



E-NAPUS Legislative Newsletter

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USPS – Transform Thysel

This week, the USPS distributed a “Progress Report” of its Transformation Plan. A few years ago, the Senate Governmental Affairs Committee directed the agency to embark on the transformation project. Congress made it clear, however, that “transformation” did not supplant comprehensive reform.

In this recent report, the USPS declared itself “on track to exceed a \$5 billion savings commitment” that it made in 2002. The agency heralded great service and high employee-satisfaction. Moreover, the USPS stated that product enhancements tempered the decline in first-class mail volume. Lastly, the USPS announced that it reduced its career workforce by 68,000 employees since 2002, and its debt by \$9.5 billion over a 4-year period.

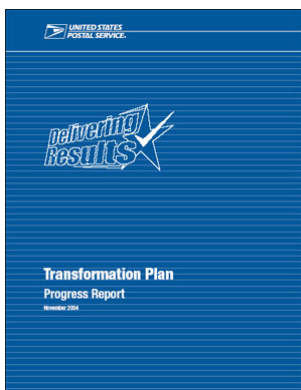
In the Report, a number of items command our attention. First, the Postal Service spent time and effort, publicizing alternatives to buying stamps at venues other than local post offices or postal stations. Despite these efforts, it is unclear whether the strategy has thus far succeeded, particularly in non-urban settings. Also, it is questionable whether knowledge of postal choice significantly reduces post office visits.

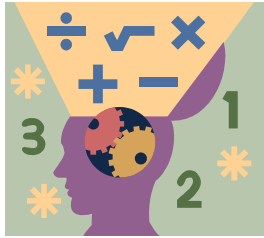
Another noteworthy item is the Report’s Appendix. It includes a section entitled “Seek Moderate Regulatory and Legislative Reforms.” Interestingly, it does not say *comprehensive* reforms. The legislative laundry list includes seeking to maximize flexibility within the *current* rate-setting process; rationalize retail network facilities; modernize purchasing procedures; and reform labor and employment provisions. The items regarding retail facilities and employee benefits trouble NAPUS and other postal employee organizations. Teaming up with the USPS, in a very unstable legislative environment, would be extremely difficult for postal employee organizations should the agency chart a course to alter the legal right of a community to appeal a post office closing, or to affect adversely earned employee benefits – particularly as it would affect current and future retirees. Repeatedly, Congress has rebuffed such proposals.

Snoring Through Cost Allocation

As we move into the new year, NAPUS will periodically explore a number of complicated postal reform issues with which Congress and the White House are grappling. Our goal is to help NAPUS members become more comfortable with postal reform terminology. It is not to create postmaster postal policy geeks. That is our job and we cherish the moniker.

One of the most contentious issues confronting the White House and Congress is “postal cost allocation.” That is how to apportion postal infrastructure costs among the many postal products. The allocation involves calculating the price a mailer must pay the USPS to accept, process, and deliver a specific product. The Postal Rate Commission is usually ear-deep in the intricacies of this





calculation as part of a rate case.

Under current law, postal competitors maintain that the USPS does not allocate properly postage among the different classes of mail. They allege that USPS apportions an excessive amount of its “institutional costs” (i.e., overhead) to first-class mail. Consequently, competitive classes, like parcel post, are partially insulated from overhead, and priced too low. Competitors argue that the USPS should assign every dollar of postal operations to every postal product in a systematic fashion, with strict regulatory oversight.

The Postal Service, major mailers, and parcel shippers maintain that it is impossible to attribute every dollar to every product. Currently, the USPS allocates about 58% of costs to individual postal products. The remaining 42% are overhead costs, for which each product should make an “appropriate” contribution. (The PRC monitors the allotment.) There are reasons for the USPS’ inability to allocate its costs to each product. First, products use a “shared” acceptance, processing, and distribution network. This means that different postal products share the very same network. Second, the USPS supports about 140 million daily delivery points and maintains system-wide universal access points. These two factors make it unworkable to allocate overhead costs to each product. For example, a letter carrier must drive the same vehicle or carry the same satchel for the same number of miles, day after day, no matter the count of ads, parcels, flats, or correspondence. Third, Congress recognizes that a public good is served by providing groups such as charitable organizations and periodicals with lower postage than would otherwise be charged for overhead. Congress limits their exposure to overhead.

Cost allocation is controversial because a postal policy-maker could advantage or destroy a particular group of mailers based upon the method employed to apportion overhead. For example, if one allots infrastructure costs by weight, the postage of heavy products (e.g., parcels) would rise dramatically. This benefits UPS. If, however, costs were distributed based upon volume, products with high volume (e.g., advertising mail) would see their postage rise significantly. This benefits newspapers, since they compete for advertising with direct mailers.

Indeed, Advil and Tylenol will be within easy reach, as postal lobbyists follow legislative negotiations over cost allocation.

A Lesson for Congress and for Us

Next week, dejected Members of Congress return to the Capitol for a brief two-day session to re-approve the “Omnibus Appropriation” bill, and try to pass Intelligence Reform. Two weeks ago, they thought they completed their work for the year and did not intend to return.

A House Appropriations Committee staff member admitted to adding objectionable language to the Appropriations bill. The provision grants the Appropriations Committee and its staff the ability to review tax returns of American citizens, without penalty for unlawful disclosure. As the result of Senate discovery of the dead-of-night addition, Congress is returning to delete the offensive language. This incident demonstrates how vigilant NAPUS must be as postal reform legislation meanders through the halls of Congress. In many instances, additions or deletions are caught only by accident.

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