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Postal Rates Should Be Adjusted  
To Recover The Costs Of Providing  
Priority Handling To Publications

B-114874

United States Postal Service

UNITED STATES  
GENERAL ACCOUNTING OFFICE

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MARCH 23, 1972  
MARCH 23, 1972



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

CIVIL DIVISION

B-114874

Dear Mr. Postmaster General:

This is our report entitled "Postal Rates Should be Adjusted to Recover the Costs of Providing Priority Handling to Publications."

Copies of this report are being sent to the Senate and House Committees on Appropriations, on Government Operations, and on Post Office and Civil Service and to certain subcommittees. Copies are also being sent to the Director, Office of Management and Budget, and to each member of the Board of Governors of the United States Postal Service.

Sincerely yours,

*A. T. Samuelson*

Director, Civil Division

The Honorable  
The Postmaster General

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D I G E S T

WHY THE REVIEW WAS MADE

Second-class mail is usually given nonpriority handling. Although not specifically authorized by law to do so, the United States Postal Service traditionally has provided priority handling to some types of second-class mail. Certain newspapers and periodicals receive priority handling for the same postage rates paid by publishers receiving nonpriority service. 52

Priority handling consists of expeditious distribution, dispatch, transit handling, and processing for the next scheduled delivery. About 4.1 billion of the 9.4 billion pieces of second-class mail handled in fiscal year 1970 were given priority service. (See pp. 4 and 6.)

Postal law requires that all classes of mail and all types of mail services recover their related costs. (See p. 5.)

The General Accounting Office (GAO) wanted to know whether

- additional costs were incurred for priority handling of second-class mail and
- the criteria used by post offices to determine which mail should receive priority handling were uniformly applied.

FINDINGS AND CONCLUSIONS

The Postal Service provides priority service to some second-class mail without recovering the additional costs incurred. The Postal Service does not know the additional cost of giving priority handling to second-class mail.

GAO estimated that the Detroit, Michigan, Post Office spent \$197,000 in fiscal year 1970 for increased letter carrier salary and overtime costs to expedite handling of certain periodicals. Sunday and nighttime premium pay costs for mail handlers and clerks to prepare priority mail for dispatch amounted to \$114,000 in the Washington, D.C., City Post Office; \$40,000 in Detroit; and \$7,500 in Seattle, Washington. (See p. 6.)

The Postal Service criteria for determining which publications qualify for priority handling were vague. Local post offices were inconsistent as to which publications should receive priority service. (See p. 9.)

RECOMMENDATIONS OR SUGGESTIONS

The Postal Service should:

- Determine, as part of its current or planned studies, the nationwide costs of providing priority service for second-class mail.
- Propose to the Postal Rate Commission priority and nonpriority second-class rates. The rate for priority service should recover the additional costs of providing such service.
- Permit publishers to select the type of service they prefer.

Pending implementation of these recommendations, the Postal Service should establish more specific eligibility criteria so that local post offices will be more uniform in determining which publications should receive priority service. (See p. 13.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Postal Service advised GAO that it was making, or planning to make, reviews of the mail classification system, which would include determinations of the services needed by publishers, costs of providing such services, and appropriate rates to be charged.

Although the Postal Service stated that GAO's proposals would be considered in this study, it did not indicate that it would implement GAO's recommendations. (See p. 11.)

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## CHAPTER 1

### INTRODUCTION

Second-class mail principally consists of newspapers and periodicals. Postal regulations provide that a publication is entitled to be entered as second-class mail if it (1) is issued regularly at stated intervals at least four times a year, (2) is not designed primarily for free circulation or for circulation at nominal rates, (3) is not primarily for advertising purposes, and (4) has a legitimate list of subscribers. A legitimate list of subscribers means a list of persons who have paid or promised to pay more than a nominal price for copies to be received during a stated period. Persons who receive free subscriptions or subscriptions at a nominal price cannot be counted as part of a legitimate list.

Some second-class publications are given priority handling by post offices to expedite mail processing and delivery. For example, a red tag may be attached to a mail sack to indicate that it is to receive priority handling. When such mail is received at a post office, the mail handlers stop sorting other mail to process it.

A postal law is silent concerning priority handling of second-class publications, and we did not find anything in the legislative history which established that the Congress intended that certain second-class mail be accorded priority service. Postal regulations state that newspapers must be published each week, or more frequently, and feature principally news of interest to the general public to be given expeditious distribution, dispatch, transit handling, and delivery. Although it is not specifically required by postal regulations, postal officials also afford priority handling to certain periodicals of a topical nature because they believe that such service is in accordance with the intent of the Congress.

A Postal official stated that priority handling has been given to second-class mail since 1863. The priority handling was initiated because postal officials believed that the Congress intended that such mail be delivered to the public as quickly as possible. Because of an increase

in second-class-mail volume, the Postal Service--in about 1950--limited priority handling to those publications published on a daily or weekly basis containing news of interest to the general public.

Since 1879 the policy of the Congress has been to foster and assist in the dissemination of information and intelligence. Toward this end the Congress, until the passage of the Postal Reorganization Act (39 U.S.C. 101), encouraged the distribution of newspapers and magazines through low, second-class postage rates. There are three postage rates for second-class mail--preferred, regular, and transient. The preferred rate is the lowest second-class rate and generally applies to publications to be delivered in the county in which mailed; to classroom publications; and to publications of nonprofit organizations, such as religious, educational, scientific, or philanthropic organizations.

The regular rate is higher than the preferred rate and generally applies to publications not covered by the preferred or transient rates. The transient rate is the highest second-class rate and applies to publications mailed to persons not included on a legitimate list of subscribers and to sample copies in excess of 10 percent of the total weight of subscriber copies mailed during a calendar year.

The following chart shows the revenues derived from the three rates for second-class mail and the number of pieces handled for fiscal year 1970.

<u>Second-class rate</u>	<u>Revenues (millions)</u>	<u>Number of pieces (millions)</u>
Preferred	\$ 19.8	2,680
Regular	128.5	6,637
Transient	4.0	35
Miscellaneous revenue	<u>2.9</u>	<u>-</u>
Total	<u>\$155.2</u>	<u>9,352</u>

In fiscal year 1970 the Postal Service's cost for processing 9.4 billion pieces of second-class mail was

\$724 million and revenues were \$155 million--a loss of \$569 million. The Postal Service did not have information concerning the cost of providing priority service. It estimated, however, that 4.1 billion pieces, or 45 percent, of the 9.4 billion pieces of second-class mail processed in fiscal year 1970 were accorded priority service.

The Postal Reorganization Act which became fully effective on July 1, 1971, abolished the Post Office Department and created the United States Postal Service and the Postal Rate Commission as independent establishments of the executive branch of the U.S. Government. The Commission is responsible for reviewing and making recommended decisions on changes in postal rates and fees proposed by the Postal Service. Upon receipt of the Commission's decision, the Board of Governors of the Postal Service may approve, allow under protest, reject, or modify the recommended decision.

The act requires the Postal Service to become self-sustaining and to set postal rates and fees so that total revenues, including appropriations that the Congress may authorize, equal total expenses as nearly as practicable. The act prescribes criteria for establishing rates and fees and includes a requirement that fees for all classes of mail and all types of mail services recover their related costs.

The act requires also that the Postal Service request the Commission to make a recommended decision on establishing a mail classification schedule by January 20, 1973. Pursuant to this provision the Postal Service is reviewing the present first-, second-, third-, and fourth-class mail classifications to determine whether the classifications should be revised or whether new mail classifications should be established. In making its recommendation the Commission is to consider such matters as the importance of providing (1) mail classifications with extremely high degrees of reliability and expeditious delivery and (2) mail classifications which do not require such priority handling.

## CHAPTER 2

### POSTAL RATES SHOULD BE ADJUSTED TO RECOVER COSTS OF PROVIDING PRIORITY HANDLING TO PUBLICATIONS

The Postal Service gives priority handling to certain second-class mail without recovering the additional costs, such as overtime and premium pay, incurred for such priority service. Also the Postal Service criteria for determining the second-class mail eligible for priority handling, because of their general nature, were inconsistently applied by local postal officials.

For second-class mail given priority handling by the Detroit Post Office and its 32 postal stations and branches during fiscal year 1970, we estimated that the additional letter carrier cost was \$197,000. Also we estimated that the annual costs for clerks and mail handlers to prepare priority second-class mail for dispatch were \$114,000 at the Washington City Post Office, \$40,000 at the Detroit Post Office, and \$7,500 at the Seattle Post Office.

The costs are based on the estimated additional letter carriers and letter carrier overtime hours used and the Sunday premium and night differential paid clerks and mail handlers to expedite the processing of such mail. The estimates do not include other costs, such as administration and transportation, because information was not readily available to permit us to estimate them.

### PRIORITY AND NONPRIORITY SERVICE FOR SECOND-CLASS MAIL

The Postal Service provides priority and nonpriority service to users of second-class mail. Priority processing and delivery service, similar to that afforded first-class mail, is provided to publishers of daily and weekly newspapers and periodicals containing news of interest to the general public. First-class mail is processed within 90 minutes of receipt by a postal facility, shipped on the first available transportation, given priority over all other mail except airmail in any additional processing at

other post offices, and promptly segregated for the earliest possible delivery to the public.

All other second-class mail is processed on a nonpriority basis, similar to that for third-class mail. Postal regulations require that, when nonpriority second- and third-class mail is received at a postal facility for delivery, it must be delivered to the addressee not later than the second delivery day after date of receipt. Second-class mail which is not given priority is processed between 6 a.m. and 6 p.m. and can be held for 24 hours before being processed and dispatched after it is received at a postal facility. Such mail is processed and segregated for delivery to the public after all first-class and priority second-class mail has been processed and segregated for delivery.

#### ADDITIONAL COSTS OF CARRIER DELIVERY FOR PRIORITY MAIL

When the volume of priority second-class mail exceeds a normal day's work load at the Detroit Post Office, additional letter carriers and overtime hours are sometimes used to ensure the expeditious delivery of such mail to the addressees.

Superintendents of 18 of Detroit's 32 postal stations and branches responsible for delivering mail estimated that, in addition to the letter carriers' regular workday hours, 43,000 letter carrier man-hours (including 12,360 overtime hours) were used during fiscal year 1970 to handle priority second-class mail. On the basis of the average hourly pay for a letter carrier, these additional hours--regular and overtime--represent a cost of about \$197,000. The superintendents at the remaining 14 branches and stations advised us either that they could not estimate the additional hours used or that no additional letter carriers costs had been incurred to give priority service to second-class mail.

Representatives of four stations, which accounted for about 63 percent of the total additional letter carrier man-hours used, told us that they normally experience both low- and high-volume mail days during the week and that usually Monday, Tuesday, and Saturday are low-volume days and Wednesday, Thursday, and Friday are high-volume days. On low-volume days carriers process third-class mail or perform administrative tasks. When priority second-class mail is

received on low-volume days, it easily can be processed and delivered on a timely basis during the normal 8-hour work tour and without additional cost. If priority second-class mail is received on high-volume days, however, additional letter carriers or overtime hours are needed to make expeditious delivery.

At the four stations we were informed that, if the delivery of certain priority second-class mail received on high-volume days could be delayed, it could be processed and delivered on low-volume days without incurring additional costs. For example, at one station a large volume of a priority second-class publication is usually received late on Thursday afternoon and must be delivered on Friday, usually a high-volume day. An assistant superintendent at the station said that additional carrier hours were used on Fridays to prepare the publication for delivery. He said also that, if delivery could be delayed until Saturday, the additional work load could be absorbed on Saturday, usually a low-volume day, without the need for additional man-hours.

#### ADDITIONAL COSTS OF PROCESSING PRIORITY MAIL

At the Washington City, Detroit, and Seattle Post Offices most of the second-class mail given priority handling is received late in the afternoon or at night and, as a result, is processed after 6 p.m. Postal employees are paid a 10-percent wage premium for work at night--6 p.m. to 6 a.m., Monday through Saturday--and a 25-percent wage premium for working on Sunday.

On the basis of the post offices' estimated volume of priority second-class mail processed during premium pay hours, we estimated that the costs for night and Sunday premium pay for this priority service were \$40,000 in Detroit and \$7,500 in Seattle in fiscal year 1971 and would be \$114,000 in Washington in fiscal year 1972. Post office officials advised us that a substantial part of these costs could be avoided if priority second-class mail were processed the day following receipt and clerks were transferred from the premium pay period to the daylight hours to handle such mail.

CRITERIA FOR ALLOWING PRIORITY HANDLING OF  
SECOND-CLASS MAIL INCONSISTENTLY APPLIED

Eligibility criteria for allowing priority handling of second-class mail were being inconsistently applied by local post offices because the criteria, in our opinion, lacked specificity. Postal regulations, issued to local postal officials for use in determining whether second-class mail is eligible for priority handling, state that the publication must be issued at least once a week and must contain principally news of interest to the general public. What constitutes news of interest to the general public has not been specifically defined in postal law or regulations.

Under the Postal Service general criteria, local postal officials have designated certain publications to receive priority handling, although such service is not accorded to similar publications. At Detroit we noted that a listing dated March 7, 1970, showed that, of 202 second-class publications received by the post office, 47 were accorded priority handling.

Detroit postal personnel were interpreting the Postal Service criteria differently. One representative of Detroit's Mailing Requirements Section advised us that he believed that any publication issued at least weekly and of interest to any segment of the public should receive priority handling. Another representative of the same section advised us that he believed that publications directed toward specific interest groups--e.g., those devoted to sports, medicine, automobiles, labor, and religion--did not contain news of interest to the general public and should not receive priority handling. Under these differing interpretations six daily newspapers received priority handling and one did not, 33 weekly newspapers received priority handling and six did not, and two weekly sporting publications received priority handling and one did not.

At Seattle 38 of the 164 second-class publications received by the post office received priority handling. Seattle Post Office officials advised us that they did not attempt to determine whether a publication was of interest to the general public but gave priority handling to all publications issued at least weekly. In contrast we noted at Detroit that 16 weekly publications did not receive priority handling.

At Washington 128 of the 818 second-class publications received by the City post office received priority handling. Washington City Post Office officials advised us that all publications published at least weekly and containing principally news of interest to the general public were afforded priority handling. Another postal official stated that all weekly publications received priority handling regardless of their contents. We noted that at least 75 publications which appeared to be directed toward specific interest groups were afforded priority handling at Washington.

We noted also inconsistencies in designating similar publications for priority handling at the three locations. A weekly labor-union publication at Detroit and at Washington received priority service but a weekly labor-union publication at Seattle did not. At Seattle two weekly publications devoted to civic matters were given priority service, whereas at Detroit two similar weekly publications were not afforded such service.

The Director of the Office of Mail Classification, Finance and Administration, has advised us that more specific guidelines for use by local postal officials in determining eligibility of publications for priority handling have not been issued because:

- The Postal Service wants to leave as much management responsibility and authority as possible with local postmasters.
- The Postal Service believes that the types of publications which would qualify as being of interest to the general public would vary, depending upon the community. For example, a magazine concerning automotive news may be of interest to the general public in Detroit but not in Seattle.

We recognize that, under some circumstances, a publication might be of interest to the general public in one community but would not be of interest to the general public in another community. In our opinion, however, similar publications should receive the same type of service in any community, unless it is determined that the degree of community interest varies significantly.

## CHAPTER 3

### AGENCY COMMENTS AND GAO RECOMMENDATIONS

We brought our findings to the attention of the Postmaster General and suggested that the Postal Service:

- Make a study to determine the nationwide costs for providing priority service for second-class mail.
- Recommend to the Postal Rate Commission two rates for second-class mail--one for priority service and one for nonpriority service. The rate for priority service should recover the additional costs of providing such service.
- Give publishers the option of selecting either priority or nonpriority second-class mail service.

In responding to our proposals, the Postmaster General informed us (see app. I) that the Postal Service was making, or planning to make, reviews of its mail classification system and that efforts would be intensified as soon as testimony before the Postal Rate Commission on the February 1971 rate proposal was completed. He stated that the Postal Service rate proposals before the Commission were designed to meet pressing financial needs and that the Postal Service planned to propose mail classification reform in a separate submission to the Commission so that attention might be focused on an equitable classification structure at a time when there was not an immediate revenue need. He informed us that the reviews would cover the areas involved in our proposals.

- Clear delineation of mailing services needed by publishers.
- Adequate costing of such service.
- Appropriate rates.

Because of the operating deficit which totaled about \$1.6 billion in fiscal year 1970, the Postal Service, in

accordance with the Postal Reorganization Act, made various proposals to the Postal Rate Commission on February 1, 1971, for increases in postal rates and fees that would increase annual revenues by about \$1.5 billion. Commission hearings on this matter were completed in November 1971. The Commission is studying the testimony received from postal officials and mailers and will make a recommended decision on the proposed rate and fee increases to the Postal Service Board of Governors, who will then make the final decision to approve, allow under protest, modify, or disapprove the request for increases in rates and fees.

Section 3623 of the Postal Reorganization Act requires that the Postal Service request the Commission to make a recommended decision on establishing a mail classification schedule by January 20, 1973. Pursuant to this provision the Postal Service is reviewing the present first-, second-, third-, and fourth-class mail classifications to determine whether the classifications and the special rates under each classification should be revised or new mail classifications should be established.

In making its recommendation the Commission is to consider such matters as the importance of providing (1) mail classifications with extremely high degrees of reliability and expeditious delivery and (2) mail classifications which do not require such priority handling. Although the Postmaster General's response indicated that our proposals would be included in this review, he did not state specifically that he would take action consistent with our proposals.

#### RECOMMENDATIONS TO THE POSTMASTER GENERAL

We recommend that the Postal Service:

- Include as a part of the studies it is making, or planning to make, a determination of the nationwide costs of priority service given to second-class mail.
- Propose rates to the Postal Rate Commission for second-class mail for the two types of service provided--priority and nonpriority. The rate for priority service should recover the additional costs of providing such service.

--Permit publishers the option of selecting either type of service.

We recommend also that, pending implementation of the above recommendations, more specific criteria be established for use by post offices in determining the eligibility of second-class mail for priority service, to achieve more uniform determinations consistent with the eligibility requirements intended by the Postal Service.

## CHAPTER 4

### SCOPE OF REVIEW

We reviewed the Postal Service policies, procedures, and practices relating to the priority service accorded certain second-class mail. We visited postal facilities in Detroit, Michigan; Washington, D.C.; and Seattle, Washington, to observe and discuss with postal personnel the handling of second-class mail accorded priority service. Our work was performed during the period June 1970 through December 1971.



THE POSTMASTER GENERAL  
Washington, DC 20260

May 18, 1971

Dear Mr. Neuwirth:

We have read with interest your proposed report to the Congress on Priority Service Accorded Second-Class Mail.

Your draft report alleges that priority treatment of second-class mail has significantly increased our costs (page 2), and our criteria for determining the second-class publications eligible for priority treatment are vague (page 7). You recommend that we determine nationwide costs of priority treatment of second-class mail and recommend to the Postal Rate Commission rates to recover these costs (page 8).

We have begun a review of our mail-classification system, and we shall intensify our efforts as soon as we complete our testimony before the Postal Rate Commission on the current rate proposal.

Section 3623 of Title 39, United States Code, enacted by the Postal Reorganization Act, calls for a review of the current mail-classification structure within two years. The Act further specifies that the Postal Rate Commission shall make a recommended decision after considering specified factors which include the importance of providing (1) classifications with extremely high degrees of reliability and speed of delivery and (2) classifications which do not require an extremely high degree of reliability and speed of delivery. Further, as page 1 of your report notes, Section 3622 of new Title 39 provides that (with the exception of certain preferential-rate mail) each class or type of mail should bear the costs attributable to that service, plus a reasonable apportionment of institutional costs.

Our rate proposal currently before the Postal Rate Commission is designed to meet our pressing financial needs within the framework of the existing classification structure. We plan to propose

APPENDIX I

classification reform in a separate submission to the Commission so that attention may be focused on an equitable classification structure at a time when there is not an immediate revenue need.

The studies we are undertaking and planning, in preparing for the reclassification proposal we will make to the Postal Rate Commission, cover the areas involved in your recommendation:

- (1) clear delineation of mailing services needed by publishers,
- (2) adequate costing of such service, and (3) appropriate rates.

[See GAO note.]

Sincerely,



Winton M. Blount

Mr. Max A. Neuwirth  
Associate Director, Civil Division  
U. S. General Accounting Office  
Washington, D. C. 20548

GAO note: The deleted comments relate to matters which were discussed in the draft report but omitted from this final report.

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PRINCIPAL OFFICIALS OF  
THE UNITED STATES POSTAL SERVICE  
RESPONSIBLE FOR ADMINISTRATION OF THE ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
POSTMASTER GENERAL:		
Elmer T. Klassen	Jan. 1972	Present
Merrill A. Hayden (acting)	Nov. 1971	Dec. 1971
Winton M. Blount	Jan. 1969	Oct. 1971
W. Marvin Watson	Apr. 1968	Jan. 1969
Lawrence F. O'Brien	Nov. 1965	Apr. 1968
DEPUTY POSTMASTER GENERAL:		
Merrill A. Hayden	Sept. 1971	Present
Vacant	Jan. 1971	Sept. 1971
Elmer T. Klassen	Feb. 1969	Jan. 1971
Frederick C. Belen	Feb. 1964	Jan. 1969
SENIOR ASSISTANT POSTMASTER GENERAL, SUPPORT (note a):		
Vacant	Mar. 1972	Present
James W. Hargrove	July 1971	Feb. 1972
ASSISTANT POSTMASTER GENERAL, BUREAU OF FINANCE AND AD- MINISTRATION (notes a and b):		
James W. Hargrove	Feb. 1969	June 1971
BUREAU OF OPERATIONS (note b):		
Frank J. Nunlist	Apr. 1969	June 1971
Vacant	Jan. 1969	Apr. 1969
William M. McMillan	Feb. 1964	Dec. 1968

<sup>a</sup>Effective July 1, 1971, the responsibilities of the Bureau of Finance and Administration were transferred to the Senior Assistant Postmaster General, Support.

<sup>b</sup>Responsibility for administration of second-class-mail operations was transferred from the Bureau of Operations to the Bureau of Finance and Administration in August 1969.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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