduction target. When the Plan was updated in 2005, the Postal Service “purposely removed mention of retail facility closures, as it is difficult to agree and establish criteria that could be applied to all locations.... We have learned that each facility must be assessed on a case-by-case basis, and we intend to continue to use this method.”<sup>5</sup> In a 2007 report, GAO suggested some criteria but said the Postal Service did not capture the data needed to apply them.<sup>6</sup> The Postal Service did not accept GAO’s recommendation to collect more comprehensive data and use it to identify and close unneeded facilities, repeating the rationale that all decisions should be made locally and based on local considerations.<sup>7</sup>

The President’s Commission on the United States Postal Service focused a great deal of attention on the urgent need to reduce the processing and distribution network and

<sup>5</sup> U.S. Government Accountability Office, *U.S. Postal Service: Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services*, Report No. GAO-08-41, December 10, 2007, <http://www.gao.gov/new.items/d0841.pdf>, p. 56.

<sup>6</sup> The criteria were drawn from Executive Order 13327, *Federal Real Property Asset Management*, and included measuring the contribution of facilities to an agency’s mission and objectives, and tracking utilization rates, physical condition, and annual operating costs. The Postal Service is not bound by the executive order. *Ibid.*

<sup>7</sup> *Ibid.*, p. 56.

recommended a base-closure-type process to overcome political obstacles in its 2003 report. It pointedly did not make comparable recommendations regarding the retail network. On the one hand, the Commission urged the Postal Service to expand retail access through consignment with retail stores and banks, pointing out that this was one seventh as costly to the Postal Service as selling stamps at a Post Office. On the other hand, it did not address a need for modernization of the retail network, even if retail access in these forms was expanded (as it has been). In fact, the Commission's recommendation was that "low activity post offices that continue to be necessary for the fulfillment of the Postal Service's universal service obligation should **not** be closed, even if they operate at a substantial economic loss. [emphasis in original]"<sup>8</sup>

The Postal Law of 2006 nevertheless provided a fresh opportunity to address redundancy in postal retail facilities by requiring the Postal Service to develop a plan by June 2008 to "rationalize" its network of facilities, remove excess capacity from the network, and identify cost savings and other benefits to be gained by rationalization. GAO recommended that the Postal Service "institute a proactive, criteria-based approach to identify and close unneeded retail facilities" as part of the plan, but the Postal Service rejected the recommendation and chose instead to focus its plan solely on "our mail processing network, not retail facilities."<sup>9</sup>

### ***Station and Branch Optimization and Consolidation (SBOC) Initiative of 2009***

In May 2009 the Postal Service informed the American Postal Workers Union that it intended to review its "larger stations and branches" for "possible discontinuance." Branches and stations are not headed by a postmaster, but in other respects handle the same delivery and retail functions that independent Post Offices do. As an extreme example, there is only one Post Office in the District of Columbia, located in an industrial area in the northeast quadrant of the city, but each of its residents is within easy reach of one, or more commonly several, of its 60 stations, branches, and contract facilities. Though the Postal Service did not say so, the focus on larger installations (those reporting to postmasters at EAS Level 24 and above, from 3,100 to 3,600 in number), avoided statutory restrictions on consolidating small and small rural Post Offices. At the time, internal Postal Service guidance instructed managers to use an expedited process for closing a station or branch (as distinct from a Post Office) that provided a 20-day public comment period and did not allow for an appeal.

On July 2, 2009, the Postal Service filed a request with the Postal Regulatory Commission (PRC) for an advisory opinion on whether this initiative constitutes a change in the nature of postal services that would trigger a PRC review of the initiative's conformance with the policies of title 39 of the U.S. Code. The number of branches and stations identified as candidates for a discontinuance study was initially

***The Postal Service requested an advisory opinion from the PRC on its effort to close stations and branches in 2009.***

<sup>8</sup> *Embracing the Future*, Report of the President's Commission on the United States Postal Service, July 31, 2003, pp. 82-83.

<sup>9</sup> U.S. Government Accountability Office, *U.S. Postal Service: Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services*, Report No. GAO-08-41, December 10, 2007, <http://www.gao.gov/new.items/d0841.pdf>, pp. 55-56.



given as 677, and since then has been reduced further to 162. Most of the public witnesses at a July 30, 2009, House Committee hearing were critical of the initiative on the grounds that retail customers and employees would be inconvenienced.

The PRC's advisory opinion, issued on March 10, 2010, took note of the reduction in the scope of the review to only 162 locations and said that would be unlikely to constitute a nationwide change in service. But in other respects its opinion was bad news for the Postal Service. Most seriously, it reiterated previous holdings that closing a branch or station was indistinguishable from closing a Post Office and that it required the full statutory comment, notification, and appeal procedures that have dissuaded the Postal Service from closing Post Offices in the past. It also said that financial data and analysis used by the Postal Service was faulty and could not support findings of improved efficiency and its assumption that no revenue would be lost.<sup>10</sup>

For nearly a year after the PRC issued its opinion, the Postal Service was relatively silent on the station and branch consolidation initiative. The list of stations and branches under review for discontinuation has not been updated since February 2010 and is no longer available on the Postal Service's website; however, the Postal Service has lately begun taking action. Many of the stations and branches on the Postal Service's list have been closed — some very recently. A few of these closures have been appealed to the PRC, and the PRC has affirmed the Postal Service's decision to close stations in at least three cases.<sup>11</sup>

### ***New Rules for Closures and Consolidations***

In a sign of the Postal Service's increased focus on its retail network, rule changes to improve the closure process were proposed on March 31, 2011.<sup>12</sup> The most significant

***The Postal Service proposed new closure and consolidation procedures in March.***

change would align the discontinuance procedures for stations and branches on one hand and Post Offices on the other, but there are several other important features. The proposed rule allows headquarters or the local district to suggest facilities for possible discontinuance. Under the

previous rule, only the district manager could suggest facilities for closure — a bottom-up, case-by-case approach that did not allow for a comprehensive, consistent optimization program across the network. Consolidations of Post Offices into Postal Service-operated stations or branches would no longer trigger the discontinuance process.

Finally, the new rule would allow personnel other than postmasters to run Post Offices and permits postmasters to oversee more than one Post Office, essentially breaking the link between postmasters and Post Offices. Such a change has the potential to revolutionize the management of the retail network. Taken together, the proposed

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<sup>10</sup> U.S. Postal Regulatory Commission, *Advisory Opinion Concerning the Process for Evaluating Closing Stations and Branches*, Docket No. N2009-1, March 10, 2010, [http://www.prc.gov/Docs/67/67174/Advisory\\_Opinion\\_031010.pdf](http://www.prc.gov/Docs/67/67174/Advisory_Opinion_031010.pdf), pp. 57-61.

<sup>11</sup> The Postal Service disputes whether the PRC has authority to hear appeals of station and branch closings.

<sup>12</sup> "Post Office Organization and Administration: Establishment, Classification, and Discontinuance," Federal Register, 76, No. 62 (March 31, 2011), pp. 17794-17801.

changes provide new flexibilities for the Postal Service to pursue optimization, and the Postal Service is in the process of updating its *Post Office Discontinuance Guide* to provide additional guidance.

The proposal faces opposition, however. The National Association of Postmasters of the United States (NAPUS), the League of Postmasters, and four individuals filed a complaint to the PRC about the proposed rule on May 23, 2011.<sup>13</sup> The complaint argues that breaking the link between a postmaster and a Post Office and ending discontinuance procedures for the consolidation of Post Offices into stations and branches violate the law. Moreover, the complaint suggests that the proposed changes are part of an initiative to close thousands of Post Offices, and such an initiative should require review by the PRC as a nationwide change of service. The proposed rule changes are still subject to discussion, and whatever the outcome, barriers to an effective retail rationalization will remain.

## Barriers Hindering Optimization

The Postal Service points to statutory, regulatory, and political barriers as the explanation for the slow pace of change since postal reorganization, and indeed these external factors have made an important difference. Addressing them is essential to ensure the success of any optimization and modernization effort. But of comparable importance has been the existence of a number of internal, institutional barriers that have inhibited modernization of the retail network. If the cycle of inaction is to be broken, the Postal Service must address not only the externally imposed barriers, but the institutional ones as well.

**Table 1: Barriers to Optimization**

Category	Barriers
<b>Statutory</b>	<ul style="list-style-type: none"> <li>▪ Restriction in 39 U.S.C. § 101 against closing Post Offices solely for operating at a deficit.</li> <li>▪ Annual appropriations proviso against use of funds to close or consolidate any small Post Offices.</li> <li>▪ Procedural requirements in 39 U.S.C. § 404(d) for community study, notice, publication of findings, and appeal to the PRC of any proposed Post Office closing or consolidation.</li> </ul>
<b>Regulatory</b>	<ul style="list-style-type: none"> <li>▪ Time and expense of appeals process.</li> <li>▪ PRC’s expanded definition of “Post Office.”</li> <li>▪ Review of optimization as a nationwide change of service.</li> </ul>
<b>Political</b>	<ul style="list-style-type: none"> <li>▪ Congressional complaints about closures.</li> <li>▪ Motivated and well-organized political opponents.</li> <li>▪ Lack of political allies in congressional and PRC proceedings.</li> </ul>
<b>Institutional</b>	<ul style="list-style-type: none"> <li>▪ Lack of sustained management commitment.</li> <li>▪ Lack of a well-articulated strategic retail vision.</li> <li>▪ Bottom-up only approach to retail network planning.</li> <li>▪ Uncertainty about retail costs and potential savings from investment in optimization.</li> </ul>

<sup>13</sup> National Association of Postmasters of the United States, The League of Postmasters, Mark Strong, Robert Rapoza, Marilyn Shaw, and Marilyn Hill, *Complaint Regarding Postal Service Proposed Rule “Post Office Organization And Administration: Establishment, Classification And Discontinuance,” 39 CFR Part 241*, May 23, 2011, [http://www.prc.gov/Docs/73/73002/2011.05.23\\_Postmasters%20Complaint.pdf](http://www.prc.gov/Docs/73/73002/2011.05.23_Postmasters%20Complaint.pdf).

To be successful, a retail optimization initiative must address, if not resolve, each of these obstacles. The first imperative is to understand them. The rest of this section explores each of the statutory, regulatory, political, and institutional barriers. We start with the obstacles found in law.

### **Statutory Barriers**

The Postal Service faces a triumvirate of statutory obstacles to optimizing its retail facilities. These barriers are summarized in Table 2 and then discussed in detail.

**Table 2: Statutory Barriers**

<b>Statutory Barrier</b>	<b>Description</b>
Title 39 Restriction on Closing Post Offices	Restriction in 39 U.S.C. § 101 against closing Post Offices solely for operating at a deficit.
Annual Appropriation Restriction	Annual appropriations proviso against use of funds to close or consolidate any small Post Offices.
Statutory Notice and Appeal Requirements of 39 U.S.C. § 404(d)	Procedural requirements for community study, notice, publication of findings, and appeal to the PRC of any proposed Post Office closing or consolidation.

#### *Title 39 Restriction on Closing Post Offices*

The 1970 Postal Reorganization Act included language (Section 101(b)) that

The Postal Service shall 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 the Congress that effective postal services shall be insured to residents of both urban and rural communities [emphasis added].

The Postal Service tends to regard this statutory provision as an absolute prohibition. In the mid-summer update to its 10-Year Action Plan, the Postal Service said it “is absolutely prohibited by Congress from closing Post Offices based solely on economic circumstances. Put simply: we cannot close Post Offices that don’t generate enough revenue to cover their expenses.”

There is no doubt that the statutory language is restrictive and constitutes a formidable obstacle to retail modernization and optimization. But it may not be as absolute as the Postal Service suggests. First, it applies only to small Post Offices. This is a mixed blessing, since as shown in the OIG retail optimization study, the size and spacing of retail units in large urban areas appear to be optimal on average.<sup>14</sup> It is in smaller towns and rural areas where the study shows the Postal Service has on average too many facilities spaced too closely together to match consumer demand efficiently. To the

<sup>14</sup> Specific urban areas, however, may have too many or too few retail facilities, and optimization may be desirable.

extent that the statute drives the Postal Service to consider facility closures only in urban areas, it may constitute a positive disincentive to optimize the network.

A second observation is that the statute does not prevent closing a Post Office for reasons *other* than operating at a deficit. Losing money is not a sure-fire guarantee of untouchability. The OIG's study offers an approach for optimizing the location of retail facilities in order to match retail supply to retail demand. The goal is not simply to eliminate unprofitable Post Offices but to match retail supply to demand, maximize net revenue, and improve service.

Perhaps as a result of the statutory restriction, most of the 4,000 closures in the past 40 years have followed a period of suspension, which is commonly triggered when a postmaster has resigned, retired, or died, a lease has been discontinued, or a building has become unusable due to damage or deterioration.

Suspicion in Congress that the Postal Service was manipulating the emergency suspension procedure was the subject of a 1999 congressional hearing and resulted in a voluntary moratorium on closings that lasted from 1998 to 2003. When the moratorium was lifted, several hundred suspended locations went

*Perhaps as a result of the statutory restriction, most of the Post Office closures in the past 40 years have followed a period of suspension.*

through the closure process. More recently, the PRC has asked whether the Postal Service was suspending Post Offices without making any effort either to reopen or formally close them.<sup>15</sup> The Postal Service has provided a list of suspended facilities to the PRC and intends to request an advisory opinion in the near future that will discuss the Postal Service's approach for handling suspended facilities. Once a location has been closed for a number of years, the formality of its actual discontinuation is seldom contested. If the Postal Service had chosen to find new postmasters or buildings for these locations, the redundancy problem would be even larger than it is today.

A third point that is sometimes forgotten is that when the Postal Reorganization Act was passed with the Section 101 restriction on closing small Post Offices that operate at a deficit, the same law authorized an appropriation (in addition to the revenue forgone appropriation) "as reimbursement to the Postal Service for public service costs incurred by it in providing a maximum degree of effective and regular postal service nationwide, in communities where post offices may not be deemed self-sustaining."<sup>16</sup> Congress thus did not intend that the Postal Service bear all the costs of redundant retail facilities. The Postal Service has not received such an appropriation since 1982,<sup>17</sup> nor requested one since the early 1980s. This authorization, however, is still in effect, with a limit of \$460 million annually under a formula that has not been updated since 1970.

Senator Tom Carper has sponsored legislation (S. 1010 in the 112<sup>th</sup> Congress) that would remove the statutory restrictions on consolidating Post Offices solely for operating at a deficit and the language explicitly favoring rural areas to "a maximum

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<sup>15</sup> See Docket No. PI2010-1, Investigation of Suspended Post Offices.

<sup>16</sup> 39 U.S.C. § 2401(b)(1).

<sup>17</sup> As part of the efforts to cut the federal budget in the early 1980s, the public service appropriation was reduced to \$12,140 in 1982 and eliminated in 1983 and 1984.

degree.” He has done so as chairman of the Senate Subcommittee with legislative jurisdiction over the Postal Service.

### *Annual Appropriation Restriction*

Even if the language introduced by Senator Carper were to be enacted, however, another statutory obstacle would still exist. Ever since 1985, the Postal Service appropriations bill has been enacted each year with a proviso stipulating that none of the appropriated funds “shall be used to consolidate or close small rural and other small

***Since 1985, the Postal Service appropriations bill has included a provision that the funds should not be used to close small rural and other small Post Offices.***

post offices.” Although the stipulation must be re-enacted each year to remain in effect, it has become such a familiar part of the statutory framework that its inclusion is automatically assumed. The budget that the President sends to Congress each year contains thousands of suggestions to strike language from the preceding year’s appropriation bills, but it routinely recommends reenactment of the post office proviso without comment.

The Postal Service regards the language as equally restrictive as the companion proviso requiring six-day delivery. Although the language limits only the use of appropriated funds, \$113 million in FY 2010, it serves to signal congressional disapproval of small Post Office closures.

### *Statutory Notice and Appeal Requirements of 39 U.S.C. § 404(d)*

A third statutory obstacle had its genesis in a 1975 GAO report recommending that 12,000 rural Post Offices be closed to save money.<sup>18</sup> Although GAO contended that retail service could actually be improved by consolidating scattered and inefficient locations, the report met with a “storm of reaction,” according to a 1977 Presidential Commission, and resulted in a highly critical congressional hearing that caused GAO to retreat.<sup>19</sup> More significantly, it led to passage of legislation (P.L. 94-421) imposing a temporary moratorium against closing or consolidating any Post Offices and establishing a permanent procedure requiring extensive study, community consultation, a published report, and an opportunity for any affected citizen to appeal a consolidation decision to the PRC. The law is clearly intended to make it difficult to close a Post Office.

In making a decision, the law requires the Postal Service to consider the effects on the community of closing a Post Office, the effects on employees, and “whether such closing or consolidation is consistent with the policy of the Government, as stated in section 101(b) of this title, that the Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns

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<sup>18</sup> U.S. General Accounting Office, *\$100 million Could Be Saved Annually in Postal Operations in Rural America Without Affecting the Quality of Service*, Report No. GGD-75-87, <http://archive.gao.gov/f0402/097016.pdf>, June 4, 1975.

<sup>19</sup> At the hearings, the GAO representative stated that “If we had the report to write over again, it would be different.” House Committee on Post Office and Civil Service, *GAO Recommendation that 12,000 Small Post Offices Be Closed: Joint Hearings before the Subcommittees on Postal Service and Postal Facilities, Mail, and Labor Management*, 94th Cong., 1st sess., 1975, p. 35.

where post offices are not self-sustaining.”<sup>20</sup> These determinations constitute a high hurdle in themselves. It is difficult to imagine that the Postal Service could close an operating Post Office without incurring some negative effects on the community or employees of the facility and that substitute arrangements would provide a “maximum” degree of service to a small town. The law requires the Postal Service to make these findings in a written report provided to the community at least 60 days before any proposed consolidation. The law then allows “any person served by such office” to appeal the determination to the PRC.

### ***Regulatory Barriers***

In addition to statutory obstacles, the Postal Service also confronts regulatory barriers. Table 3 lists these obstacles, and they are described below.

**Table 3: Regulatory Barriers**

Regulatory Barrier	Description
Time and Expense of Appeals Process	The Postal Service bears the administrative burden of complying with the notification and appeals process.
PRC’s Expanded Definition of “Post Office”	The Postal Service believes the requirements of 39 U.S.C. § 404 apply only to Post Offices not stations and branches. The PRC disagrees.
Review of Optimization as a Nationwide Change of Service	Any nationwide effort to change services requires PRC advisory review.

#### *Time and Expense of Appeals Process*

When it receives an appeal of a proposed closing or consolidation of a Post Office, the PRC establishes a docket to support an on-the-record review of the determination made by the Postal Service, with 120 days allowed for its decision. The PRC may “set aside” a determination that it finds arbitrary, capricious, procedurally defective, or “unsupported by substantial evidence” on the record. The PRC’s rules of procedure spell out a complicated set of requirements for written briefs, a full administrative record, evidence of posting notifications, interveners, and an opportunity for oral argument under certain circumstances.

It could be argued that these procedural requirements are not a great hurdle because ultimately the PRC can suspend but not modify the determination of the Postal Service. However, there is past evidence that the Postal Service found the process to involve more costs than benefits and thus backed off at even the hint of a possible appeal. A GAO review of the process found that requirements led to an average of 19 months in processing time. In the early years of the process from 1978 through 1981, the Postal Service’s determination was affirmed in very few cases. At the time GAO also found that the Postal Service delayed or dropped replacement proposals whenever “a high probability exists that a strong individual or collective appeal will be made to the PRC....

<sup>20</sup> 39 U.S.C. § 404(d)(2)(A).

For example, at one [facility GAO] visited, Postal Service officials stated that 20 of the 23 proposed replacements they had attempted in the last 5 years were dropped when the potential for community protest became evident.”<sup>21</sup> Part of the reason for hesitation, according to GAO, was that administrative and appeal costs could well outstrip the savings to be gained from discontinuation.

The PRC now remands appeals cases far less frequently, and appeals do provide a venue for citizens to complain about Post Office closings. Still, the process imposes an administrative burden on the Postal Service’s staff. In the 10 years prior to 2010, there were few official discontinuances and therefore few appeals, but the number has grown in the last 2 years as the Postal Service has closed previously suspended Post Offices and facilities on its SBOC list and begun new Post Office closures. If the Postal Service undertook a significant optimization effort, the number of appeals would mount. The Postal Service is working to reduce the time it takes to implement closures, and the recently proposed changes to the closure process are part of that effort. Clearly, without the 120 days required for each appeal, optimization efforts could be implemented more rapidly.

#### *PRC’s Expanded Definition of “Post Office”*

The Postal Service has always drawn a distinction between a “Post Office,” headed by a postmaster, and a branch or station under the administrative supervision of a Post Office in an urban area. The Postal Service has argued that the notice, comment, documentation, and appeal procedures of 39 § U.S.C. 404(d) apply only to independent “Post Offices,” and not to the consolidation of a station, branch, contract unit, or other subordinate facility. To the public, however, the distinction is opaque since Post Offices, branches, and stations all provide retail postal services and are staffed with Postal Service employees.

The PRC concluded in its advisory opinion on the SBOC initiative that the “patrons of all retail Postal Service facilities should be provided with the same opportunity to assure that established procedures are adhered to, whether or not it is required by statute.”<sup>22</sup> The PRC, however, agreed with the Postal Service that the SBOC docket was insufficient to support a final resolution of the legal dispute over whether closing a branch or station requires all of the statutory and appeal procedures of 39 § U.S.C. 404(d).

The new closure rules proposed by the Postal Service include similar closing procedures for all postal-operated facilities, lengthening the time it will take for station and branch closures. The Postal Service’s internal instructions formerly provided only a 20-day comment period for station and branch closings and did not

***The new closure rules proposed by the Postal Service include similar procedures for all postal-operated facilities.***

<sup>21</sup> U.S. General Accounting Office, *Replacing Post Offices With Alternative Services: A Debated but Unresolved Issue*, Report No. GGD-82-89, September 2, 1982, <http://archive.gao.gov/f0102/119464.pdf>, pp. 24 and 28.

<sup>22</sup> U.S. Postal Regulatory Commission, *Advisory Opinion Concerning the Process for Evaluating Closing Stations and Branches*, Docket No. N2009-1, March 10, 2010, [http://www.prc.gov/Docs/67/67174/Advisory Opinion 031010.pdf](http://www.prc.gov/Docs/67/67174/Advisory%20Opinion%20031010.pdf), p 66.

require a written report to the community documenting the community or employee impact. Under the new rules, the Postal Service would provide a 60-day comment period. Since stations and branches would be treated similarly to Post Offices, turning an independent Post Office into another postal-operated facility such as a station or branch would no longer be considered a consolidation. Also, the closure procedures would no longer apply to Community Post Offices (CPOs) operated by contractors in small towns.

Although the Postal Service has made accommodations to the PRC's perspective, it has not changed its view that under current law only Post Office discontinuances are properly appealed to the PRC. When the Postal Service announces its final determination to close a station or branch, it will not post instructions describing how to appeal as it does for Post Offices. The clash of these different viewpoints may confuse customers and raise barriers to efficient optimization.

### *Optimization as a National Change of Service*

Title 39 U.S.C. § 3661(b) states

When the Postal Service determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis, it shall submit a proposal, within a reasonable time prior to the effective date of such proposal, to the Postal Regulatory Commission requesting an advisory opinion on the change.

The Postal Service employed this procedure "in its discretion" when it proposed the SBOC initiative and originally thought that it could cover 3,000 or more stations and branches. When the affected universe dropped to 162, the Postal Service thought better of the idea and attempted to argue that the potential service changes were insufficient to trigger a PRC examination and that the PRC was obligated to terminate the proceeding. The PRC disagreed on the grounds that many more locations had originally been included and could be included again.

If the Postal Service is to attempt a broadscale retail network optimization, it is difficult to see how it could fail to trigger a PRC review under Section 3661(b). The prospect of a full docket proceeding with field hearings at facilities likely to close, with ample attention to the views of traditional opponents and the PRC's public representative, raises a serious disincentive for the Postal Service to attempt retail modernization at all.

*If the Postal Service is to attempt a broadscale retail network optimization, it is difficult to see how it could fail to trigger a PRC review.*

### **Political Barriers**

Political barriers are perhaps the most challenging obstacles to change. The opposition to closing any particular Post Office can be strong, and the benefits from that single



closure are relatively small. Table 3 summarizes these political barriers, which are then described.

**Table 4: Political Barriers**

Political Barrier	Description
Congressional Complaints	The closure of a Post Office often generates complaints to members of Congress, who may then intervene.
Motivated and Well-Organized Political Opponents	There are influential stakeholder groups opposed to Post Office closings.
Lack of Political Allies	Few stakeholders are interested in committing resources to encourage optimization and modernization of the retail network.

*Congressional Complaints*

The Postal Service has found through long experience that Post Office customers do not hesitate to contact their members of Congress when a Post Office is scheduled to close. A member can draw on a number of tactical tools to dissuade the Postal Service from closing a Post Office. One is simply to raise a public objection, knowing that the Postal Service is exceedingly reluctant to enter into a public dispute with a member. Another is to withhold support for major legislative objectives. Should these approaches fail to deter the Postal Service, language can be added to a committee report instructing the Postal Service to study the matter further and report back to the committee.

While even a single representative or senator has power that the Postal Service cannot afford to ignore, it must also beware of generating a broader reaction that could make retail modernization an even more distant and difficult prospect. For example, 102 members of the House co-sponsored H.R. 658 in the 111<sup>th</sup> Congress — a bill intended to make it more difficult for the Postal Service to close retail locations, such as by adding more notice and study requirements and forbidding the Postal Service from considering economic savings in reviewing Post Offices, branches, and stations.

*Motivated and Well-Organized Political Opponents*

At the July 30, 2010, House Oversight and Government Reform Subcommittee hearing on the SBOC initiative, witnesses appearing to testify against any broadscale restructuring of retail operations included the National League of Postmasters, the American Postal Workers Union, the National Association of Letter Carriers, the National Rural Letter Carriers Association, the National Postal Mail Handlers Union, and the National Association of Postal Supervisors. These organizations, plus NAPUS and the Association of United States Postal Lessors also participated as interveners in the PRC’s docket on the SBOC initiative, and their arguments were cited in detail in the PRC’s decision. Many of these organizations also have participated in the PRC’s ongoing review of Post Office suspensions.

In addition to formal participation in such forums, opponents of change to retail infrastructure are active in letter writing campaigns and the public relations battle for the

preservation of Post Offices. NAPUS has for many years published the *Red Book*, a detailed guide for local action to prevent the closing of Post Offices. As anyone knows who follows the postal press, these organizations are knowledgeable, well-organized, well-motivated, and formidable participants in the political arena.

*Lack of Political Allies*

If opponents of closing Post Offices are highly motivated and well organized, the same cannot be said of countervailing interests that would like to see a smaller and more efficient postal retail presence. There is no natural constituency for creating an optimized retail network even if it might provide better service overall. GAO and the OIG have testified on the virtues of retail modernization, but both are strictly non-political. Mailers associations do not feel directly affected by the issue and have been muted in their support.

The lack of political support was apparent in the July 30, 2009, House hearing on the SBOC initiative where those objecting to the initiative dominated the hearing. Two mailers groups testified (the Direct Marketing Association and the National Postal Policy Council) but only the latter directly supported the initiative on the grounds that the Postal Service needed flexibility to cut costs from the system. It hardly provided a counterweight to the opponents of the initiative who were much more numerous and vocal. Similarly, with the single exception of Valpak, if any of the 55 individuals and groups who participated in the PRC’s SBOC docket made a full-throated defense of the initiative, the 70-page opinion took no notice of it, while recognizing in careful detail arguments of opponents such as the APWU or Post Office lessors. As a result, the Postal Service stands virtually alone in confronting the political dimension of retail modernization.

***Institutional Barriers***

While external statutory, regulatory, and political barriers foster a discouraging environment for retail optimization and modernization, barriers to change can also be found within the Postal Service. Table 5 lists these institutional barriers.

**Table 5: Institutional Barriers**

Institutional Barrier	Description
Lack of Sustained Management Commitment	In the past the Postal Service has not consistently focused on retail network optimization.
Lack of a Comprehensive, Well Articulated Retail Vision	Focusing on a positive optimization and modernization plan can reorient the debate toward improving the network rather than just closing Post Offices.
Bottom-up Approach to Retail Network Planning	Allowing only local officials to bring forward optimization opportunities may hinder consistency.
Lack of Data about Retail Costs and Potential Savings	The Postal Service does not have the necessary data to make optimization decisions about its retail network.

### *Lack of a Sustained Management Commitment*

One reason for lack of progress in recent years is that the Postal Service has not placed a consistently high priority on modernizing its retail network as a goal of its various plans to achieve financial viability. A review of the public messages on this subject provides ample evidence of ambiguity and inconsistency. For example, it took less than 3 years for the Postal Service to abandon its Transformation Plan goal of eliminating low-value and redundant locations. In 2004, the Postal Service sent Congress an Infrastructure and Workforce Rationalization plan that minimized the significance of the issue, saying that “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.”<sup>23</sup>

*One reason for lack of progress is that the Postal Service has not placed a consistently high priority on modernizing its retail network.*

A reader of the 2010 Action Plan for the Future would be hard pressed to discern that retail modernization is a part of the plan. The only reference to it in the summary is: “Expand Access. Modernize customer access by providing services where customers are. Increase and enhance customer access through partnerships, kiosks, and improved online offerings, while reducing costs.”<sup>24</sup> There is no mention in the plan of the need for congressional action to allow the Postal Service to optimize its retail infrastructure. The current FAQ on the action plan precedes its discussion of how many Post Offices will close (“There is no projected number”) with a statement that two other initiatives — eliminating prepayment of retiree health benefits and changing delivery frequency — “provide the greatest cost-savings opportunities and are the priority solutions for the Postal Service.”<sup>25</sup> The SBOC languished for a year or more because, as postal management told the OIG, other initiatives took priority, including 5-day delivery.<sup>26</sup> The Postal Service’s recent actions to close facilities and make closing procedures more efficient suggest that management may be renewing its focus on retail optimization.

### *Lack of a Comprehensive, Well-Articulated Strategic Retail Vision*

GAO and the OIG have each carefully studied the challenges and opportunities presented by the postal retail network. GAO issued a report in 2007 recommending that the Postal Service adopt a proactive, criteria-based approach to assist in identifying unneeded retail facilities for possible closure as part of the June 2008 facility plan required by the PAEA.<sup>27</sup> As mentioned in the introduction to this white paper, the OIG

<sup>23</sup> As cited in U.S. Government Accountability Office, *U.S. Postal Service: Postal Service Needs to Clearly Communicate How Postal Services May Be Affected by Its Retail Optimization Plans*, Report No. GAO-04-803, <http://www.gao.gov/new.items/d04803.pdf>, July 13, 2004, p. 29.

<sup>24</sup> U.S. Postal Service, *Ensuring a Viable Postal Service for America: An Action Plan for the Future*, March 2, 2010, [http://www.usps.com/strategicplanning/pdf/ActionPlanfortheFuture\\_March2010.pdf](http://www.usps.com/strategicplanning/pdf/ActionPlanfortheFuture_March2010.pdf).

<sup>25</sup> U.S. Postal Service, *Ensuring a Viable Postal Service for America: Frequently Asked Questions*, March 2010, [http://www.usps.com/communications/newsroom/deliveringfuture/pdf/df\\_FSfacts.pdf](http://www.usps.com/communications/newsroom/deliveringfuture/pdf/df_FSfacts.pdf), p. 2.

<sup>26</sup> U.S. Postal Service Office of Inspector General, *Stations and Branches Optimization and Consolidation Initiative*, Report No. EN-AR-10-005, [http://www.uspsoidg.gov/foia\\_files/EN-AR-10-005.pdf](http://www.uspsoidg.gov/foia_files/EN-AR-10-005.pdf), August 17, 2010, p. 12.

<sup>27</sup> U.S. Government Accountability Office, *U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services*, Report No. GAO-08-41, December 10, 2007,

developed a retail optimization model that the Postal Service could use to meet demand more efficiently and equitably in a way that cuts costs, improves service, and aligns the retail network to the way people live now.<sup>28</sup>

The vision of a modern, optimized retail network based on location economics and best practices contrasts sharply with the current approach the Postal Service has presented to the public and Congress. This approach has two thrusts. One is to develop and promote alternatives to the postal retail network and drive potential customers to use banks, grocery stores, and ATMs for stamps and contract facilities rather than Post Offices for retail transactions. The other thrust, fitfully applied in recent years, has been to focus on the thousands of Post Offices, stations, and branches that lose money and to select targets for elimination of as many as possible, while asking Congress for relief from the statutory and regulatory obstacles that have stood in the way of discontinuation initiatives. Both of these approaches are essentially negative. Driving customers away and closing existing facilities are a limited and shortsighted response to current problems, with the downside that postal customers can perceive that they are victims of cost-cutting.

What is lacking is a positive retail vision as an alternative to the tired, age-old battle over “closing Post Offices.” Such an alternative, if strongly and clearly articulated, could

***What is lacking is a positive retail vision as an alternative to the tired, age-old battle over “closing Post Offices.”***

persuade the public, its representatives in Congress, and perhaps even postal employees that they could be better off with an optimized retail presence that matches customer demand with expanded services provided more efficiently. Lacking such a vision, and plans to carry it out, it is impossible to measure the shortfall between the retail infrastructure that does exist, and the benefits that a modernized structure could provide.

#### *Bottom-up Approach to Retail Network Planning.*

In contrast to a comprehensive retail vision, until recently the Postal Service position has been that facility decisions should be made on a local, case-by-case, bottom-up basis. While embracing the necessity of a national plan to optimize the processing and distribution network, the Postal Service has deliberately eschewed taking the same approach to its retail network. It rejected GAO’s 2007 recommendation to include the retail network in its 2008 facility plan, countering that “we have learned that each facility must be assessed on a case-by-case basis, and we intend to continue to use this method.”<sup>29</sup> The Postal Service has only recently proposed changing its rules to allow headquarters to suggest retail facilities for possible discontinuance.

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<http://www.gao.gov/new.items/d0841.pdf>, p. 43. As noted on pp. 7 and 56 of the GAO report, the Postal Service disagreed with the recommendation, defending its case-by-case approach.

<sup>28</sup> U.S. Postal Service Office of Inspector General, *Analyzing the Postal Service’s Retail Network Using an Objective Modeling Approach*, Report No. RARC-WP-10-004, [http://www.uspsoidg.gov/foia\\_files/RARC-WP-10-004.pdf](http://www.uspsoidg.gov/foia_files/RARC-WP-10-004.pdf), June 14, 2010.

<sup>29</sup> U.S. Government Accountability Office, *U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services*, Report No. GAO-08-41, December 10, 2007, <http://www.gao.gov/new.items/d0841.pdf>, p. 56.

A problem with the historical bottom-up approach is that it depends heavily on postmasters or their immediate superiors, most of whom are former postmasters whose current stature is based in part on the installations reporting to them. Postmasters are in many senses the management bedrock of the institution. Their interests are aligned directly against closing Post Offices since there has been a one-to-one relationship between Post Offices and postmaster jobs. The national offices of the two management associations that represent postmasters are the most aggressive and vocal opponents of post office consolidations, testifying against the Postal Service in congressional and PRC hearings and organizing letter writing and op-ed campaigns in opposition to particular proposed consolidations. It is not surprising that the bottom-up process has failed to generate internal enthusiasm and momentum that is necessary to sustain an initiative that is nationwide and challenging in scope.

The OIG's report on the retail network suggests that complementing the Postal Service's bottom-up approach with a top-down optimization framework can bring consistency to the optimization process. A top-down approach allows the Postal Service to adjust retail supply to retail demand in each area, while maintaining the same principles. The bottom-up, case-by-case knowledge then allows customization to local circumstances.

#### *Lack of Data about Retail Costs and Potential Savings*

A weakness in the Postal Service's argument that it needs to close Post Offices is that there is no common understanding on the amount of the excess cost burden attributable to redundant facilities. The Postal Service has never cited a savings figure or target. All that Postmaster General Potter could tell Congress in his final testimony about the financial importance of closing unwanted retail locations was "Saving costs on 'brick and mortar' expenses will help us remain viable." The Congressional Research Service (CRS) noted the weakness arising because the Postal Service "has not said how much money it may save from this undertaking," and urged Congress "to ask the USPS what its projected savings are and when these savings might be realized."<sup>30</sup>

*There is no common understanding on the amount of the excess cost burden attributable to redundant facilities.*

As GAO, the PRC, and the OIG have repeatedly reported, the Postal Service does not collect adequate financial data at the local facility level to support decision making of the kind that commercial retail enterprises routinely collect and analyze.<sup>31</sup> A major drawback is that cost reporting does not separate retail from delivery functions at all facilities. The OIG retail optimization report provided the only estimate we could find of the cost burden of not optimizing the network.<sup>32</sup> But the \$5.5 billion estimate was heavily qualified as a "rough estimate" because basic comprehensive data were not readily available. Likewise, GAO, in a nationwide audit of the Postal Service's facility database in 2007, found it riddled with errors and useless for identifying unneeded retail facilities

<sup>30</sup> U.S. Congressional Research Service, *Post Office and Retail Postal Facility Closures: Overview and Issues for Congress* by Kevin Kosar, CRS Report R40719, August 7, 2009, p. 18.

<sup>31</sup> See the discussion above on pp. 3 and 5.

<sup>32</sup> There have been a few estimates of the cost burden of keeping open small Post Offices that do not pay their way, but these have not discussed retail network optimization in general.

that could be closed.<sup>33</sup> A major conclusion of the PRC's review of the SBOC initiative was that "financial analysis of station and branch operations should be improved," citing cost analyses submitted in defense of the initiative as misleading and incomplete.<sup>34</sup>

Even more recently, an August 17, 2010, audit by the OIG found major errors in the system used to track discontinuance of retail units. For example, postal management reported to the PRC that 96 stations and branches had been closed between FYs 2005 and 2008, but subsequently had to file a correction that reduced the number to 21 for the same period. According to the Postal Service Annual Reports, the number was 187. The audit also found that lease termination clauses existed in 10 of 80 agreements where decisions were made based on their absence, and that 71 of 171 facilities identified as being in areas of "high revenue and/or growth" were in fact in areas with zero or negative growth rates. Inconsistencies like these resulted in part from the reliance on local management for decision-making, which in turn made the discontinuation review process "primarily subjective and qualitative in nature."<sup>35</sup>

Comprehensive, reliable data are critical for developing a top-down approach toward optimizing the network. As long as the Postal Service refuses to collect data that would allow it (or others, like the PRC, GAO, and the OIG) to look at its retail infrastructure as a whole, it is never going to be able to determine how to rationalize its retail presence or to make a reliable estimate of the costs it could avoid by undertaking such an effort. Lacking a statement of the benefits to be gained from a nationwide discontinuation initiative, there is no effective response to those who point to the pain and costs involved in shutting specific facilities.

**Comprehensive, reliable data are critical for developing a top-down approach toward optimizing the network.**

## Conclusion

Even though the external statutory, regulatory, and political barriers that hinder optimization of the retail network are serious and long-standing, the time may be right for new efforts to tackle optimization. The Postal Service's financial condition is very poor, and there is a new emphasis in Washington on cutting back government's reach and cost. There may be a new willingness to remove some of the externally imposed barriers discussed in this paper. In preparation, the Postal Service could focus on three actions:

- Articulating a national strategy to enhance customer access to retail postal services, increasing options in fast-growing urban and suburban areas, offering

<sup>33</sup> U.S. Government Accountability Office, *U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services*, Report No. GAO 08-41, December 10, 2007, <http://www.gao.gov/new.items/d0841.pdf>, pp. 43, 45, 56.

<sup>34</sup> U.S. Postal Regulatory Commission, *Advisory Opinion Concerning the Process for Evaluating Closing Stations and Branches*, Docket No. N2009-1, March 10, 2010, [http://www.prc.gov/Docs/67/67174/Advisory Opinion 031010.pdf](http://www.prc.gov/Docs/67/67174/Advisory%20Opinion%20031010.pdf), pp. 57-61.

<sup>35</sup> U.S. Postal Service Office of Inspector General, *Stations and Branches Optimization and Consolidation Initiative*, Report No. EN-AR-10-005, [http://www.uspsoidg.gov/foia\\_files/EN-AR-10-005.pdf](http://www.uspsoidg.gov/foia_files/EN-AR-10-005.pdf), August 17, 2010, pp. 17-18.

longer hours and more window services at consolidated facilities in rural areas, and closely linking with a network of alternative sources for routine transactions. This would be a strategy of optimization, and a departure from the single-minded focus on closing Post Offices. When describing the strategy, the Postal Service should clearly discuss what optimization entails, how long it will take, the approximate shape and character of the resulting optimized network, and the benefits of optimization to the Postal Service and its customers. The OIG's recent study provides underpinning for some of this work, and it is not new. The German post, Deutsche Post, was able to shrink its network while improving customer satisfaction by embracing alternatives to the traditional postal network.

- Developing a robust framework for using a top-down approach to optimization to complement its bottom-up efforts. Multiple GAO and OIG reviews have called into question the Postal Service's dependence on district and local management to select facilities for discontinuance case-by-case, based on factors they decide, without guidance. Both GAO and the OIG have recommended that the Postal Service adopt an integrated optimization strategy with consistently applied criteria and time frames for implementation, to replace the "incremental approach based on local decisions" and undefined criteria. The Postal Service has opened the door to allow top-down decision making on facilities. It should craft a comprehensive framework for making these decisions.
- Improving cost data and analysis. Lack of relevant data prevents the Postal Service from offering anything but anecdotal examples of money-losing facilities. It also leads to lukewarm support from mailers, who have no hard evidence that retail optimization can make a significant contribution to reducing the budget and thus keeping postage rates under control. Improved cost data could allow the Postal Service to show the cost of the inefficiency that results from the failure to optimize the retail network.

Should the Postal Service's efforts to address external barriers fail to make headway, another alternative that could be considered is to request a public service appropriation again — either for \$460 million as authorized under current law or under an updated method of calculation approved by Congress. The Postal Service takes pride in pointing out that it has operated without this appropriation since 1982, but Congress put in place the appropriation to pay for public service infrastructure beyond what an economic approach would dictate. While an appropriations request is unlikely to result in a cash infusion, that is not really the point. Such a request would underscore that requiring the Postal Service to maintain its legacy of unneeded facilities is an unfunded mandate. It would also put a price tag on something that now appears to be free to everyone but the Postal Service. When Congress was faced with the bill for supporting unneeded locations, from 1901 to 1970, it forced the Post Office Department to close 45,000 Post Offices.

Even if the Postal Service is able to successfully optimize its retail network, the Postal Service may need to continue to operate some money-losing retail units to fulfill its universal service obligation. While opportunities may exist to improve the profitability of

these cost centers, turning them all into a profit centers may not be possible. Instead, the Postal Service could develop a list of retail costs centers required for universal service and request appropriations to fund them.

Discussions of right-sizing the Postal Service's retail footprint are not new. It is characteristic of an issue with 110 years of history that attitudes and opinions become well ingrained and most observers assume that the future will be much like the past. But another lesson of history can be that if a breakthrough is finally to be made, "out of the box" thinking about solutions that would normally be impossible to achieve needs to be part of the debate.