UNITED STATES POSTAL SERVICE — POSTAL NEWS

FOR IMMEDIATE RELEASE
September 14, 2004

Contact: Media Relations
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News Release No. 04-059
www.usps.com

POSTMASTER GENERAL REITERATES PLEDGE TO HOLD RATES UNTIL 2006

BOSTON – Postmaster General John E. Potter said today that aggressive cost cutting has resulted in $8.3 billion in expense savings over the last three years, enabling him to reiterate his commitment to maintain current postage rates until 2006.

"The Postal Service will continue to focus on the strategies identified in our Transformation Plan*, and we will continue to deliver the plan's commitments ahead of schedule," said Potter, at the monthly Board of Governors meeting.

Three years ago the Postal Service committed to take $5 billion in savings and cost avoidances out of the annual spending by 2006. In the first three years, Potter said $4 billion has been saved. He added he expects to save more than $1 billion in 2005.

Chief Financial Officer Richard J. Strasser Jr. said next year's financial plan requires continuing cost reductions of $1.4 billion, which include a reduction of 23 million work hours, and a sixth straight year of increased productivity. "Since 1999," Strasser said, "the Postal Service has reduced total work hours by a cumulative 728 million." Career postal employment today is virtually at the same level it was in 1984, just over 700,000, while mail volume has increased by 65 billion more pieces to an additional 48 million new addresses.

Despite a decline in First-Class Mail volumes and persistently high fuel costs, Strasser said the U.S. Postal Service is projecting a sound financial outlook for fiscal year 2005 with it essentially balancing a projected $68 billion budget.

He said that the Postal Service will absorb higher fuels costs and offset inflation-driven health benefits cost increases through another year of cost reductions.

Strasser said that, "For the first time in history, Standard Mail volumes will exceed First-Class Mail volumes. Total mail volume should grow by 1.4 billion pieces, a 0.7 percent growth rate."

Volume forecasts point to a 2.1 billion piece decline in First-Class Mail volume in the coming fiscal year, which starts October 1, while Standard Mail is expected to grow by nearly 3.8 billion pieces.

The FY 2005 plan is based on a continued, but slowed, economic growth, and a modest inflation rate. “If new employment and retail sales pick up beyond economic forecasts,” he said, “then additional mail volume may result.”

Strasser reported that the total of these FY 2005 reductions offset 2005 health benefit increases of $750 million, contractually required cost-of-living allowance increases of $650 million, and the costs of delivery network expansion. FY 2005 total expenses will increase 3.9 percent.

Reflecting the priorities outlined in the Transformation Plan, the Postal Service plans to commit $3.3 billion for capital investment, including $1.9 billion for equipment projects. The plan also sets a target for reducing debt to $1 billion by year end.

Strasser said the FY 2005 plan fulfills the requirements of The Postal Civil Service Retirement Funding Reform Act of 2003. The Act changed the way the Postal Service funds its Civil Service pension obligations and requires the Postal Service to use “savings” it realizes from that change to pay down debt and maintain current rates through 2005. “However,” Strasser said, “with FY 2005, those ‘savings’ have been completely consumed in absorbing cost inflation.”

Strasser also submitted a preliminary FY 2006 Appropriations Request that seeks $945 million in previously authorized federal funding for free and reduced rate mail services mandated by Congress and for its Emergency Preparedness equipment. In FY 2005, however, the Postal Service will not request an appropriation for public service costs authorized under Title 39. Since 1984, the Postal Service has not requested this appropriation, choosing to operate solely from revenue generated from products and services.

In other action, Brett Matthews, CEO of Imagitas of Waltham, Mass., presented Potter and Charlie Bravo, USPS Senior Vice President for Intelligent Mail and Address Quality with an enlarged replica of $102,225,983 check that marks revenue generated from the Postal Service's strategic business alliance with Imagitas. Since 1992, the alliance has made it easier for the 44 million Americans who move each year by providing print and online change of address solutions.

Board Approves Capital Projects

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The board also approved:

- Funding to purchase 210 Automatic Induction Systems for the Automated Flat Sorting Machine 100. In addition to improving the preparation and induction of flat mail, the systems will reduce the number of operators from three to one.
- Funding to purchase an Integrated Dispatch and Receipt system for 229 mail processing sites. This automated system will reduce manual mail handling requirements resulting in net labor cost savings.
- Funding to purchase 142 new cargo vans with lift gates and an upgrade of the Postal Vehicle Service Fleet Management system for the 2,014 cargo vans already approved for purchase by the board.

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* **The Transformation Plan** is a blueprint that identifies actions needed to address the Postal Service's financial, operational, and human capital challenges to effect major change. It can be found in its entirety at www.usps.com .