



AMERICANS FOR TAX REFORM

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Grover G. Norquist

President

Here We Go Again: White House, Congress Still in Stalemate over Postal "Reform" Legislation

As the Congress attempts to pick up where it left off last year on the first major postal overhaul legislation in thirty-five years, it appears the sticking points between the Bush Administration and Congress have changed little.

One major bone of contention is a provision that would transfer pension obligations related to military service to the Treasury Department. Those costs are currently the responsibility of the USPS – the only independent agency responsible for such pensions. By all accounts, the White House is vehemently opposed to this provision.

Sen. Homeland Security and Government Affairs Committee Chairwoman Susan Collins (R-ME) and Sen. Thomas Carper (D-DE), the authors of the Senate legislation, maintain they have made revisions to the legislation since the last Congress in an attempt to assuage the White House's concerns about the legislation, particularly as regards financial transparency and rate-setting.

However, in addition to its opposition to the military pension issue, the White House maintains that the legislation is too expensive, and also wants funds currently held in an escrow account of Civil Service Retirement System (CSRS) overpayments used only to pay for retiree health benefits.

One area of agreement seems to be the desire to grant the USPS so-called "pricing flexibility," which would streamline the process by which the USPS raises postage rates. While the USPS is only able to identify approximately half its costs, and has shown little ability to manage those costs, apparently it seems like a good idea to make it easier for the agency to raise postage rates.

The legislation has also raised concerns that it does not address the USPS' labor problems. The agency boasts a massive workforce (approximately 700,000-strong), and roughly three-quarters of its costs are estimated to be labor costs.

H.R. 22, the House bill sponsored by Rep. John McHugh (R-NY), was reported by the House Government Reform

Committee in April. The Senate version, S. 662, is still in committee.

2006 Rate Case – Just a Warm Up?

The rate case the USPS filed with the Postal Rate Commission on April 8 was a relief to many. At 5.4% (an increase of 2 cents), it was significantly lower than feared by some. Projections of a double-digit increase for 2006 were not uncommon.

As part of its agreement with Congress in 2003, the USPS was prohibited from seeking any rate increases until 2006, in exchange for no longer overpaying into the Civil Service Retirement System. However, there was little doubt the USPS would seek a rate increase the moment that prohibition ended, and the agency did not disappoint.

The 2003 legislation created an escrow account for the overpayments, and it is the escrow obligations the USPS blames for its rate increase. As a none-too-subtle hint to Congress, officials at USPS have said they would withdraw the 2006 rate case if Congress enacts legislation freeing the agency from the escrow requirement.

However, as the current rate increase only addresses the escrow requirements, and not other out-of-control costs at the USPS, mailers are concerned that the USPS might consider an omnibus rate case in 2007 that would dwarf the 5.4% increase.

USPS Chief Financial Officer Richard Strasser Jr. has said that the USPS would need another rate increase in 2007, due to the rise in benefit costs, wages and cost of living.

Meanwhile, the current rate increase is moving right along, on track to take effect in 2006. The current rate-setting process takes nearly a year, as the increase must be approved by the Postal Rate Commission.

If some have their way, the USPS would be granted flexibility that allows the agency to raise postage rates with an after-the-fact approval by a new Postal Regulatory Commission.