

**Report to
Minnesota Newspaper Association
Board of Directors
USPS and the Newspaper Partnership at
a Crossroads: The FSS Era Begins
National Newspaper Association Postal Summit
July 10-11, 2008**

The United States Postal Service is in major trouble. How it deals with its challenges will affect virtually every community newspaper across the country in a very major way. The fact is clear: most all newspapers depend on the USPS in some way — whether it be just for far-away subscribers or our entire circulation, as is the case with many community newspapers. The delivery of our product in an affordable, timely manner is crucial to our future.

The National Newspaper Association's Postal Summit "USPS and the Newspaper Partnership at a Crossroads: The FSS Era Begins" provided the opportunity for the voices of community newspapers to be heard loud and clear by some of the USPS's top brass. Even though small newspapers account for less than 1 percent of revenue, NNA was able to attract the attention and attendance of Deputy Postmaster General and Chief Operating Officer Patrick Donahoe, Postal Regulatory Commission Chairman Dan Blair, USPS Manager of Pricing Joe Moeller and others.

Why? From what I observed, the main reason for their attention to us, regardless of the fact that we are such a minute segment of their business, is directly attributable to the respected relationship that NNA's Max Heath and Tonda Rush have cultivated over many years. NNA is our sole voice in Washington on postal issues relating to community newspapers. The Periodicals class of mailing, in general, is made up of giant magazine corporations and other big mailers. Their concerns are far different from ours and their lobbying, in many ways, is counter-productive to our interests. No other national association offers us the direct link to the USPS.

For this reason, the Postal Summit is an incredibly important tool. When the USPS leaders looked out at a group of 40+ concerned folks from 23 states across the nation, they are bound to realize that the actions they take affect us, our constituents and our readers. We were honored to represent Minnesota at this important conference, and the one held in 2006, and I thank the board for the financial support that made my attendance possible.

In this report, I have attempted to explain some of the changes that we will be or may be facing in the future, as I understood them. For the sake of clarity, I have divided this report into five sections:

- How Serious Problems at the USPS?
- What Are They Doing About It?
- How Will It Affect Us?
- What Do We Fear Most — And How is NNA Preparing for These Threats?
- Epilogue: What Victories Did We Win Since the 2006 Postal Summit?

*Respectfully submitted,
Julie Nordine Bergman
Minnesota State Chair for NNA*

PS I apologize for the length of this report; I found it difficult to summarize the vast amount of information that has such implications for our industry.

"Meetings like this are critical to us and our efforts. We need to get the word out as an early warning (to our members) and provide feedback to postal people."

Tonda Rush, NNA Director of Public Policy

How Serious Are the Problems at the USPS?

I walked away from the Summit thinking: “And I thought I had problems!”

Here’s a portion of a column I wrote for our newspapers upon my return. It highlights the major points shared with us by Deputy Postmaster General and Chief Operating Officer Patrick Donahoe:

Imagine a company with 669,000 employees and 38,000 retail offices spread across the United States. Now, imagine that the company operates more than 200,000 vehicles that criss-cross this country every day.

It’s easy to deduce that the company would be struggling with today’s rising health care and skyrocketing fuel costs. The expenses of this company rise \$1 MILLION for every cent increase in the price of a gallon of gas.

To make matters worse, its main business is plummeting as a result of competition from the internet.

That is the state of the United States Post Office right now, according to the Deputy Postmaster General and Chief Operating Officer Patrick Donahoe.

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The Postal Service is in the midst of enormous change. A law passed by Congress in 2006 is forcing them to operate more like a business by covering costs with each class of mail. Price increases are limited to the rate of inflation and cannot be more frequent than once a year.

The first months of 2008 have been nothing short of horrible for the USPS. One official called these past months as “The Perfect Storm” for the Postal Service: rising fuel costs, a struggling economy and higher personnel costs have combined to create an enormous problem.

In the meantime revenue, particularly in First Class, has dropped substantially as more people use e-mail and on-line bill pay services. Donahoe mentioned that the simple transition to Direct Deposit for Social Security checks over the past decades has eroded First Class mail significantly.

(portions deleted)

To sum it all up, the USPS is in major trouble and they have had their hands tied by Congress through the Postal Accountability and Enhancement Act (PAEA) of 2006 which limits annual rate hikes in each class of mail to the Consumer Price Index (2.9 percent in 2007) and establishes service standards and measurements.

How PAEA affects us..

The act is good for community newspapers in that it limits rate increases, reaffirms the requirement for the USPS to carry periodicals and preserves our service privileges. It also supposedly eliminates periodic Postal Rate Cases which have been very expensive for mailers — such as NNA — to defend.

NNA’s expenses in the 2006 case totalled \$203,000, according to Brian Steffens, NNA Executive Director. Although terribly expensive, NNA’s cost was much lower than that of other players in the case due, in part, to the grassroots nature of NNA’s participation and Max Heath’s and Tonda Rush’s expertise. (Prior to 2000, NNA was able to “share” an expert economist with the Magazine Publishers group and/or others, keeping their costs to an average of \$85,000. But this latest case — and any would-be future cases — would have to be paid for solely by NNA, since newspaper publishers have divergent interests from magazines and other publications, so there’s no way to “share” anymore, according to Steffens.) Even with these savings, rate cases have always been a huge financial burden to NNA.

The hope is that PAEA will eliminate the need for such costly defenses but a provision in the Act remains that allows for the USPS to seek higher rates increases in “exigent” circumstances. Whether or not such the USPS will argue that the “Perfect Storm” they are now facing amounts to “exigent” remains unclear since a clear definition of the word isn’t included in the Act. NNA will always be involved in this annual review and estimates costs to range between \$20,000 to \$70,000 depending on how great (or complex) the increase proposed.

“We are in a state of pretty major change. Revenue is substantially down this year”

— Patrick Donahoe, Deputy Postmaster General and Chief Operating Officer

Press Release from USPS, dated August 6, 2008:

**Postal Service Reports Third Quarter Loss as Economic Slowdown
Continues to Affect Mailing Industry
On-Time Mail Delivery at Record High**

WASHINGTON, DC — The U.S. Postal Service ended its third fiscal year quarter (April 1 – June 30) with a greater-than-expected net loss of \$1.1 billion. The national economic slowdown reduced mail volume at an accelerated pace and continued inflation in fuel prices produced rapidly escalating transportation costs. Despite these financial challenges, Postal Service employees delivered record-breaking service performance in the third quarter.

For the third quarter ending June 30:

* Operating revenue was \$17.9 billion, a decrease of \$437 million, or 2.4 percent, compared to the same period last year.

* Operating expenses totaled \$19.0 billion, an increase of only \$178 million, or 1.0 percent, from the third quarter last year, despite substantial increases in fuel prices.

* Expenses include \$1.4 billion of the \$5.6 billion payment to the Postal Service Retiree Health Benefits Fund that the Postal Service is required to make by Sept. 30, 2008, under the Postal Accountability and Enhancement Act of 2006.

* Mail volume was 48.5 billion pieces, a 5.5 percent drop from the same period last year. First-Class Mail and Standard Mail volume were each down 5.5 percent in the third quarter, reflecting the challenging economic environment.

The fiscal 2008 year-to-date net loss totals \$1.13 billion. The Postal Service had essentially broken even in the first half of the fiscal year. With no economic recovery in sight, the Postal Service expects an end-of-year, economy-driven net loss.

“When the economy does rebound, mail volume may not return to previous levels,” said Postmaster General John Potter. “This requires that we significantly accelerate process improvements and the realignment of resources in order to achieve long-term financial success. Failure to do so will threaten our ability to meet our mission of providing universal service at affordable prices.”

Record-Breaking Service Performance

In the third fiscal quarter, on-time delivery performance reached record highs for all three categories of First-Class Mail the Postal Service tracks. Overnight service was 97 percent on-time, up from 96 percent the same period last year. Two-day service was 95 percent on-time, up from 93 percent the same period last year. Three-day service was 94 percent on-time, up from 91 percent the same period last year.

“These outstanding results show the tremendous dedication of our employees to provide excellent customer service, especially as we continue to work with our unions to further reduce costs and increase efficiency,” said Potter.

There’s no sugar-coating the problem. As this press release reports, the proverbial wolf is knocking at the Post Office door.

“Periodicals have not covered their costs for years”

— Dan Blair, Postal Regulatory Commission Chairman

What Are They (USPS) Doing About It?

With losses in the BILLIONS and a new mandate from Congress that the USPS operates like a business, it's clear that something must be done to stem the tide of red ink.

At the Summit, we heard of many initiatives the USPS is taking to do just that. Some were very drastic and have the potential to affect community newspapers in a very negative way. Others are less drastic, from our industry's point of view, but could affect our communities in an equally negative way.

To be fair, the USPS top brass also outlined several new plans that address our concerns for increased service standards which I will also outline in this section.

Cutting Costs

Like newspapers, the USPS's largest cost is in human resources or, as Deputy Postmaster Patrick Donahoe said: "Head count is what drives cost."

Since 2000, more than 140,000 postal service jobs have been cut. That still leaves 669,000 postal employees. An additional 15,000 jobs will be eliminated through an early-out retirement program that is hoped "to shed some resources," Donahoe said, although he wasn't overly optimistic that that number would be reached since the program has no form of financial incentive for the worker to leave early.

Automation is seen as one of the most efficient ways to shed some of the human costs in the USPS. FSS (Flats Sequencing System) is an acronym that you will be hearing a lot in the future in any discussion regarding rate structure and service standards. Because of the far-reaching effect of this, I have information about it in a separate section of this report.

Another major cost to the USPS includes physical buildings and transportation.

Closing smaller post offices throughout the country and moving their services to nearby towns has been looming on the horizon for years but may come to fruition in the near future, given the magnitude of the challenges the USPS is facing. The "fix" has the benefit of solving two problems: decreased personnel costs and less building overhead.

While these closures may not have a great impact on our concerns with the actual mailing of our newspapers, they will have a major impact on the communities we serve. Losing a Post Office in a small town is the equivalent of losing the town's identity and its gathering place all in one. These are issues we will most likely be facing on the editorial side of our business soon. It won't be unlike the school consolidation controversies we have all written about over the past several decades.

(The fact didn't escape me that that issue alone may be a driving reason why the top leaders at the USPS were so willing to address our group, even though our business isn't all that important to their bottom line. We are, after all, the folks who set the community agenda and tone for issues on our editorial pages, like it or not.)

Beyond the smaller post offices, plans are being made to outsource some services and to eliminate some Bulk Mail Centers (BMCs). Plans outlined by Donahoe call for these large buildings (or their footprints) to be used for the new FSS Centers; more about that later.

It doesn't take a rocket scientist to figure out that the USPS spends a huge amount of money each year in transportation. Also easy to understand is the fact that the skyrocketing price of gas over the past year has hit the Post Office hard, considering one estimate that the USPS uses 400,000 gallons of gas per day. Higher fuel prices are expected to add \$300 million to the Postal Service's transportation costs this year, according to one source.

Donahoe said that the goal is to get rid of 20,000 vehicles in order to cut costs. This will be done, he said, by increasing foot routes and by utilizing bicycles, electric cars and even Segways (the two-wheeled, self-balancing electric vehicles).

*"The USPS is reorganizing from a 1970s structure to a 2010 structure..."
Network re-alignment "has to happen."*

— John Campo, Vice President, Postal and Carrier Relations, Pitney Bowes, Washington, DC.

Of course the most controversial and far-reaching option to cut costs at the USPS is the proposal to move to 5-day a week service. The proposal has been advanced in various forms for decades. This long-standing debate was brought to the forefront again in late June by Rep. Jack Kingston (R-GA). Kingston advocates that 5-day service would reduce USPS fuel consumption and decrease its costs. The longer-reaching effect, according to Kingston, would be to increase US gasoline supply and reduce the cost of the fuel overall. If such a plan came into being, it would radically change the country and have far-reaching effects. Donahoe said that he sees such a proposal as a “very last resort.”

Increased Service Standards

At the NNA Postal Summit in August of 2006 (which I also attended on behalf of MNA), Postmaster Jack Potter seemed genuinely surprised that NNA members seemed more concerned about the erosion of out-of-county service than about the proposed price increase for in-county mail.

This year, postal officials came prepared to offer a laundry list of ways that they are working to increase delivery service to newspapers. And Deputy Postmaster General Patrick Donahoe offered that “65 percent of periodicals get delivered overnight and 92 percent are delivered within four days... you get the best deal of all. But, we need to improve your periodicals’ travel distances.” He then went on to explain examples of how the USPS is trying to simplify transportation for periodicals “and use the first class transportation as much as we can.” That has long been a mantra offered by Max Heath.

“I’m telling the District Managers to make changes and simplify to allow users to sort so Mixed States are sorted with First Class at the DDU,” (Destination Delivery Unit or local Post Office) Donahoe said.

If changes such as these are enacted, newspapers across the country would notice improved service. New Service Standards for Periodicals were outlined by Dan Blair. They are:

ADC 1-2 Days SCF 1 Day DDU 1 Day

Anyone who has answered a call from an angry subscriber out of state knows that these standards are not being met at this time.

Intelligent Mail Barcoding (IMB) is the USPS’ answer for measuring service or as John Campo, Vice President, Postal and Carrier Relations, Pitney Bowes, said “IMB can be the watchdog.”

This would be a system similar to that already offered by UPS on packages. Conceivably, it would allow us to track delivery of our newspapers to discover glitches in service for specific subscribers. It also allows for Address Correction Service via computer.

Here’s how the USPS describes it:

Intelligent Mail® Barcode

The Intelligent Mail barcode, formerly referred to as the 4-State Customer barcode, is a new Postal Service barcode used to sort and track letters and flats. The Postal Service is promoting use of the Intelligent Mail barcode because it expands the ability to track individual mailpieces and provides customers with greater visibility into the mailstream.

The Postal Service offers a suite of services for letters and flats using the Intelligent Mail barcode. Business Mail Entry Units (BMEU) started accepting letters with Intelligent Mail barcode in September of 2006. In May of 2007 the Postal Service expanded use of the Intelligent Mail barcode by allowing mailers to use it on automation-rate flat-size mailpieces.

Since then, mailers have had the option to use the Intelligent Mail barcode on letter and flat mail for the Confirm® Service, referred to as OneCode Confirm™ and; a version of Address Change Service™ (ACS™) called OneCode ACS™.

Periodicals, as I understand it, will be able to subscribe to an IMB service so we can track delivery and receive address changes. NNA’s question is: How much do we have to pay (for the service) and how much will we get back for implementing the change to IMB? According to Max Heath, there will be an additional IMB discount in the 2009 Rates. IMB will be mandatory for periodicals by May 2010 in order to qualify for automation rates.

“We want to simplify your preparation to simplify ours... we want to make things as easy as we can”

— Patrick Donahoe, Deputy Postmaster General and Chief Operating Officer

FSS: A Big Machine With Big Implications



Cutting Costs, Improving Standards: Two missions that are imperative to the future of the USPS.

Officials point to the FSS or the Flats Sequencing System as one answer to both of these objectives.

On the first afternoon of the Summit, we were taken by bus to Dulles Processing Center in Northern Virginia where we were able to see the prototype of this monster machine. It is difficult to put into words just how gigantic this machine really is. I've included some photos on this page but they don't do justice to its scale. The FSS requires 66,000 square feet, larger than a football field. It processes 280,000 pieces of mail per day with a 99.3 percent accuracy, according Rosa Fulton, Executive Director of FSS.

The FSS machine takes the mail and sorts it automatically into carrier route, sequenced delivery trays. This two-pass system eliminates the need for human intervention from the point of being fed into the machine to the time that the carrier at the local post offices takes the tray onto the route.



The FSS is projected to save the USPS billions in salary and benefits over time, according to Fulton. The costs come in the form of processing mail and in delivering it. According to a report by the Office of the Inspector General of USPS "FSS is expected to generate operational savings of between \$593 million and \$677 million annually."

The prototype in Dulles will soon be replaced with a permanent version and, as I understand it, 100 more machines will be installed in the most populous areas of the country.

What does this machine have to do with newspapers? After watching the machine run and hearing that they haven't really tested newspapers on the FSS, I would say it shouldn't have a whole lot of effect on us. However, new regulations are being adopted in advance of FSS that will most certainly affect newspapers: address location requirements and the possible elimination of DDU entry. More on that in the next sections.



"We want to induct mail where we process it."

— Rosa Fulton, Executive Director of FSS, USPS

How Will It Affect Us?

Any time one partner in business is hurting, the other will most certainly feel the pinch as well. Community newspapers, particularly the smallest ones, have no choice as to whether the USPS is a partner in our business.

So far, this report has outlined the problems and suggested solutions our partner is facing. What members of MNA really need to know is how this is going to affect them.

As I see it, here are the most visible, important ways in which we will be affected in the near future:

- **Expect a postal rate increase at the rate of inflation EVERY May.**
Every class of mail most likely see the maximum rate increase each year, given the financial realities at the USPS. Congress allows an increase of UP TO the rate of inflation in each overall class of mail. The kicker here is that each sub-set of mail, Periodicals, for instance can receive a different rate increase. For instance, the USPS could give a 1 percent hike to large mailers and a 6-7 percent hike to newspapers, according to NNA.
- **March 2009: Address location requirement goes into effect**
In order to meet the FSS machine requirements, the address location requirement for Periodicals will be implemented. This means a change for many newspapers.

Here's the official USPS proposed rule:

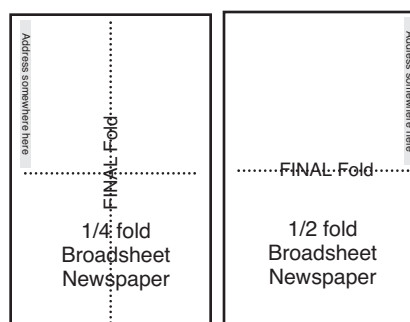
Mailers may place the address parallel or perpendicular to the top edge, but not upside down as read in relation to the top edge. The new standards define "upper portion" as the top half of a mailpiece, but we encourage mailers to place the address as close to the top edge as possible (while still maintaining a 1/8-inch clearance from the edge).

Clear as mud?

For newspapers, I understand this to mean that the address must be on the top half of the paper when the "final fold" is at the right. For instance, on a 1/2 fold broadsheet it would need to be somewhere at the far right of the top half. For a 1/4 fold broadsheet it would be at the far left of the top half. (see diagrams)

This will involve re-design and re-tooling of for some of our members.

As a side note, the USPS wanted to make these changes mandatory as of last May — and some District Managers told their newspapers (including ours) that the change had already gone into effect, which was not true. NNA worked closely with the USPS to hold off on these changes to allow for more research. The first proposals would have been much more cumbersome for newspapers. Again, thanks goes to Max Heath.



- **March 2010: Intelligent Mail Barcoding Mandatory**
According to Max Heath, new discounts for IMB will be included in May 2009's rate structure but by March 2010 the use of IMB will be mandatory. Newspapers will need to adjust their barcodes to make them IMB compatible.

“There are huge changes in the USPS, mostly not positive for us but there are some opportunities. It's going to be a different world.”

What Do We Fear Most — And How is NNA Preparing for These Threats?

Here are some predictions on other changes and/or threats that I offer after being immersed in USPS lingo for a couple of days.

- **Elimination of DDU Entry**
This issue has the potential to cause MAJOR problems for many of our community newspapers. Although I believe that our objections were heard loud and clear at the Summit, USPS officials stopped short of a commitment to take the proposal off the table. If enacted, instead of taking your newspaper to your local post office to be entered into the mailstream, you would be required to take it to a sectional center. In some cases, this would mean hundreds of extra miles on the road. The proposal was put on the table to utilize the regional FSS machines in heavily populated areas, but it's an example of how the "one size fits all" mentality can cause major problems to many of us. And, the proposal is already popping up as a requirement in some areas of the country for reasons other than FSS. For instance, two weeks prior to the Summit, a group of New Jersey newspapers was told that they could no longer bring their newspapers to their 54 local post offices but would have to deliver them all to Newark. The district USPS official told them that it was because they were streamlining accounting and were cutting down the number of places that could accept money. Max Heath worked on behalf of the New Jersey group and solved the problem.
- **Potential Rate Increases**
As I mentioned before, we may be hit with even higher rate increases, given the fact that the USPS is in such a financial crunch. NNA promises to be present each year when the new rates are proposed and make our voices heard. This will cost, as I mentioned before, a significant amount of money, but will save all newspapers from exorbitant increases.
- **Elimination of Sacks, Bigger Bundles and Pallets**
The USPS hates sacks; they are expensive and add labor costs to process them. Larger bundles can be sorted more efficiently, but — as we found a few years ago — delay delivery. NNA will be on the forefront of this discussion and will be able to show how much service suffers with larger bundles.

*“The USPS is reorganizing from a 1970s structure to a 2010 structure...”
Network re-alignment “has to happen.”*

— John Campo, Vice President, Postal and Carrier Relations, Pitney Bowes, Washington, DC.

Epilogue: What Victories Did We Win Since the 2006 Postal Summit?

In 2006, NNA held the first ever Postal Summit in Washington, DC. MNA generously paid for my attendance at that Summit as well. It was interesting to return this year with a little more background information.

I came away from this Summit with a much more positive attitude about the relationship between the USPS and newspapers. I found Deputy Postmaster General Patrick Donahoe much more open to our concerns and willing to work with us for better service. Case in Point: his statements regarding putting our newspapers into the First Class mail stream for quicker delivery.

It's interesting to look back on some of the outcomes that can be attributed to the 2006 Postal Summit, NNA, Max Heath and Tonda Rushand. The cost savings that resulted for our members are significant. Brian Steffens put together the following summary:

If you use Periodicals mail, you could have saved up to 10 cents for each newspaper you mail at the in-county rates when NNA saved that mailing privilege from extinction in 2006. Without it, a newspaper with 2,500 copies in the mail each week would be paying \$10,000 - \$13,000 more in postage for carrier-route sorted mail.

If you have mailing routes near a county line, some households on an "in-county" carrier route fall outside the county line. Until Fall 2007, each of those copies could cost 8-10 cents more. NNA got those addresses brought back into the in-county rate structure. The total: every 50 addresses moved back into the county saves \$208 - \$260 a year for 52 issues, double if twice-weekly, triple if tri-weekly.

If you had a Requester publication, NNA's work on the postal reform bill earned the in-county rate for the first time on all Requested copies, plus another 10 percent nonsubscribers. Take your total circulation. Multiply by 60 percent minimum then by 8-10 cents a copy. Mailing 20,000 papers each week? Annual postage savings could be \$50,000 - \$62,500.

If you are an in-county mailer sending fewer than 5,000 copies outside the county, you earned a new **5 percent discount** on most outside-county rates as of May 2008, because of NNA. Your weekly out-of-county bill is around \$300? You pocketed \$400-\$500 this year for doing nothing...except paying your NNA dues.

These are not one-time savings, but ongoing annual savings delivered by NNA's effective and persistent work in Washington, DC, and across the nation.

In July, I included a very short article in the MNA *Bulletin* which outlined the new 5% Limited Circulation discount for out-of-county mailings. I was amazed at how much feedback I received from our members who were not aware of the discount. Many software programs were not updated to allow the discount. A few local Postmasters refused, at first, to allow the discount since they had not been made aware of it. The materials I collected at the Summit were very helpful in convincing them to make the allowance, and to actually do refunds for the overpayment since May. Joe Sherman in Walker, for instance, had problems with his postmaster. Here's a portion of an e-mail I recently received from him: "They finally figured it out and gave us a \$93 credit...The good news is that it is now automatic and the savings will just keep coming in."

Apparently, the article from the *Bulletin* was picked up by several other state associations. I have received e-mails on problems in claiming this discount from throughout the country. I have enjoyed working with MANY newspapers to help them obtain the discount.

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