

Date of Hearing: August 29, 2013

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY

Jose Medina, Chair

SJR 15 (Hancock) – As Introduced: August 12, 2013

SENATE VOTE: 27-9

SUBJECT: Postal Service Protection Act of 2013

SUMMARY: Memorializes the California Legislature's support for the federal Postal Service Protection Act of 2013 (PSP), which would sustain the United States Postal Service (USPS) and avert unnecessary closures that hurt communities, as proposed in U.S. Senate Resolution (S.) 316 [Senator Bernard Sanders (I - Vermont)] and U.S. House Resolution (H.R.) 630 [Peter DeFazio (D - Oregon 4)]. Specifically, this bill:

- 1) Makes findings relative to the importance of the PSP, including but not limited to, that the PSP would:
 - a) Remove burdensome regulations, so the USPS can manage its budget more effectively and be more competitive with other delivery service providers;
 - b) Prohibit cuts to Saturday delivery, which would disproportionately impact rural communities, small businesses, and senior citizens. Further, the bills would retain Saturday deliveries, reinstate overnight delivery standards, and prevent shutdowns of mail sorting centers;
 - c) Direct the USPS to look for innovative new ways to generate revenue by allowing them to provide additional services, including notarizing documents, issuing hunting and fishing licenses, and allow shipments of wine and beer. Further, these bills call for the establishment of a commission to explore other ways the United States Postal Service could generate new revenue and thrive in the 21st century; and
 - d) Provide additional oversight and transparency to the USPS's plan to close, relocate, or sell 3,270 post offices, including historic buildings in the Cities of Berkeley, Burlingame, Fullerton, Glendale, Huntington Beach, La Jolla, Palo Alto, Redlands, Santa Barbara, Santa Monica, South Gate, Ukiah, and Venice.
- 2) Resolves that the California Legislature urges the U.S. Congress to pass the PSP, as contained in S. 316 and H.R. 630.

FISCAL EFFECT: None

COMMENTS:

- 1) Author Purpose: According to the author, "SJR 15 will urge Congress to pass the Postal Service Protection Act of 2013 to ensure the modernization and preservation of the USPS.

The Act includes S. 316, sponsored by Senator Bernard Sanders (I-VT) and H.R. 630, sponsored by Representative Peter DeFazio (D-Oregon). This legislation will allow the modernization and preservation of the United States Postal Service and help avert further post office closures that are hurting communities in California and throughout the country.

It would eliminate the requirement that the USPS prepay health care/retirement for 75 years – a requirement placed on no other public or private institutions. It would also allow the postal service to modernize by allowing them to provide related services such as notarizing documents, issuing hunting and fishing licenses, allowing shipments of beer and wine, and establishing a business innovation commission.

It would add additional oversight and transparency of current plans to close over 3,000 post offices including historic post office buildings in California. For example; historic post offices in Palo Alto, Redlands, Santa Barbara, Santa Monica, South Gate, Ukiah, Venice, Berkeley, Santa Rosa, Burlingame, Fullerton, Glendale, Huntington Beach, and La Jolla are all for sale, sold, or under review."

- 2) Framing the Policy Issues: This resolution seeks legislative support for federal advocacy on behalf of the PSP, federal legislation designed to modernize the USPS including updating its services and restructuring the pension and health benefits of its workers.

In making the case for taking a position on federal S. 316 and H.R. 630, the resolution states key program updates including the maintenance of Saturday delivery, removal of burdensome regulations, establishment of new products better designed to meet market needs, and heightened oversight of the USPS plan to close, sell, and consolidate offices. This analysis includes information on the proposed federal legislation, challenges within the mail and shipping industry, and the historic role of the USPS in economic advancement of people of color. Suggested amendments are included in comment (7).

- 3) Federal Legislation: S. 316 and H.R. 630 were introduced in February 2013 and are a re-introduction of S. 1853 from the 112th Congress (immediate prior session). According to the Congressional Research Service, S. 316 and H.R. 630 would do the following:
- a) Sets forth rules for the recalculation of annuities for employees of the USPS and for the redetermination of surplus or supplemental liabilities under the Civil Service Retirement System. The bill also prescribes the "average pay" to be used in calculating annuities and surplus amounts;
 - b) Authorizes the transfer of surplus postal retirement contributions in FY2013 to the Postal Service Retiree Health Benefits Fund, the Postal Service Fund, and the Employees' Compensation Fund under the Federal Employees' Compensation Act and to USPS for payment of its debt obligations;
 - c) Eliminates the requirement for pre-funding of the Postal Service Retiree Health Benefits Fund;
 - d) Sets forth criteria for the closing or consolidation of postal facilities;
 - e) Allow USPS to provide any non-postal service or product in a manner consistent with the public interest;
 - f) Provides for the mailing of wine and beer sent by a licensed winery or brewery in accordance with the laws of the state, territory, or district where the addressee or agent takes delivery;
 - g) Establishes the position of the Chief Innovation Officer who shall have proven expertise and success in the postal and shipping industry and in innovation, marketing, technology, and management.

- h) Establishes a Postal Innovation Advisory Commission and requires the Postmaster General to report to specified congressional committees and the Postal Regulatory Commission on a comprehensive strategy for maximizing USPS revenue through innovative postal and nonpostal products and services; and
- i) Prohibits USPS from reducing the frequency of mail delivery to fewer than six days each week or from increasing the expected delivery time for market-dominant products.

In addition, H.R. 630 repeals the annual limitation on the percentage changes on postal rates for market-dominant products.

S. 316 has 30 co-sponsors, none of which represent California. The measure has been assigned to the Senate Homeland Security and Governmental Affairs (SHSGA). The Chair of the SHSGA is Thomas Carper (D-Delaware). There are no California members of the 17 member SHSGA committee.

H.R. 630, has 167 co-sponsors, 31 of whom are from California. The resolution has been jointly referred to the House Committee on Oversight and Government Reform (HCOGR) and the subcommittee of the House Judiciary Committee on Crime, Terrorism, Homeland Security, and Investigations. The HCOGR is chaired by California Congressman Darrell Issa (R-CA-40). Other California representatives serving on the Committee include Tony Cárdenas (D-CA-29) and Jackie Speier (D-CA-14).

In addition to the two measures identified in SJR 15, U.S. Congressman Issa introduced a potentially competing measure on July 19, 2013 (H.R.2748) which passed the HCOGR on July 24, 2013 on a 22-7 vote.

According to GovTrack.us, S. 316 has a 4% chance of getting out of committee and a 2% chance of being enacted. H.R. 630 has an 8% chance of passing its committees and a 2% chance of being enacted. GovTrack.us estimates on the passage of these two measures is slightly pessimistic, considering that the 2011-13 average was that 11% of the bills passed committee and 3% were enacted.

- 4) Status on the USPS: On a typical day, the USPS delivers mail to 152 million residential and business addresses through the U.S. including rural, urban, and suburban communities. Helping to deliver this mail are the 629,000 USPS employees who work through a network of 24,852 delivery units commonly co-located at a Post Office. In some rural places, it is the physical presence of the Post Office that defines the community. In other more urbanized settings, the Post Office provides important special services such as facilitating passport renewals and providing post office boxes and reliable shipping options for young entrepreneurs.

Even as USPS works to redefine its role within the shipping and mail delivery sector, it faces very real fiscal challenges. In federal fiscal year 2012, the USPS registered a loss of \$15.9 billion. There are a variety of contributing factors that affect both the revenues and expenditures of the USPS. On the revenue side, the volume of first class mail continues to decline as more individuals and businesses turn to the Internet to connect socially and economically. Much of the mail delivered to homes and businesses are flyers and other low cost advertising. On the expenditure side, costs continue to rise and as a government service provider, the USPS has a limited ability to substantively impact the fixed costs of wages.

Successfully addressing the current imbalance in revenues and expenditures will require systematic shifts in how the USPS does business including the types of services it offers. To help guide this transformation the USPS issued a five-year business plan in February 2013 calling for aggressive cost reductions and the pursuit of new revenue-generating opportunities. The plan is designed to achieve annual cost reductions of \$22 billion by 2016 and provide for the full repayment of the \$15 billion currently owed to the U.S. Treasury. In addition to administrative changes, the USPS five-year business plan contains recommendations for federal statutory changes including:

- a) Establishing an appropriate schedule of Retiree Health Benefit payments or allowing the USPS to provide health care outside the federal government system;
- b) Gain the flexibility to adjust delivery frequency to better match mail volumes;
- c) Resolve USPS overfunding into the Federal Employee Retirement System;
- d) Streamline current governance to enable faster decision-making on product and pricing issues;
- e) Enable the USPS to market non-Postal products and services; and
- f) Provide instructions that require labor negotiations arbitrators to take into account the financial conditions of the USPS.

The PSP, as contained in S. 316 and H.R. 630, is designed to deliver much of this comprehensive restructuring, as well as provide Congress with an opportunity to weigh in on some of the key policy changes. The issue of Saturday first class mail delivery being one example where the PSP and the Administration may not be on the same page.

- 5) Other Elements in the Federal Legislation: While SJR 15 expresses the Legislature's support for the PSP, as contained in S. 316 and H.R. 630, it does not, however, include references to all of the federal legislation's key components. Among issues not included are:
 - a) Rules for the recalculation of USPS employee annuities;
 - b) Authority to transfer surplus postal retirement contributions;
 - c) Elimination of the requirement for pre-funding of the Postal Service Retiree Health Benefits Fund; and
 - d) Authorization for the mailing of wine, beer, and other spirits.

Each of these unidentified issues are a significant policy element of S. 316 and H.R. 630. As an example, the pre-funding of future retiree health benefits represents one of the most immediate problems facing the USPS. In federal fiscal year 2012, \$11 billion of the \$15.9 billion deficit can be attributed to the accrual for mandated health care costs. [Currently, the USPS is the only government agency that is required to prefund its health care benefits.] The USPS was forced, according to its 2012 annual report, to default on its health care payments in order to conserve sufficient cash to pay for its ongoing operations. And, this is not a new phenomenon. According to the American Federation of Government Employees, without the pre-funding requirement, the USPS would have had an operational

profit between 2007 and 2010. If passed, S. 316 and H.R. 630 would eliminate the USPS's unique and unfairly burdensome pre-funding requirement.

Another policy directive included within the H.R. 630 and S. 316, but not discussed in SJR 15 relates to the elimination of the ban on shipping wine, beer, and other spirits through the mail. California is the nation's top wine producer, making 90% of all U.S. wine with an estimated domestic retail value of \$22 billion in 2012. Wine grapes consistently rank in the state's top three agricultural commodities with a farmgate value of \$3.10 billion to growers. In addition to omitting the new wine shipping provisions, SJR 15 does not mention a related measure with identical mailing provisions authored by U.S. Congressional Representative Jackie Speier (D-CA-14) H.R. 1718.

- 6) The USPS as an Employer of Underrepresented Populations: The USPS has historically played an important role within the U.S. civil rights movement. Although there have been many challenges, including documented incidences of official segregation of Black workers into the 1960s and complaints of prejudicial decisions regarding the advancing of Black workers, among other public and private entities, the USPS has also repeatedly been singled out as an example of progress.

For example, the USPS was the single largest employer of African Americans in the country in 1960. And, even though a majority of Black workers held lower-level positions, the Urban League noted: "Because of the pay and security, the P.O. is the basic foundation for the Negro community...P.O. workers have brought more homes and sent more offspring to college than any other segment of our group."

In the following year, U.S. President John F. Kennedy issued Executive Order 10925 (EO), establishing the President's Committee on Equal Employment Opportunity and appointed a number of African Americans to high profile positions including the appointment of Christopher C. Scott from Los Angeles to the position of Assistant Postmaster General for Transportation and Nancy Avery as acting Postmaster for Pacoima (made permanent in 1963).

According to the U.S. General Accounting Office report, "Diversity in the Postal Career Executive Service," at the end of the 20th century African American's constituted roughly 21% of the postal workforce, verses 11% of the civilian labor force. At the same time, African American's filled 14% of the top postal management positions.

- 7) Amendments: As noted above, H.R. 630 and S. 316 are pending in U.S. Congressional policy committees with some analysts estimating their passage this year as challenging. Even under the best case scenario, it is unlikely that the measures would emerge from committee without amendments.

Given the high likelihood that H.R. 630 and S. 316 will be amended before reaching the President, the Committee may want to consider modification of the resolution to reflect a broader support for specific policy issues contained within the federal bills. In this way, as the future of the USPS is negotiated, the policy positions of the state could be advocated without regard to the specific measure.

REGISTERED SUPPORT / OPPOSITION:

Support

California Labor Federation
California State Association of Letter Carriers

Opposition

None received

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