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[Feasibility of Cost Study on Certain Classes of Mail].
GGD-77-64; B-114874. June 29, 1977. 3 pp.

Report to Rep. James C. Cleveland; by William J. Anderson (for Victor L. Lowe, Director, General Government Div.).

Contact: General Government Div.

Budget Function: Commerce and Transportation: Postal Service
(402).

Organization Concerned: Commission on Postal Service; Postal
Rate Commission; Postal Service.

Congressional Relevance: Rep. James C. Cleveland.

Authority: Postal Reorganization Act of 1970 (39 U.S.C. 101).

A recent cost study dealt with the qualifications of certain mailers for reduced rates and the allocation of costs among the various classes of mail. The Postal Reorganization Act of 1970 required that each class of mail recover "attributable cost" plus some portion of institutional costs.

Findings/Conclusions: The Postal Rate Commission has attributed 60.4% of costs to particular classes of mail and types of services and the remaining 39.6% has been assigned in accordance with customer demand and value of service factors. The Commission on Postal Service agreed with this allocation and stated that attributing more costs will increase rates and decrease mail volume. In a recent decision in favor of the Greeting Card Publishers Association, the U.S. Court of Appeals said that the Postal Service was establishing prices of different classes of mail improperly; that first-class rates were too high and the others too low. Between 1971 and 1976, the volume of first-class mail increased 4%, and second-class mail declined by 8%. Declines have also occurred in the volumes of third-class mail and parcel post. Significant rate increases have occurred and the Commission on Postal Service believes that, if rates for second-class, third-class, and fourth-class mail continue to increase, volumes will continue to decline.

(HTW)

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT
DIVISION

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B-114874

JUN 20 1977

The Honorable James C. Cleveland
House of Representatives

Dear Mr. Cleveland:

Your letter of February 17, 1977, requested the General Accounting Office to consider the feasibility of a cost study made by Mr. William B. Elmer on certain classes of mail. As discussed with your office, we did not do an in-depth analysis of Mr. Elmer's study. On the surface, however, it appears that Mr. Elmer's suggestions would not result in a viable U.S. Postal Service.

Mr. Elmer is primarily concerned with the qualifications of certain mailers for reduced rates and the allocation of costs among the various classes of mail. The recent report by the Commission on Postal Service addressed these issues.

The Commission reported that the allocation of postal costs has become a major factor in setting postal rates. The policies which Congress followed in setting postal rates prior to the establishment of the United States Postal Service and the Postal Rate Commission in 1971 did not require that all classes of mail recover all of their respective costs. Appropriations covered any losses incurred when revenues failed to meet costs.

With the Postal Reorganization Act of 1970 (39 U.S.C. 101) each class of mail or type of mail service was to recover "attributable cost" plus some portion of institutional costs on the basis of subjective criteria--principally, value of service and customer demand factors. Confusion has developed over what constitutes attributable costs. Another issue is how much institutional cost can and should be attributed.

The Postal Rate Commission has been able to attribute 60.4 percent of postal costs to particular classes of mail and types of services. The remaining 39.6 percent is assigned to particular classes of mail and types of services in accordance with customer demand and value of service factors.

The Commission on Postal Service agreed with this allocation and stated in its report that attributing more costs will increase postal rates and decrease mail volume. The Commission concludes that, in time, the effect can be extensively disruptive to postal operations, rates, revenues, and public funding requirements. A recent decision by the U.S. Court of Appeals could precipitate just such a situation.

By ruling in favor of the Greeting Card Publishers Association, the court said the Postal Service was establishing the prices of the different classes of mail improperly. The ruling stated that first-class rates were too high and the others too low. Service officials have stated that rolling back first-class rates and increasing the others will force large mail users to use other means of delivery. The Commission on Postal Service has stated that without these large volumes of mail in other classes, first-class rates would have to be raised. At the present time the court's decision is being appealed by the Postal Service.

To fully understand the impact of these rate increases and volume declines one must look at what has happened to the various classes of mail over the last few years. While the volume of first-class mail over which the Postal Service exercises a monopoly increased 4 percent between 1971 and 1976, second-class regular rate mail declined by 8 percent during the same period, regular rate third-class mail dropped 5 percent between 1973 and 1976, and parcel post dropped 37 percent between 1971 and 1976. During this period significant rate increases occurred and the Commission on Postal Service believes that if the Postal Service continues to increase rates for second-, third- and fourth-class mail, volumes will continue to decline.

A cost allocation method which reflects volume variability and encourages retention and growth of mail volume will help avoid increasing the burden on the first-class mail user or on the taxpayer. For a more detailed explanation of the theory of postal rate setting, refer to chapter 6 of the Report of the Commission on Postal Service which we have enclosed with this letter.

The Postal Rate Commission was established to recommend decisions to the Postal Service Board of Governors on postage rates and fees and mail classification. The Commission makes

a recommended decision after a hearing in which a formal evidentiary record--which is the sole basis for decision--is developed through the presentation and cross-examination of witnesses. Any individual or group of individuals can provide input to the Commission either by direct participation in the hearings process or through an officer of the Commission who is required to represent the interests of the general public. Mr. Elmer may wish to make his views known to the Commission.

If we can be of any further assistance, please let us know.

Sincerely yours,

W. J. Anderson

WJL

Victor L. Lowe
Director

Enclosure