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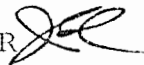
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THE WHITE HOUSE  
WASHINGTON

July 22, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JAMES T. LYNN  
FROM: JAMES E. CONNOR   
SUBJECT: Actions to Offset Postal Service Deficit

The President has reviewed your undated memorandum on the above subject and approved the following option:

Option 3: Support a change in law to reduce the 100-day waiting period, after the Postal Rate Commission has completed action.

Please follow-up with appropriate action.

cc: Don Runsfeld

THE PRESIDENT HAS ~~SEEN~~...  
EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

ACTION

MEMORANDUM FOR: THE PRESIDENT  
FROM: JAMES J. LYNN  
SUBJECT: Actions to Offset Postal Service Deficit

Unless the Postal Service is able to increase its revenues sometime before the end of the Fiscal year, we estimate that there will be an operating deficit of about \$2.5 billion during Fiscal year 1976. This includes the impact of the labor settlement negotiated with the unions over the weekend, which we are now estimating will increase Postal Service costs by about \$800 million.

The Postal Service has been unable to increase postal rates because the Postal Rate Commission has not yet completed action on the pending rate increase request filed in March 1974. Even if the Postal Rate Commission acts promptly on the pending request, it is prohibited by law from increasing rates again until 100 days have passed.

Each month's delay in implementing new rates costs the Postal Service approximately \$230 million.

Action at this time could reduce, but not eliminate, a huge deficit. I see three alternatives available:

- (1) Do nothing. If a final decision by the Postal Rate Commission is reached in September, the Postal Service could seek a new rate increase after a 100 day waiting period and place temporary rates into effect by about January 1. This would generate increased revenues of about \$1.4 billion in FY 1976 and reduce the estimated deficit to about \$1.1 billion. When current revenues become inadequate and short term cash problems develop, a one time subsidy appropriation to maintain operations could be proposed.

Pro: This action avoids any intervention in the ratesetting process.

Con: We have no assurances that the Postal Rate Commission and the Governors will be able to reach a decision on the current rate case in September. Even if they can, the deficit for fiscal 1976 would still be \$1.1 billion. A cash subsidy would be needed to maintain operations contrary to the philosophy of the Postal Reorganization Act that mail users should support the service.

(2) Support Henderson-Derwinski Bill (H.R. 7718).

This would authorize Postal Service to: Immediately implement a one-time postal rate increase without regard to the outcome of the pending rate proceeding; and change the law to require the Rate Commission to act within 10 months on future rate proposals. Bailer would use this authority to increase rates approximately 25 to 30 percent.

Pro: This action would help alleviate the postal deficit problem for fiscal 1976. If enacted and put into effect by October 1, it would reduce the FY 1976 deficit to about \$400 million.

Con: Support for this legislation could tie the Administration to the next postal rate increase. Further, it tends to subvert the current rate process by allowing Postal Service to totally disregard the outcome of the pending case.

(3) Support a change in law to reduce the 100-day waiting period for the next rate increase. This legislative provision would allow the Postal Service a one-time authority to place new temporary rates into effect 20 days (rather than 100 days) after the Rate Commission transmits its decision on the current rate case to the Governors.

Pro: This alternative minimizes changes in the current ratesetting process and Administration involvement in those changes. It allows the Rate Commission to complete action on the pending case, while allowing the Postal Service to follow-up quickly with a rate increase. The Rate Commission decision on rate levels would be the base for determining the next rate increase. It would

permit a rate increase 80 days earlier than in option #1, thereby increasing revenues by nearly \$700 million compared with option #1.

Con: Any change in the law, however minimal, could be construed as compromising the principles of the 1970 Act. There is no assurance of when the Commission will transmit its recommended decision on the current case or what that decision will be. It is possible that the Rate Commission could delay a final action for several months, thereby substantially reducing potential revenues.

#### Decision

- \_\_\_\_\_ Option 1: Do nothing.
- \_\_\_\_\_ Option 2: Support the Henderson/Derwinski legislation.
- NR1 \_\_\_\_\_ Option 3: Support a change in law to reduce the 100-day waiting period, after the Postal Rate Commission has completed action.

#### Recommendation

OMB recommends that you select Option 3.