



# e-NAPUS Legislative Newsletter

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## Postal Reform Proceeding Under A Yellow Flag

On Saturday, NASCAR will run the "Pepsi 400," in Daytona, Florida. At the event, cars zip around the Daytona National Speedway's 2½-mile track 160 times, averaging about 150 miles per hour. At times, however, race officials wave the yellow caution flag, warning drivers to slow down and to drive with care. Usually, this is the result of a crash or perilous track conditions. Nevertheless, the competition continues.



As Congress departed on its annual July 4<sup>th</sup> Recess, H.R. 22 and S. 662, postal enhancement legislation, is moving forward under the yellow caution flag. The White House and the Congressional Republican Leadership appear to be waving the flag. In a large part, the delay is the result of the alleged impact that the legislation would have on the federal budget. As reported in the June 17 issue of the *e-NAPUS Legislative Newsletter*, three members of the "Republican Study Committee" penned a memorandum that opposes H.R.22, claiming that the measure would shift USPS costs onto the taxpayer. This misguided missive, combined with Administration opposition to addressing the CSRS escrow matter, and its refusal to restore the Treasury's obligation for postal retiree CSRS military credit, has placed a speed bump on the legislative fast track. Moreover, House Majority Leader Tom DeLay (R-TX) has yet to indicate when he will place H.R. 22 on the House floor. There is speculation that Majority Leader DeLay is carrying White House water on postal legislation and will not schedule the bill for a vote until the Administration waves the "green flag." DeLay's role in scheduling H.R. 22 is powerful because the primary responsibility of the Majority Leader is setting the legislative schedule, by selecting which bills the House will consider and the timing of their consideration.



The most recent Congressional Budget Office (CBO) estimate is that H.R. 22 would reduce federal revenue by about \$1.4 billion over the next 5 years. S. 662 would reduce revenue by about \$500 million over the same period of time. The numbers reflect a significant cost reduction from last year. The reason why H.R. 22 and S. 662 has an effect on the federal budget is that postage is counted as revenue to the federal government. If a postage increase is delayed, the federal budget does not benefit from the "generosity" of postal ratepayers (i.e., the mailing public). H.R. 22 and S. 662 would delay a rate increase, making it unnecessary for the USPS to raise rates by 5.4% in 2006 and add that amount to any future rate case. Under the House and Senate bills the USPS would not have to contribute to the CSRS escrow account. [See Postal Rate Commission article in this issue.]

The Senate Homeland Security and Governmental Affairs has yet to file its "report" on S. 662, a prerequisite to a vote. The House Government Reform

Committee filed its report on H.R. 22 in late April. A Committee report summarizes the legislation and explains in detail what the Committee intends each section of the bill to accomplish. In addition, the report enables Committee members having a concern about the bill to clarify those concerns. Finally, the Committee report includes the cost of the bill.

It is the hope of many in the postal world that the waving yellow flag is enabling the White House and Congress to resolve issues in the bills prior to a floor vote. It would be unfortunate for the yellow flag to actually a "red flag," denying Congress the opportunity to pass constructive legislation to improve the USPS and forestall a 5.4% tax imposed on the mailing public.

NAPUS encourages postmasters to contact their Representatives and Senators – particularly members of the GOP – in their state and district offices during the July 4<sup>th</sup> Recess, asking them to urge the Republican Leadership to schedule H.R. 22 and S. 662 for a vote. In this way, President Bush will be able to wave the checkered flag in the very near future.

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## PMG Defends 5.4% Rate Hike

On Monday, PMG Potter testified before the Postal Rate Commission about the necessity of a 5.4% rate increase in 2006. He stated that the proposed increase is the direct result of Public Law 108-18. This legislation created the CSRS escrow account and shifted the CSRS military retirement burden onto the USPS. The USPS is seeking an agreement among the participants in the rate case to expedite the approval of the increase. NAPUS is a participant in the rate case known as R2005-1.

At the PRC hearing, the PMG explained that the decision to seek a rate hike represents a "policy judgment" to meet the unique circumstances caused by PL 108-18. The only reason that the USPS is seeking the increase is to satisfy the new financial burden imposed by the escrow account. However, Office of Consumer Advocate Director Shelley Dreifuss disputed the necessity of the rate increase. In her questioning of the PMG, she argued that the USPS' positive present financial position should lessen the need for an increase. She cited Title 39 of the United States Code, which establishes the criteria for a rate adjustment. It states that only reason to increase rates is to enable the USPS to "break even." If the USPS is in the black, then a rate increase is not justified.

Potter retorted that USPS made a policy judgment that the agency needs to recover the revenue that will be diverted into the escrow account. This diversion of revenue will compromise the long-term rate stability of the USPS and will hinder effective postal operations. In fact, since the USPS had promised Congress in 2003 that it would not raise until 2006, the USPS would lose approximately \$800 million in accumulated revenue in fiscal year 2006. This loss results from the requirement that the USPS begin to fund the escrow account at the beginning of the fiscal year (October 1, 2005), yet not request to raise rates until, January 1, 2006.

The case is unique because it is directly linked to a specific law which created new USPS financial obligations. In the past, the USPS folded such obligations into its periodic omnibus rate cases. Consequently, it will be interesting to see how the PRC reacts to the request for the rate increase, particularly in the absence of an agreement among the participants in R2005-1.

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