



AMERICANS FOR TAX REFORM

## POSTAL NEWSLETTER

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President

### **USPS Begins Process for 2006 Rate Increase**

The USPS recently began the months-long process of increasing postage rates, preparing to file a rate case with the Postal Rate Commission for an increase expected in 2006. In exchange for the Civil Service Retirement System Funding Reform Act -- legislation that allowed the USPS to stop overpaying into the Civil Service Retirement System (CSRS) in 2003, the USPS gave Congress a commitment not to raise rates before 2006.

Under current law, the rate-setting process can often take nearly a year, hence beginning the process in early 2005. Champing at the bit for a rate increase, the USPS will likely not want to waste a moment of 2006 without a juicy increase, which some predict could go into the double digits.

The agency claims that but for a \$3.1 billion escrow requirement stemming from the 2003 legislation, there would be no need for a rate increase, apparently due to a newfound and heretofore undisclosed fiscal restraint on the part of the U.S. Postal Service.

While many in the mailing industry expect a rate increase in the neighborhood of 6 percent, the agency is not yet disclosing an amount or timeframe. Some have suggested that if Congress does not pass legislation freeing the USPS from pension obligations for military service, the increase could be astronomical. The USPS is the only independent agency that must do so.

Also proposed in Congress is granting the USPS so-called "pricing flexibility," a streamlined rate-setting process which would allow the agency to raise (and in the fantasies of some, lower) postage rates on its own, only seeking an approval after the fact from a new Postal Regulatory Commission.

A USPS official noted that the Postal Board of Governors directed management to limit the rate increase to cover the escrow obligation (which must be established by September 30, 2006), but also noticed that the agency would also need an increase in 2007. What a surprise.

### **Bush Administration, Congress Looking to Compromise on Postal "Reform" Legislation**

To avoid a feared double-digit rate increase, the White House is considering a deal with Congress to resurrect postal "reform" legislation which died in the 108<sup>th</sup> Congress late last year.

While both the Senate Governmental Affairs Committee (now called Homeland Security and Governmental Affairs) and the House Government Reform Committee reported out similar legislation last year, White House opposition kept the bills from receiving a vote in either chamber.

Senators Susan Collins (R-ME) and Thomas Carper (D-DE), chief architects of the legislation, are reportedly considering supporting Bush Administration positions to provide financial transparency for the USPS. The White House, in exchange, would reportedly give the USPS more access to a retirement escrow account the USPS maintains is overfunded.

Compromise legislation might include language to require the USPS to file financial reports to its board modeled on SEC filing requirements, in addition to allowing the agency greater flexibility in negotiating worksharing agreements, in which large mailers would receive discounts in exchange for performing tasks normally done by USPS employees, such as presorting mail.

One possible point of contention may continue to be whether to free the USPS from responsibility for the pension benefits of its military retirees. While many interested parties support releasing the USPS -- the only independent agency so obligated -- from this burden, the White House reportedly is holding firm in opposition to the idea.

How the final legislation will look, and what effect it will have on the current endeavors of the USPS -- including the rate case the agency recently initiated -- remains to be seen.