



September 25, 2013

Dear Postal Customer:

Thank you for your recent input concerning the deliberations of the Postal Service's Governors regarding pricing strategies. We value your perspective and share your concerns about the business and economic impacts of price increases.

In an effort to balance these shared concerns with the precarious financial condition of the United States Postal Service, and recognizing the uncertain path toward enactment of postal reform legislation, the Governors of the Postal Service voted to pursue a moderate increase in the price of postage.

The mailing industry, America's businesses, and the public we serve depend upon the affordability of mail—and we have acted to the best of our ability to pursue every responsible avenue of cost reduction available to us under the law. To preserve the long-term affordability of mail, we have consolidated 350 mail processing facilities, aggressively streamlined Post Office operations, reduced 22,000 delivery routes, and reduced our workforce by 203,000 employees and our annual operating costs by \$16 billion since 2006.

These measures, while impressive, have been insufficient to restore the Postal Service to financial stability. Our business model is inherently inflexible as we have limited ability to restructure to adapt to a changing marketplace. As a result, the Postal Service continues to contend with a systemic imbalance between revenues and costs. For fiscal years 2011–2013, the Postal Service will record a cumulative net loss of approximately \$27 billion, which includes defaults on \$16.7 billion in mandated payments to the U.S. Treasury. Even after defaulting on those payments, we will have an intolerably low level of liquidity, caused in part by the fact that we have reached the statutory debt ceiling.

Under current laws, the Postal Service simply lacks the authority to fully pursue financially responsible and appropriate strategies for controlling costs and generating new revenue that are far preferable to price increases.

As a result of these limiting factors and urgent financial needs, and in order to address the extraordinary and exceptional circumstances which have occurred, the Governors have directed the Postal Service to file pricing adjustment requests with the Postal Regulatory Commission by September 26 that include a 1.6 percent increase in market-dominant products (First-Class Mail and Standard Mail) consistent with the increase in the Consumer Price Index (CPI). The Postal Service will also file a request for an additional 4.3 percent price increase in market-dominant products, which is subject to a 90-day review, and which is necessary in order to ensure that the Postal Service will be able to maintain and continue the development of postal services of the type and quality which this country needs. These adjustments are designed to raise \$2.0 billion in incremental annual revenue.

Due to the price sensitivity that exists throughout the mailing industry and among users of the mail, we believe seeking a 4.3 percent adjustment above the CPI-U increase for market-dominant products is a moderate course of action given the financial challenges we face. We believe this prudent price adjustment request is reasonable, equitable, and necessary, and it is far less than the double-digit increase that is authorized under the law to help the Postal Service to recover from the extraordinary and exceptional circumstances that have confronted us.

Earlier this year, the Postal Service published a five-year business plan to put the organization on a firm financial footing. If fully implemented, the plan would close a \$20 billion budget gap and enable the organization to operate profitably and reduce its debt. The implementation of many of the core elements of the plan is dependent upon gaining additional authority and flexibility under the law.

In particular, the Postal Service is seeking authority under the law to better control our healthcare and retirement costs; implement a more financially appropriate delivery schedule; develop and price products quickly; switch to a defined contribution retirement system for newly hired employees in the future; establish a more streamlined governance model; and obtain a refund of overpayments into the Federal Employees Retirement System.

A decision to raise prices is never one that the Board takes lightly, and this is particularly true in the current environment where volumes are declining. Of the options currently available to the Postal Service to align costs and revenues, increasing postage prices is a last resort that reflects extreme financial challenges. However, if these financial challenges were alleviated by the timely enactment of laws that close a \$20 billion budget gap, the Postal Service would reconsider its pricing strategy. We are encouraged by the recent introduction of comprehensive postal reform legislation in Congress, and despite an uncertain legislative process, we are hopeful that legislation can be enacted this year. Nevertheless, without the legal authority to close the budget gap, the price adjustments announced today are necessary.

America needs a Postal Service that is financially stable, and we will continue to take the difficult steps necessary to meet our obligations as a self-funding organization that serves every American business and residence.

Thank you for your business and for your continued engagement in postal issues.

Sincerely,

A handwritten signature in black ink that reads "Mickey D. Barnett". The signature is written in a cursive, flowing style.

Mickey D. Barnett
Chairman of the Board of Governors
United States Postal Service