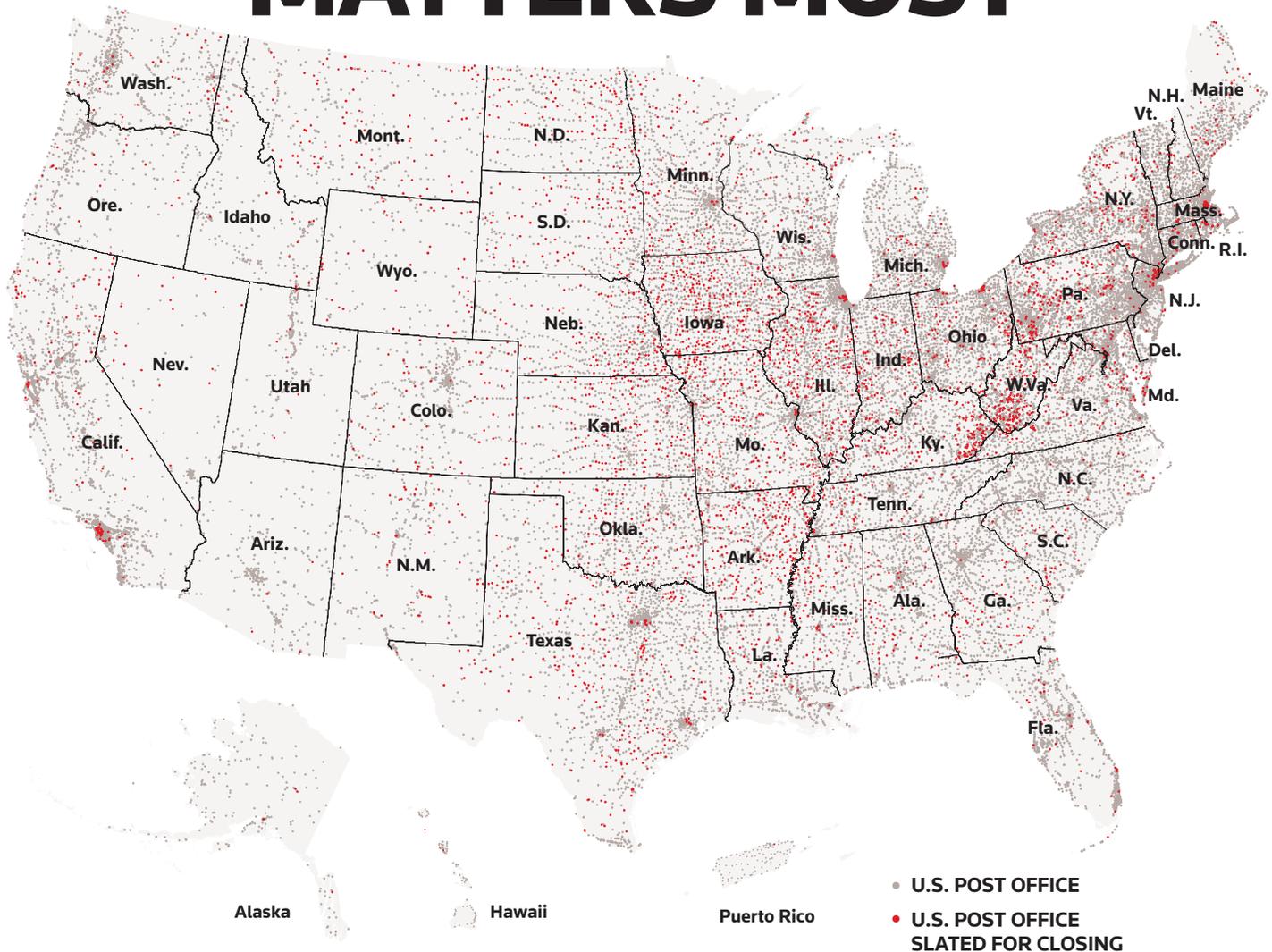


For many towns in rural America without broadband Internet, the U.S. Postal Service's plans to shutter post offices means further isolation

WHERE THE POST OFFICE MATTERS MOST



NOTE: Alaska, Hawaii and Puerto Rico not represented to scale.

BY CEZARY PODKUL AND
EMILY STEPHENSON
FEBRUARY 14

Postal officials were blunt in December when they stood before 120 residents in Dedham, Iowa, to tell them why their town's post office has to close. The Internet, officials said, was killing the U.S. Postal Service.

"Well, I have no Internet," resident Judy Ankenbauer said at the meeting. Like many

of Dedham's 280 residents, Ankenbauer said she still relies on the post office to buy stamps and send letters and packages.

Dedham is hardly alone in its dependence on the Postal Service. Some of America's poorest communities – many of them with spotty broadband Internet coverage – stand to suffer most if the struggling agency moves ahead with plans to shutter thousands of post offices later this year, a Reuters analysis found. Nearly 80 percent of the 3,830 post offices under consideration are in sparsely

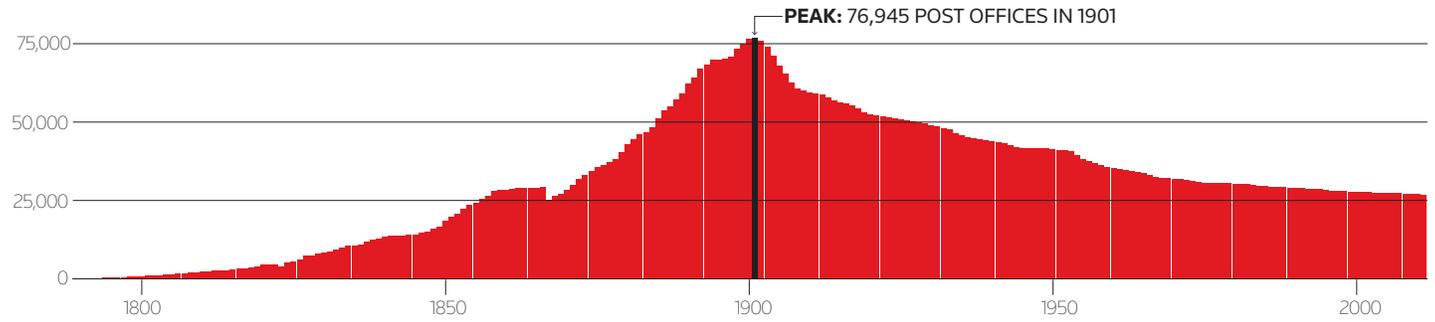
populated rural areas where poverty rates are higher than the national average, demographic data analyzed by Reuters shows.

Moreover, about one-third of the offices slated for closure fall in areas with limited or no wired broadband Internet, Reuters found.

"We're not the ones in the big cities who are just emailing everything to everybody. We're the ones that are actually still sending our Christmas cards and our birthday cards," said Sarah Clyden, who runs a feed store

The decline of the Postal Service

Number of U.S. post offices since 1789:



SOURCE: U.S. Postal Service

in Oakwood, Okla., where the agency is considering closing the post office.

Federal law requires the Postal Service to provide "a maximum degree of effective and regular postal services" to rural areas and small towns. Today, with 32,000 retail locations and 150 million delivery points, the Postal Service has a larger footprint in the U.S. than McDonald's, Starbucks and Wal-Mart combined, according to its website.

Even so, the rise of email, a drop-off in first-class mail, onerous labor costs and the growth of shippers such as UPS and FedEx have left the Postal Service hemorrhaging money. By fall, postal officials have warned, they may not be able to borrow money.

The Postal Service is not studying the economic impact on communities where post offices are slated to close, spokesman David Partenheimer said. But in the 3,004 rural communities across 48 states where post offices may close, many residents fear the impact will be pronounced.

About 2.9 million people live in the rural communities where the post office that may close is either the only one or one of two post offices serving their zip code area. For many rural residents, that would translate into longer drives to mail packages, pay bills or buy stamps.

Like all of the post offices on the closure lists, the post offices in Dedham and Oakwood wouldn't close until mid-May, thanks to a temporary moratorium on closings put in place in December. The moratorium was intended to give Congress a window to pass legislation offering the Postal Service some relief. But with lawmakers still deeply divided over how to address the Postal Service's financial woes, state and local government officials worry thousands of closings are on the way.

"The Postal Service is supposed to be



REUTERS/BRIAN C. FRANK

NO INTERNET: Judy Ankenbauer asked Postal Service officials about plans to close her nearest post office in Dedham, Iowa. Here, she's outside the next nearest post office, in Templeton, Iowa 7 miles away.

a universal service available to people wherever they live in America," said Iowa Gov. Terry Branstad, who pushed hard for the moratorium. "What they're doing is going against that premise."

'DROP IN THE BUCKET'

The Postal Service chose post offices for possible closure based primarily on revenue. Two-thirds of the 3,830 post offices slated for closure earned less than \$27,500 in annual sales, postal data show. Nearly 90 percent of these post offices are located in rural areas, where shrinking populations and dwindling businesses mean the post offices simply cost more to operate than they earn.

"These offices are decreasing in revenue year after year after year," said Dean Granholm, the Postal Service's vice president for delivery and post office operations.

Despite a request under the Freedom of Information Act, the Postal Service declined

to provide data on revenues for individual post offices. But the Postal Service did provide Reuters expense data for all post offices. The statistics show that closing all of the post offices under consideration would save about \$295 million a year - about four-tenths of 1 percent of the Postal Service's annual expenses of \$70 billion.

"That's a drop in the bucket," said William Henderson, who served as Postmaster General from 1998 to 2001. Then he corrected himself: "That's not even a drop in the bucket. The bucket won't ripple."

The Postal Service says the closures are necessary because Americans increasingly are turning to the Internet to send email and pay bills, resulting in plummeting mail volume and revenue.

"We've lost our business to the, you know, online communications," Kent Gochenour, an Iowa postal official, told residents at the town hall in Dedham.



REUTERS/BRIAN C. FRANK

RURAL AMERICA: The main road leading into the town of Dedham, Iowa, which stands to lose its post office.

To match the falling demand, the agency says it needs to cut \$20 billion in operating expenses by 2015. Restructuring healthcare programs, eliminating jobs, ending Saturday delivery and closing post offices are among the moves being considered, though some of these would require permission from a Congress that remains deeply divided on how to address the Postal Service's woes.

"When you deal with billions, there's nothing that you should ignore, even if it's only a couple percentage points of your total operating costs," Postmaster General Patrick Donahoe said during an October interview.

But for many in the communities where post offices are slated to close, doing business online is not an easy option. Trinchera, Colo., a rural town near the New Mexico border, lacks wired broadband. Carlos Sandoval, a local rancher, said he relies on the post office for everything except groceries. He said he only uses a computer when he visits his daughter "in town" – Trinidad, Colo., about 15 miles from his home.

Like Sandoval, about a third of the 110 people served by the Trinchera post office have no Internet access, according to Gene Caldwell. The 82-year-old began mustering statistics last fall to share with postal officials during a community meeting on the post office.

Many residents live as many as 50 miles from the nearest town, and to get there, they have to travel mostly on unpaved roads, Caldwell said. They rely on the Postal Service for livestock vaccinations and medicines, notices of livestock sales, trade newspapers and other items.

More than half of the 58 Colorado post offices on the closure list fall in areas that, like Trinchera, have limited access to broadband Internet.

Nationwide, about 1.7 million people live

near post offices slated for closure in areas with limited or no broadband Internet service, Reuters found.

"We're targeting the wrong people," said Mark Strong, president of the National League of Postmasters. "We probably should have taken a look to see if first of all they have Internet accessibility in their communities."

At Postal Service headquarters, officials say they did not consider Internet accessibility when determining which offices to shutter.

"I think there's a lot of information involved in why we're losing revenue at these locations, and it's not specifically tied to the Internet or the availability of Internet in these communities," Granholm said.

DIGITAL DIVIDE

Internet access has spread the way most businesses expand – to areas more densely populated with people willing to pay for service. Today, rural areas remain less connected to the Internet than urban populations across every technology type, according to Commerce Department data. Nearly 90 percent of the 24 million Americans without wired broadband access live in rural areas, latest data show.

"There's still a real digital divide between rural and urban America," said Ed Luttrell, president of the National Grange, which represents rural America. "You look at rural folks, they tend to rely much more heavily on the Postal Service for delivery of a wide variety of necessities than urban people."

Reuters gauged communities' Internet connectivity by comparing their locations with a national map of wired broadband availability that's compiled by the Commerce Department. Areas were identified that met the most basic government threshold of 768 kilobyte per-second-download speed – a speed that corresponds roughly to the

REUTERS.COM

Planned post office closings hit hardest in rural America:
<http://link.reuters.com/gac66s>

"3G" service speed on most phones. In areas lacking wired broadband, residents may sometimes still connect online through a satellite or wireless provider willing to extend them service, Commerce Department officials say.

But higher costs and lower dependability often discourage individuals and businesses from using the Internet for commercial transactions, and many older residents have never trusted online commerce or owned a computer.

"I have a phone, a newspaper and a post office. And the post office is number one," said Ankenbauer, 59, the Dedham resident who spoke up about internet service at her town hall with postal officials.

Elsewhere, the steady flow of personal and business communications online has chipped away at mail volume. In 2002, first class mail,



REUTERS/BRIAN C. FRANK

DEDHAM LETTER BOX: Cindy Riesselman (L) and Deborah Meiners consider life without the post office.

the Postal Service's most profitable product, began to decline. The economic downturn exacerbated the drop-off. Total mail volumes have fallen more than 20 percent since 2006, and another 24 percent decline is predicted by 2020.

Postal Service executive Granholm said the agency is offering a range of substitutes for traditional post offices services because the Postal Service does not consider its website a complete replacement. Still, "if customers do have broadband access, I think a lot of customers would choose to use our online service," Granholm said.

PROFOUND IMPACT

Losing a post office could stifle small businesses and prevent towns from recruiting new employers, residents say. Most of the closings are in rural areas, where the poverty rates for surrounding communities are higher than the national average of 15.3 percent. In communities with limited or no broadband Internet, the economic disparities are even more pronounced.

"The postmaster general doesn't have a clue about what's going on in rural America, and it shows," said U.S. Senator Jon Tester, a Democrat from Montana.

In Allen, S.D., a town on the Pine Ridge Indian Reservation where almost all of the residents live below the poverty line, Warren Yellow Hair wants to make more money by scaling up his mail-order art business to include Internet sales now that he's bought his first computer. But with the Allen post office slated for closure, Yellow Hair worries he'll have to drive 40 miles round-trip to mail his tipis, drums and drawings to customers.

"I'll just have to pass the [gas] charge on

to the customer and I sure don't want to do that," Yellow Hair said. "Here in Indian country, we're just barely trying to get ahead."

Business owners across the country are making similar calculations.

Sharon Voss, who runs a produce market in Copalis Crossing, Wash., thinks her customers would pay to have fruits and vegetables mailed each week to elderly family members who live alone. But she said she might rethink her mail-order expansion plan if the post office will no longer be right down the block.

Debbie Catania of Grimes, Calif., said her RV park stays full with temporary workers

who rely on the nearby post office. The workers open post office boxes to get care packages from relatives and may go elsewhere if the office closes.

Ron Christensen in Lohrville, Iowa, relies on low Postal Service shipping rates to keep afloat his Air Electric Machine Company, which makes ornamental steel windmills. If the Lohrville post office closes, he plans to drive 17 miles roundtrip to the next nearest post office to avoid paying extra through UPS or FedEx.

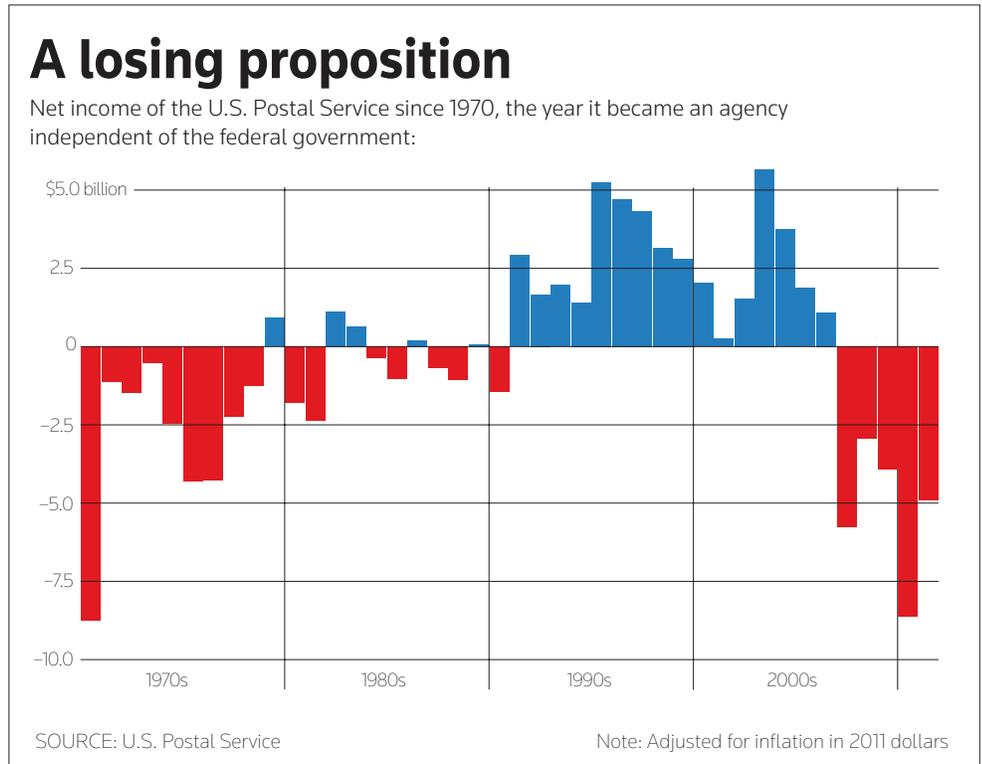
About 3,250 of the 3,830 post offices on the Postal Service's closure lists fall in zip codes where UPS and FedEx charge more to provide package delivery, Reuters found.

Town mayors and chambers of commerce also worry about the broader economic impact of losing a post office. Thanks to small populations, remote locations and a lack of reliable Internet, many towns are already a tough sell to new businesses. Losing the convenience and reliability of a local post office could make that even tougher, said Elliott Smith, who heads the Iowa Business Council.

"In a town that has a post office closing, you have to start thinking about, 'what are my long-term plans here?' It's tough," Smith said. "How do you attract workers?"

SKEPTICAL OF ALTERNATIVES

The Postal Service is touting various alternatives to brick-and-mortar post offices



as a way to maintain service. One strategy has the agency contracting with some local businesses to offer basic postal services.

But six months after announcing the so-called Village Post Office plan, the Postal Service still had fewer than a dozen fully operating. Postmaster General Donahoe said in October that officials have recognized the contract model wouldn't work in many isolated areas.

"In some of these areas . . . there is no option to have a Village Post Office because there's no stores or other facilities," Donahoe said. In some of those places, the post office may remain open, but with shorter hours to save money, Donahoe said.

Another plan is to expand the use of rural letter carriers, who are equipped to sell

stamps, pick up packages, and fulfill money orders, in addition to delivering the mail, said Granholm, the head of post office operations. The carriers, who already serve many rural communities, would also drop off packages and other items at road-side mailboxes or clustered mailboxes in a central location.

"We've seen in surveys and in community meetings that customers have understood that that's actually an extension of convenience for them," Granholm said.

Jeanette Dwyer, president of the National Rural Letter Carriers' Association, said rural carriers can provide a variety of services for residents who cannot easily access a post office. But she said rural carriers are not a full replacement for a physical post office.

"I don't believe it's the most cost-efficient

thing for them to do, to just say we're going to close every small post office," Dwyer said. "The American public has to have service."

Many residents said they are wary of relying on a rural carrier for time-sensitive or valuable packages, especially when the service has to be timed to carriers' schedules.

Carriers may not be deterred by snow or sleet, but some customers say they would be.

"I'm not standing out in the blizzard waiting for them. How is that going to be convenient for us?" said Christensen, the Iowa windmill maker. "They're not going to be able to handle our needs."

(Reporting By Cezary Podkul and Emily Stephenson, editing by Blake Morrison)

WHY THE POSTAL SERVICE IS GOING BANKRUPT

The U.S. Postal Service has come under scrutiny for a plan to close thousands of post offices - a move the money-losing agency says it must make to avoid bankruptcy.

The Postal Service lost \$5.1 billion in fiscal year 2011, and officials have warned that it may not be able to borrow money by the end of this fiscal year. The agency relies on the sales of stamps and other products, rather than taxpayer dollars, to fund its operations.

Most of its cost-cutting efforts require permission from Congress, which remains deeply divided over how to overhaul the agency. Postal officials hope closing facilities, reducing the workforce and other changes will help keep the mail carrier afloat.

Here are some of the factors that have contributed to the Postal Service's financial troubles:

TUMBLING MAIL VOLUMES

Mail volumes in the United States have been on the decline since 2006. The trend is largely due to changes in the way Americans communicate. Email and online

bill paying have chipped away at first-class mail volumes.

The economic downturn also led businesses to mail fewer advertisements. So-called standard mail has recovered slightly, but not enough to make up for the loss of first class volume, the most profitable mail category.

(To read the report, click here: <http://r.reuters.com/zub56s>)

PREFUNDING

Congress, in a 2006 law, required the Postal Service to make annual payments to fund 75 years' worth of future retiree health benefits in 10 years. So far, the agency has paid more than \$21 billion into a special fund for these obligations.

Congress allowed the Postal Service to delay the \$5.5 billion payment in 2011. Postmaster General Patrick Donahoe has said the agency will not be able to make its payment in 2012.

Critics of the requirement say most of the agency's \$25 billion in losses in the past five years was due to the payments. A bill in the Senate would spread the payments over a

longer time, though many lawmakers want to end the prefunding.

Others argue the payments are needed to protect taxpayers from having to bail out Postal Service benefits down the road.

LABOR COSTS

Personnel costs, including compensation and benefits for more than half a million employees, worker's compensation and the prefunding obligation, accounted for about 77 percent of USPS operating expenses in 2011.

For most private employers, worker costs represent a much lower percentage of total costs.

The agency has eliminated more than 100,000 jobs since 2008, but officials say that number needs to drop more.

The Postal Service expects about 100,000 employees to retire by 2015, and officials want to eliminate up to 120,000 jobs through layoffs.

(Reporting By Emily Stephenson and Cezary Podkul)

FOR MORE INFORMATION

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