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CHANGES IN HIGHWAY POST OFFICE CONTRACTS

GOVERNMENT
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HEARING BEFORE THE COMMITTEE ON OFFICE AND CIVIL SERVICE USE OF REPRESENTATIVES EIGHTY-SEVENTH CONGRESS

FIRST SESSION

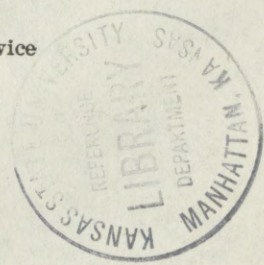
ON

H.R. 4667, H.R. 6695, and H.R. 7540

BILLS TO AMEND TITLE 39 OF THE UNITED STATES CODE
WITH RESPECT TO THE TRANSPORTATION OF MAIL BY
HIGHWAY POST OFFICE SERVICE, AND FOR OTHER PURPOSES

AUGUST 8, 1961

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Committee on Post Office and Civil Service



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CHANGES IN HIGHWAY POST OFFICE CONTRACTS

TUESDAY, AUGUST 8, 1961

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met, pursuant to call, at 10 a.m., in room 215, House Office Building, Hon. Catherine D. Norrell (chairman of the subcommittee) presiding.

Mrs. NORRELL. The subcommittee will come to order.

This subcommittee was appointed to consider H.R. 4667, H.R. 6695, and H.R. 7540, which propose to authorize the Postmaster General to substitute truck service, in certain instances, for highway post office services. The subcommittee members are Mr. Hagan, Mr. Udall, Mr. Cunningham, Mr. Barry, and I was designated chairman.

(H.R. 6695 and H.R. 7540 follow:)

[H.R. 6695, 87th Cong., 1st sess.]

A BILL To amend title 39 of the United States Code with respect to the transportation of mail by highway post office service, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsections (b) and (c) of section 6352 of title 39, United States Code, are amended to read as follows:

"(b) The Postmaster General in contracts for highway post office service may provide for—

"(1) increasing or decreasing the mileage, or the addition of new route segments provided that the original route and the new segment so added have at least one common terminus point;

"(2) increasing or decreasing the hours of service required;

"(3) other service changes;

"(4) the readjustment and compensation either upward or downward to reflect the service changes and increased or decreased costs attributable to changed conditions occurring during the contract term over which the Postmaster General or the contractor have no control and which could not reasonably have been foreseen at the time the original bid was made or the proposal for renewal filed;

"(5) the imposition or remission of fines and penalties by the Postmaster General for delinquencies in the performance of the contracts; and

"(6) other matters deemed appropriate by him.

"(c) If the Postmaster General, in his discretion, shall determine that highway post office service is no longer required on a route already under contract, he may alter existing highway post office contracts so as to permit the substitution of star route service in lieu of highway post office service for the remainder of the contract period at a rate not in excess of the present rate. The Postmaster General is authorized to extend or renew said contracts for substituted star route service for successive periods of not more than four years at the rate of compensation prevailing at the end of the preceding contract term.

"(d) If the Postmaster General shall cancel any contract for highway post office service, he shall make the following indemnities on account of such cancellation;

"(1) not in excess of one-twelfth of the compensation which would have been earned in one year if the service discontinued had been performed; and

"(2) an equitable allowance on account of any vehicle made surplus resulting from such discontinuance of the service. The equitable allowance shall be equal to the difference between the depreciated value which the vehicle made surplus had as of the time the vehicle was first used to perform the contract, less the sum of the following:

"(A) depreciation on account of the use of the vehicle in the performance of the contract, computed by multiplying one seventy-second of the original cost of the vehicle when new by the number of months, or parts of months, the vehicle was used in the performance of the contract;

"(B) new proceeds realized by the sale or disposal of the vehicle made surplus by the discontinuance of the service."

[H.R. 7540, 87th Cong., 1st sess.]

A BILL Relating to the transportation of mail by highway post office service, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (b) (1) of section 6352 of title 39 of the United States Code is amended to read as follows:

"(1) increasing or decreasing the mileage, or the addition of new route segments provided that the original route and the new segment so added have at least one common terminus point;"

SEC. 2. Section 6352 of title 18 of the United States Code is further amended by striking out subsection (c) and inserting in lieu thereof the following:

"(c) In the event that the Postmaster General, in his discretion shall determine that highway post office service is no longer required on a route already under contract, he may alter existing highway post office contracts so as to permit the substitution of truck service in lieu of highway post office service for the remainder of the contract period at a rate not in excess of the present rate. The Postmaster General shall have authority to extend or renew said contracts for substituted motor truck service for successive periods of not more than four years at the rate of compensation prevailing at the end of the preceding contract term.

"(d) In the event that the Postmaster General shall cancel any contract for highway post office service, he shall make the following indemnities on account of such cancellation:

"(1) One-twelfth of the compensation which would have been earned in one year if the service discontinued had been performed; and

"(2) An equitable allowance on account of any vehicle made surplus as a result of the discontinuance of service. The equitable allowance shall be equal to the difference between the depreciated value which the vehicle made surplus had as of the time the vehicle was first used to perform the contract, and the sum of (A) depreciation on account of the use of the vehicle in the performance of the contract, computed by multiplying one seventy-second of the original cost of the vehicle when new by the number of months, or parts of months, the vehicle was used in the performance of the contract, and (B) the proceeds realized by the sale or disposal of the vehicle made surplus by the discontinuance of the service."

Mrs. NORRELL. H.R. 6695 is a clean bill introduced by our colleague, Representative James C. Davis, to supersede H.R. 4667, on the basis of a series of conferences with officials of the Post Office Department and the General Accounting Office. H.R. 6695, therefore, will effect the same general purpose as H.R. 4667, but by a more appropriate amendment to the United States Code, and also will take care of certain additional problems relating to highway post office and related postal transportation services.

In summary, this legislation would make three substantive changes in existing law. First, it would allow new segments to be added to highway post office routes. Second, it would permit the Postmaster General to convert highway post office routes into star routes. And

third, it would provide for payment of allowances or indemnities to contractors in the event of cancellation or material curtailment by the Post Office Department of highway post office contracts.

The legislation serves two desirable purposes. It will grant the Post Office Department a needed measure of flexibility in making adjustments and changes in highway post office services which are found to be in the public interest, and at the same time will provide for equitable settlements to protect the investment in special-purpose equipment made by highway post office contractors.

Our first witness this morning is Representative James C. Davis, of Georgia, the author of H.R. 4667 and H.R. 6695, and I will ask Judge Davis to explain the purpose and effect of this legislation in greater detail.

Judge Davis, it is a pleasure to recognize you at this point, and you may proceed as you see fit.

**STATEMENT OF HON. JAMES C. DAVIS, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF GEORGIA**

Mr. DAVIS. Thank you, Madam Chairman. It is a privilege to appear as a witness before our distinguished colleagues on the Post Office and Civil Service Committee in support of this legislation which I have sponsored.

Since the chairman has most ably summarized the general purpose and effect of the bills before you, I will merely supplement her statement.

H. R. 6695 is, in fact, a bill replacing H.R. 4667 and was developed in cooperation with representatives of the Post Office Department, the General Accounting Office, and the staff of this committee and the House Legislative Counsel's office. I believe that the bill in its present form meets all of the requirements of the Post Office Department and the General Accounting Office and will provide for correction of the undesirable conditions which have arisen from the standpoint of highway post office contractors under existing law.

The bill amends section 6352 of title 39, United States Code, in several respects.

The first amendment is to paragraph (1) of subsection (b) of section 6352, and appears in lines 7 through 10 on the first page of the bill. The existing paragraph (1) merely authorizes the Postmaster General to provide for increasing or decreasing mileage in contracts for highway post office service. The amendment extends this to authorize the Postmaster General to provide, under such contracts, for the addition of new route segments if the original route and the new segment have at least one common terminus point.

The remainder of subsection (b) of the existing law would remain unchanged.

The second change made by the bill is a replacement of subsection (c) of section 6352 of title 39. The present subsection (c) merely permits the Postmaster General to cancel any highway post office contract and to provide for an indemnity payment for such cancellation without any further definition or guidelines.

The language beginning at line 16 on page 2 of the bill inserts a new subsection (c) authorizing the Postmaster General to permit the sub-

stitution of star route service in lieu of highway post office service for the remainder of any contract period when he finds that highway post office service is no longer required. It also authorizes the Postmaster General to extend or renew any such substituted star route service for periods of not more than 4 years at the rate of compensation in effect at the end of the preceding contract term.

The language beginning at line 3 on page 3 of the bill is an extension for the existing subsection (c) of section 6352, and is contained in a proposed new subsection (d). This new subsection (d) amplifies the existing authority of the Postmaster General to indemnify contractors for highway post office service when their contracts are canceled and places in the law appropriate guidelines (not now present) for determination of costs and losses which should be indemnified and for the calculation of the amounts of indemnity payments.

I sponsored this legislation on the basis of evidence presented to me early this year that it would be in the public interest, as well as in the interest of equity to the contractors concerned, to amend existing postal statutes relating to highway post office service so as to permit contractors for such service to substitute other appropriate service when their contracts are canceled or reduced in scope. H.R. 6695 would serve these two highly desirable purposes.

When an individual or a firm bids on a highway post office contract a 10-year period of required service is anticipated so that, if a contract is canceled, the contractor is left high and dry with expensive equipment that has no reasonable market value because of its specialized design and construction.

I have been informed, for example, of certain cancellations of contracts made by the Post Office Department in one State, as a result of which specialized equipment representing a heavy investment by contractors no longer could be used on the highway post office route and is in dead storage on an open lot. Obviously, this causes a very serious loss which must be sustained by the operators of the service. Enactment of H.R. 6695 would open up to them the possibility of substituting other suitable service, where consistent with the public interest, so as to salvage at least part of the original investment in special equipment and thereby reduce the loss. There is, I understand, already on the statute books a similar provision to the effect that when railway post office service is curtailed the railroads may provide a substitute transportation service.

Madam Chairman, I am convinced that enactment of this legislation is in the interest of both the postal service and those who contract with the Post Office Department to furnish essential transportation services, and earnestly hope that my bill will be approved by the subcommittee.

Mrs. NORRELL. Are there any questions by members of the subcommittee?

We thank you, Judge Davis, for appearing before the subcommittee and giving us your testimony.

This morning we are in receipt of some suggestions for amendment to Judge Davis' bill by the Post Office Department. A copy of the Department's report will be made available to you, Judge Davis, and if you would like to report back to the committee on these amendments, we shall be glad to hear your views.

Mr. DAVIS. Thank you, Madam Chairman. I had understood that possibly some amendments would be suggested. I have not seen them, but I presume they will be available. I shall certainly examine them very promptly and then communicate with you.

Thank you very much.

Mr. HAGAN. Madam Chairman, I would like to say I appreciate the splendid explanation of this legislation, and I can assure you there is one question we do not have to ask: Is it going to cost the Government too much? Since Congressman Davis is sponsoring the bill, I am sure it is a good bill.

Mr. DAVIS. Thank you so much. Thank you for the opportunity of testifying.

Mrs. NORRELL. Thank you, Judge Davis.

As most of you know, Judge Davis is a member of the full Committee on Post Office and Civil Service, and a very valuable member.

We are privileged at this time to have with us the author of another of the bills, H.R. 7540. This gentleman is a representative from my own State of Arkansas and a close personal friend. He is also a former member of the Post Office and Civil Service Committee. In fact, I took his place on the committee. So we are very happy to have Representative Dale Alford, whose testimony we shall hear at this time.

STATEMENT OF HON. DALE ALFORD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. ALFORD. Thank you, Madam Chairman. I may add it is a real pleasure for me to return to the committee on which I enjoyed so many happy and profitable experiences as a member.

I feel it is particularly appropriate, also, that this important subcommittee is chaired by the gentlewoman from Arkansas, Mrs. Norrell, who is such a valuable member of our Arkansas delegation in the Congress. I share your deep interest in this legislation to improve the postal service.

I am pleased to note that the official report of the Post Office Department on my bill, H.R. 7540, endorses this legislation, although certain amendments are recommended in the report. It is my understanding that the amendments would have the effect of conforming my bill to the provisions of H.R. 6695, the similar bill introduced by my good friend, the gentleman from Georgia, Mr. Davis. With this understanding, and the further assurance that the basic purposes of my bill to strengthen the postal service and to provide equitable treatment for highway post office contractors would not be materially altered, I concur in the amendments.

As you have so well pointed out, Madam Chairman, three desirable changes would be accomplished by enactment of this legislation. An existing highway post office route, established by contract, could be extended by the addition of any segment which has a common terminus point with the original route. The Postmaster General, when he finds that highway post office service is no longer required on an existing route, could alter the contract to permit the substitution of star route service and could extend or renew the contract for such substituted star route service for certain periods without change in rate of com-

pensation. Present law authorizing indemnity payments in the event of cancellation of a highway post office contract would be strengthened by the addition of statutory language providing standards and guidelines as to items subject to indemnity payments and methods of calculating the payments.

This legislation is necessary in the interest of efficiency and economy in the postal service without sacrificing the principles of justice and equity in dealings with contractors who work in cooperation with the Post Office Department to provide highway post office services. I strongly recommend approval of the legislation by this subcommittee.

Thank you for permitting me to be here this morning.

Mrs. NORRELL. Are there questions or comments by members of the subcommittee?

Congressman Alford, as a proponent of this particular legislation, I shall be happy also to make available to you the changes which the Post Office Department would like to have in the bill.

Mr. ALFORD. Thank you, Madam Chairman. I appreciate that.

Mrs. NORRELL. I am so happy that you came back to the committee.

Mr. ALFORD. It is always a pleasure. Thank you, Madam Chairman.

Mrs. NORRELL. Our next witness is the Honorable Robert E. Cook, a Member of Congress from the State of Ohio. Mr. Cook, we shall be glad to hear you at this time.

STATEMENT OF HON. ROBERT E. COOK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. COOK. Madam Chairman, I sincerely appreciate this opportunity to testify in favor of H.R. 6695 and H.R. 4667. I have a keen interest in these two proposals, not only because they will greatly facilitate our already extremely efficient postal service, but because they will go a long way in granting some security and stability to our highway post office contractors and their suppliers.

Looking at the Nation's highway post office contractors as a whole, I feel that it is only fair that they should be compensated for any losses they would receive as a result of the cancellation of a Federal Government contract by the Post Office Department. Many of these contractors run the risk of having their entire business collapse as a result of such a cancellation, since they can ill afford to be caught with expensive highway post office carrier trucks and equipment on their hands as idle capital, reaping no returns.

But, I would like to delve into this aspect a bit deeper, if I may, Madam Chairman. In my district are producers of these highway post office carriers. These firms are faced with a serious crisis in that their customers, the highway post office contractors, are reluctant to confirm orders for new equipment for fear that they will not get a return on their initial investment if the Post Office cancels their contract. Thus, the producers find their inventories building up, and they are faced with the situation of laying off employees. I need not mention the gravity of this action in an area that is already economically depressed.

Neither the producer nor the contractor is to be blamed for such action, however. The real cause lies in the present postal law which allows the Post Office Department to cancel or change its highway post

office routes without justly compensating the contractor. Also, under another present postal law, each highway post office contractor is required to replace his carriers every 8 years. This law insures safety and efficiency in our highway postal system. But, I would like to point out that many times contractors are still reluctant to reinvest in new machinery due to the present instability of the law concerning highway post office contracts. Once again, this means that producers of the carriers are hit by a lack of orders, which in turn means a possible layoff for the employee.

Thus, due to a loophole in the present post office laws, we have a vicious circle of economic instability and hardship. None of the parties concerned—the Post Office, the highway post office contractor, the producers, and we lawmakers—intended this situation when the present laws were enacted. Therefore, Madam Chairman, I heartily recommend the passage of H.R. 6695 and H.R. 4667.

Mrs. NORRELL. Our next witness is Mr. Frederick E. Batrus, executive assistant to the Assistant Postmaster General, Bureau of Transportation, Post Office Department.

Mr. Batrus.

STATEMENT OF FREDERICK E. BATRUS, EXECUTIVE ASSISTANT TO THE ASSISTANT POSTMASTER GENERAL, BUREAU OF TRANSPORTATION, POST OFFICE DEPARTMENT, ACCOMPANIED BY E. L. WILLIAMS, DIRECTOR, HIGHWAY TRANSPORTATION; ADAM G. WENCHEL, ASSOCIATE GENERAL COUNSEL; AND JACK T. DiLORENZO, ASSISTANT GENERAL COUNSEL

Mr. BATRUS. Madam Chairman, with me are Mr. E. L. Williams, Director of Highway Transportation of the Bureau of Transportation, on my right; and on my extreme left, Mr. Adam G. Wenchel, who is Associate General Counsel and has had supervision over legislative matters; and his assistant, the Assistant General Counsel, Mr. Jack T. DiLorenzo.

My name is Frederick E. Batrus. I am Executive Assistant to the Assistant Postmaster General, Bureau of Transportation. The Post Office Department is grateful for this opportunity to appear this morning before your subcommittee to present its position on H.R. 6695 and H.R. 7540.

As I pointed out in the Postmaster General's report to the chairman of the Committee on Post Office and Civil Service, the Post Office Department is in favor of the objectives of the bills but believes that they should be amended in certain respects. Both bills are substantially the same. For convenience, I will specifically discuss H. R. 6695.

Highway post office service was first commenced in 1941. Two types of service were established:

1. Government owned and operated; and
2. Privately owned and contracted for service.

For a time, the Department utilized both types of service. Later it was decided to be more in the Government's interest to utilize only privately owned and contracted for service.

Until 1956, highway post office service was obtained in accordance with the laws applicable to the star route service. However, a number of requirements of such laws were found to hamper the efficient uti-

lization of highway post office service. Accordingly, in 1956 an act specifically dealing with highway post office service was passed.

Highway post office vehicles are specially constructed and equipped. Each vehicle now costs at least \$26,000. They are not easily adaptable to other uses. However, they can be stripped of their interior fixtures and be used in bulk mail transportation in some instances. As an example of their lack of easy adaptability, when Government-owned highway post office vehicles were sold, their sale price averaged about \$600 for each vehicle.

The contractors expressed concern over the fact that their contracts could be terminated at any time, and that under their contracts they were entitled to but 1 month's payment as indemnity for the terminated service. If termination occurred early in the contract term, this could impose extreme financial hardship upon the contractors because of their investment in specialized equipment. We may assume, however, that as prudent businessmen, the bidders included a contingency factor in their bids on account of possible premature cancellation.

In 1960 the Department revised the general provisions of its highway post office contracts. A few new contracts now contain a provision whereby highway post office contractors are afforded some protection against premature cancellations. This relief takes the form of payment of an equitable allowance on account of highway post office vehicles made surplus by the termination. However, under past decisions of the Comptroller General, there is serious doubt that we could legally make such a provision applicable to contracts already in existence.

Since adoption of the new provision, we have awarded four highway post office contracts for single routes. There are still 160 highway post office routes under 84 contracts which do not have the new provision permitting payment of the equitable allowance. The contractors on those routes could suffer extreme financial hardship or possible bankruptcy if the Department were required, for postal service reasons, to curtail or terminate existing contract service resulting in vehicles being made surplus.

The Department has been making changes in its mail operations which has required and will continue to require modification of a number of existing highway post office contracts. Many of these changes result in highway post office vehicles becoming surplus. The Post Office Department is cognizant of its obligation to improve mail service. Nevertheless, it does not wish to cast an unreasonably heavy burden on its highway post office contractors who are performing satisfactory and whose contracts or services are terminated or curtailed without fault on their part. In the interest of fairness, we believe that because of the specialized vehicles involved, it would be equitable for the Department to assume a part of the financial burden incident to termination or curtailment of highway post office service. The pending bill contains a provision with respect to an equitable allowance for these vehicles. With the amendments which I will specify later, the Department supports the enactment of such a provision.

The pending bill also provides that if replacement star route service is needed in lieu of the highway post office service which is terminated or curtailed, and if this service can be furnished by a highway

post office contractor, the Postmaster General may convert the existing highway post office contract into a star route contract. This conversion to a star route contract would, of course, be subject to the consent of the contractor. Present law does not permit this conversion. Advertising for bids on a new contract is required in every such case.

H.R. 6695 would permit the substitution of a star route service operated by the highway post office contractor, for the remainder of the contract period at a rate not in excess of the present highway post office contract rate. The Department favors the enactment of such a provision, but only if it contains an appropriate amendment which would limit the converted contract rate to an amount which would not be in excess of that being paid for like star route service in the competitive area, rather than the highway post office contract rate.

I would like now to discuss briefly the specific provisions of H.R. 6695.

Existing law applicable to highway post office contracts contains no specific provision limiting the extent to which the contract mileage may be increased. The elimination of the 50-mile limitation applicable to star route contracts was one of the changes intended by the Highway Post Office Act enacted in 1956. Nevertheless, in one case the Comptroller General held that the Department's action in discontinuing one segment of a contract and substituting another segment of substantially the same length was improper, if this were done without advertising for bids.

Because of the rapid changes occurring in mail transportation, the Postmaster General should be permitted to make necessary changes in highway post office routes provided that the mileage on the route is not so unreasonably increased as to transform the operation into an entirely new service. Because of the expense of specialized vehicles and the fact that the contractor must have at least one standby vehicle, we believe it to be in the interest of the Government to permit the discontinuance of one segment and the addition of a substitute segment.

Accordingly, the first change which would be made by H.R. 6695 would be to amend the present law, specifically 39 U.S.C. 6352(b) (1), so as to permit the addition of new route segments without having to advertise for bids, provided that the original route and the new segment so added, have at least one common terminus. This is reflected in the proposed paragraph (1) of subsection (b) on page 1 of H.R. 6695. The remaining paragraphs (2), (3), (4), (5), and (6) of subsection (b) would reenact existing provisions of law.

The second change proposed by H.R. 6695 is the substitution of a new subsection (c) which would permit the conversion of highway post office contracts to star route contracts without the requirement of advertising for bids. The Department believes that this authority should be conferred, but urges that H.R. 6695 be amended so as to make it clear that (1) the conversion be made only with the consent of the contractor, and (2) the rate of pay after the conversion may not be in excess of that paid for the performance of similar star route service in the competitive area involved. In addition to the foregoing amendments, it is suggested also that by way of clarification the proposed subsection (c) should contain a specific provision which

would make it clear that the residence requirements applicable to ordinary star routes are not applicable to highway post office contracts when converted.

Mr. HAGAN. Do I understand that to mean, if a contractor has a contract in existence hauling the mail across a State, he could be given a contract in another section of the State for a short star route without having bids for that particular new star route?

Mr. BATRUS. No, Mr. Congressman. It would be a conversion only in the same general area which he was serving as a highway post office contractor with his highway post office vehicles. It would not be an entirely new area in a different section of the State, as we understand the intention of the bill. It could not encroach upon other areas or other star route contracts already in existence.

Mr. HAGAN. That is what I was wondering about. For instance, if a star route should become open in my district, I wondered if the local people would be given an opportunity. Does it mean they would not be given an opportunity to bid on it and some contractor from somewhere else could be given the route without a bid?

Mr. BATRUS. That would not be the case, Mr. Congressman. It would be limited generally to the area in which he was operating as a highway post office operator.

Mr. WILLIAMS. That is correct.

Mr. BATRUS. The third basic change proposed by H.R. 6695 is reflected in a new subsection (d). This provision is intended to permit the payment of an equitable allowance in those cases in which the existing highway post office contracts do not contain a provision allowing the payment of an equitable allowance on account of specialized vehicles made surplus because of cancellation or decrease in the highway post office service. The proposed subsection would confer a new right in those cases in which the right to an equitable allowance is not contained in existing contracts. And, as I pointed out earlier, only four of our present highway post office contracts contain a provision for an equitable allowance upon termination or curtailment of highway post office service.

H.R. 6695 would provide as an equitable allowance, upon termination or curtailment of the service, the full amount of the undepreciated value of the vehicle made surplus, less the proceeds realized by its sale or disposal. The Department does not believe that the highway post office contractors should be granted, by law, full reimbursement for a risk for which they presumably have made either a complete or partial allowance at the time they entered into the contract. It may be assumed that those highway post office operators, who have no right to an equitable allowance under existing contracts, had included a contingency factor in their bids covering the risk of possible early termination. On the other hand, a contractor who now has such a right by virtue of his contract may reasonably be assumed not to have included such a contingency factor. Accordingly, we believe that the second sentence of subsection (d) (2) should be reworded to read as follows:

The equitable allowance shall be equal to one-half of the difference between the depreciated value which the vehicle made surplus had as of the time it was first used to perform the contract and the sum of (A) depreciation which occurs during the performance of the contract and (B) the proceeds realized by the sale or disposal of the vehicle made surplus by discontinuation of the service.

For the purposes of determining depreciated value as of the time that the vehicle was first used in the performance of the contract and the depreciation which occurs during the performance of the contract, the vehicles will be deemed to have a service life of 72 months and the vehicles will be deemed to uniformly depreciate 1/72 of their original sales price for each month.

One further point with respect to the question which might be raised under the present proposals of the bill, as to whether a contractor may be entitled to receive an indemnity and an equitable allowance for his vehicles in situations where his highway post office contract is converted to a star route contract. The Department does not believe that a contractor should receive both benefits. He should not be entitled to an indemnity or the vehicle allowance if his contract is converted to a star route.

Accordingly, we believe a new subsection should be added which would provide that if the contract is converted, the contractor shall not in any case be entitled to either the indemnity or the equitable allowance.

Madam Chairman, I have tried to outline very briefly the Department's position. In order that we may make our position completely clear with respect to the amendments urged by the Post Office Department, I have prepared a separate paper listing the specific amendments proposed for H.R. 6695 which I would like to submit and have made a part of the record.

Madam Chairman, we also have here a copy of a letter addressed to Hon. Tom Murray, chairman of the Committee on Post Office and Civil Service, dated August 8, 1961, from the Postmaster General, which is our report on the bill in question, H.R. 6695, which I also would like to insert in the record.

Mrs. NORRELL. Without objection, the documents will be included in the record at this point.

(The proposed amendments and letter follow:)

AMENDMENTS PROPOSED BY THE POST OFFICE DEPARTMENT TO H.R. 6695

1. On page 2 of the bill, delete the first sentence of proposed new subsection (c), lines 16 through 22, and substitute a new first sentence reading as follows:

"If the Postmaster General determines highway post office service is no longer required on a route already under contract, the Postmaster General may, in his discretion and with the consent of the highway post office contractor, alter the existing highway post office contract to permit the substitution of star route service in lieu of highway post office service for the remainder of the contract period at a rate not in excess of that being paid for like star route service in the area involved."

2. On page 3, following the end of the last sentence of subsection (c), add a new sentence beginning at line 2, reading as follows:

"The provisions of section 6420 of this title shall not apply to the contracts altered or renewed pursuant to the authority conferred by this subsection."

3. On page 3, delete the second sentence of proposed subsection (d) (2), which second sentence begins on line 11 and ends on line 24, and substitute the following:

"The equitable allowance shall be equal to one-half of the difference between the depreciated value which the vehicle made surplus had as of the time it was first used to perform the contract and the sum of (A) depreciation which occurs during the performance of the contract and (B) the proceeds realized by the sale or disposal of the vehicle made surplus by discontinuation of the service. For the purposes of determining depreciated value as of the time that the vehicle was first used in the performance of the contract and the depreciation which occurs during the performance of the contract, the vehicles will be deemed to have a service life of 72 months and the vehicles will be deemed to uniformly depreciate 1/72 of their original sales price for each month."

4. On page 3, following the end of proposed subsection (d), add a new subsection (e) reading as follows:

"(e) If a contract is altered pursuant to subsection (c), the contractor shall not be entitled to either the indemnity or to the equitable allowance provided either in subsection (d) or by the terms of his contract."

OFFICE OF THE POSTMASTER GENERAL,
Washington, D.C., August 8, 1961.

HON. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: We reply to your request for a report on H.R. 6695, proposing to authorize the Postmaster General to substitute truck service, in certain instances, for highway post office service.

We favor enactment of this legislation.

The present law (39 U.S.C. 6352) permits the Postmaster General to increase or decrease the mileage of HPO routes. While this statute places no limitation on the extent to which the routes may be expanded, the Comptroller General has ruled that general government procurement procedures would call for restraint in this practice.

Section 1(b) of the bill would give the Department a desirable flexibility in those cases in which the extensions or additions would be to its advantage.

As a result of the introduction of the Metro plans, some HPO routes have been discontinued, thus leaving the contractors on those routes with unamortized HPO vehicles. These are specially constructed and equipped, and are not adapted to other purposes, except that perhaps they can be stripped of their interior fixtures and be used for bulk mail transportation.

Section 1(c) of the bill would delete present subsection (c) of section 6352 of title 39, United States Code. It would substitute a new subsection (c) to permit the Postmaster General to convert certain highway post office contracts to star route contracts.

Section 1(d) of the bill would add a new subsection (d) to the present law (39 U.S.C. 6352) which would permit the payment of an equitable allowance to those highway post office contractors whose contracts do not now contain a provision for such an allowance.

We believe the authority conferred by the bill is desirable. However, we suggest that the bill be amended as follows:

1. The first sentence of proposed new subsection (c) (lines 16 through 22 on p. 2 of the bill) should be deleted and a new first sentence should be added reading as follows:

"If the Postmaster General determines highway post office service is no longer required on a route already under contract, the Postmaster General may, in his discretion, and with the consent of the highway post office contractor, alter the existing highway post office contract to permit the substitution of star route service in lieu of highway post office service for the remainder of the contract period at a rate not in excess of that being paid for like star route service in the area involved."

The basic purpose of the suggested new sentence is to make it clear that the alteration may be made only with the consent of the highway post office contractor, and that the rate of pay after the alteration may not be in excess of that paid for the performance of like star route service in the area involved.

2. At the end of the second sentence of subparagraph (c) (line 2 on p. 3 of the bill) a new sentence reading as follows should be added:

"The provisions of section 6420 of this title shall not apply to the contracts altered or renewed pursuant to the authority conferred by this subsection."

Bidders for star route contracts must comply with the residence requirements contained in section 6420 of title 39, United States Code. Bidders for highway post office contracts are not required to comply with such requirements. The proposed added sentence is intended to eliminate any question that the contracts could not either be originally altered or later renewed if the contractors did not meet the residence requirements contained in section 6420 of title 39, United States Code.

3. Proposed subsection (d) is intended to permit the payment of an equitable allowance in those cases in which the existing contracts do not contain a provision allowing the payment of the equitable allowance. Proposed subsection

(d) (2) is the same as a provision appearing in paragraph 8, changes, in POD form 5466, August 1960, Highway Post Office Contract, General Provisions. All existing contracts contain the indemnity provided for in subsection (d) (1). In certain cases, subsection (d) (2) would confer a new right. It may be assumed that those contractors who have no contractual right to an equitable allowance, included a contingency factor in their bids on account of possible early termination. On the other hand, a contractor who has such contractual protection may reasonably be assumed not to have included such a contingency factor. We do not believe the contractors who have no contractual right to the equitable allowance should be reimbursed in full for a risk for which they presumably have made either a complete or partial provision. Accordingly, we believe that the Government ought not to assume more than one-half of the risk. Therefore, we propose that the second sentence of subsection (d) (2) (which appears in lines 9 through 24 on p. 3 of the bill) be reworded to read as follows:

"The equitable allowance shall be equal to one-half of the difference between the depreciated value which the vehicle made surplus had as of time it was first used to perform the contract and the sum of (A) depreciation which occurs during the performance of the contract and (B) the proceeds realized by the sale or disposal of the vehicle made surplus by discontinuation of the service. For the purposes of determining depreciated value as of the time that the vehicle was first used in the performance of the contract and the depreciation which occurs during the performance of the contract, the vehicles will be deemed to have a service life of 72 months and the vehicles will be deemed to uniformly depreciate one-seventy-second of their original sales price for each month."

4. We do not believe that a contractor should be given the benefits of being allowed to convert and also to receive an indemnity and an equitable allowance if his contract is altered pursuant to subsection (c). Accordingly, we believe a new subsection (e) should be added reading as follows:

"(e) If a contract is altered pursuant to subsection (c), the contractor shall not be entitled to either the indemnity or to the equitable allowance provided either in subsection (d) or by the terms of his contract."

The bill H.R. 7540 which is before your committee for consideration is essentially the same as H.R. 6695.

We have been advised by the Bureau of the Budget that from the standpoint of the administration's program, there is no objection to the presentation of this report to the committee.

Sincerely yours,

H. W. BRAWLEY,
Acting Postmaster General.

Mrs. NORRELL. I would like to ask what effect this legislation would have on regular star route contractors.

Mr. BATRUS. It should have very little effect, Madam Chairman, except where we are going to discontinue highway post office service and convert to star route. We are now required by law to advertise for bids for any substitute service, which means the opportunity bill, open to whoever may be interested to bid. Under this law, we would be permitted, without advertising for bids, to have the present highway post office contractor perform the substitute star route service.

I do not think that in any other respect their interest would be affected. Their present or future interest would not be affected at all. It is just the opportunity to bid that would be affected where the HPO contract is converted.

Mrs. NORRELL. You do not think it would result in discrimination in favor of any contractors?

Mr. BATRUS. We do not, not a bit.

Mrs. NORRELL. One other question came to my mind. On page 4 you refer to elimination of the 50-mile limitation applicable to star route contracts. Do you have in mind any particular number of miles, or would it be in the judgment of the Post Office Department as to where it would be feasible to add certain mileage?

Mr. BATRUS. In the case of highway post office contracts, it would be pretty much in the judgment of the Post Office Department, the judgment being as to whether the additional mileage is such as to transform it into an entirely new service for which we should advertise for bids. We have had no instance such as that. We have instances where we would like to enlarge the mileage or change the actual characteristics of the route segment, but that will be done within this limitation under the bill that there be one common terminus between the new segment and the old.

Mrs. NORRELL. You now have standards for extending the route so many families or so many blocks or miles. Would you still use that kind of standard in establishing the route?

Mr. BATRUS. I would like Mr. Williams, our Director of Highway Transportation, to answer that, if he will.

Mr. WILLIAMS. Under the standards used in extending an HPO route, we try to make the extension approximately the same as the original segment. Of course, the HPO service does not serve families as such. It delivers mail only between post offices. As we see it, this does not have any effect on the existing laws or regulations governing the extension of star routes.

Actually, the language as proposed here is very similar to legislation on the books now which permits us to negotiate with railroad companies for substitute highway service along the line of travel of the rail service. This is what is intended here. The substitute service would be in lieu of the highway postoffice service along the same line of travel. We would be guided to a considerable extent by precedent in how far we would go. We would not put in a route that would make it entirely different from the original contract.

Mrs. NORRELL. Thank you.

Are there questions by members of the subcommittee?

Mr. HAGAN. There is just one matter I want to clear up in my own mind. I realize my lack of knowledge of the contract and star route operation. Recently in my area a short star route contract expired and had to be renegotiated just a few miles distant. If an HPO contract is in operation for a much longer mileage, adjacent to the short contract route, it would not be possible upon the expiration of that particular star route for the other contractor to take it over without bids giving the local people an opportunity to renegotiate their contract?

Mr. WILLIAMS. That would be our interpretation. Down in your area, for example, we have an HPO route between Savannah and Macon. Assuming that we discontinued this route and wanted to substitute new truck service or star route service between Savannah and Macon, we would have the right then to negotiate with the present HPO contractor for the substitute service, but it would not affect any existing star route service, either in that area or anywhere else in the State. As a matter of fact, we would not even consider giving him a star route contract, except on the same line of travel where the HPO had been traveling. It would be new service, and no existing contractor would be put out by it.

Mr. HAGAN. Is there a substantial difference between a star route and an HPO contract?

Mr. WILLIAMS. Yes, sir.

Mr. HAGAN. The longer routes could not take over any of the segments that extend out without the same people being allowed to get the bids?

Mr. WILLIAMS. Not as we see it, no, sir. This would be merely a substitution of what you might call truck service for the en route distribution in the highway post office. It would permit us to do that with the consent of the contractor.

Mr. HAGAN. As I understand it, where they have been sorting the mail and dropping it off at points, there is a possibility of change to just hauling the mail to a given point for distribution there. Is that the idea?

Mr. WILLIAMS. That is right.

Mr. HAGAN. That is where the trucking business is hauling the mail.

Mr. WILLIAMS. That is correct, without distribution on the vehicle itself. We have our own postal clerks on the HPO vehicles. There would be no distribution. It would be just transportation between points, substituting truck service for transportation between the terminals.

Mr. HAGAN. Are you going to truck hauling? Is that supposed to expedite the mail?

Mr. WILLIAMS. Not necessarily, although in some cases, yes. It simply means that with the development of the metropolitan area plans and other changes in the transportation and distribution of mail, we find that the distribution on the HPO vehicles is no longer needed. We can do the distribution at terminal points. We can do all the distribution there. We can substitute truck service between these two points and do the distribution at the terminal points rather than on the road in the highway post office vehicle. In some cases it expedites the mail. In most cases, however, it is approximately the same.

Mr. HAGAN. On the contract you referred to a moment ago, from Savannah to Macon, it might expedite the mail if Swainsboro were a terminal point and the mail were dumped there and distributed from there.

Mr. WILLIAMS. That is correct.

Mrs. NORRELL. We thank you very much, Mr. Batrus and gentlemen, for your appearance this morning.

Mr. BATRUS. Thank you, Madam Chairman.

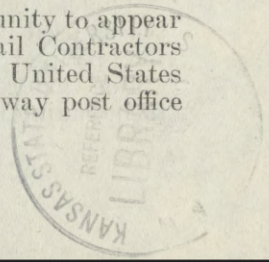
Mrs. NORRELL. Our next witness will be Mr. Lawrence E. Ernst, general manager, National Star Route Mail Carriers Association.

Mr. Ernst.

**STATEMENT OF LAWRENCE E. ERNST, GENERAL MANAGER,
NATIONAL STAR ROUTE MAIL CARRIERS ASSOCIATION**

Mr. ERNST. Madam Chairman and members of the subcommittee, I am Lawrence E. Ernst, general manager, National Star Route Mail Carriers Association, with headquarters at 301 East Capitol Street, in Washington, D.C.

First, I wish to thank you for giving me this opportunity to appear before this committee to express the views of the Mail Contractors Association, with respect to amending title 39 of the United States Code, as refers to the transportation of mail by highway post office service.



This proposed legislation was introduced by Congressman James C. Davis, of Georgia, under date of April 27, 1961. My association approves this proposed amendment to title 39 of the United States Code, and beg to submit our views concerning the proposal.

Chapter 95, section 6213, of title 39 of the United States Code now permits the Postmaster General to negotiate a contract with railroad companies, for transportation of mail over the highways, and this section is quoted below for ready reference:

The Postmaster General may permit a railroad to perform mail transportation by motor vehicle over highways in lieu of service by rail at rates or compensation not exceeding those allowable for similar service by rail.

It is my understanding that this authority was granted by Congress many years ago, in order to permit railroads to recover additional compensation for specialized equipment which could no longer be used by the railroad company due to discontinuance of train service or withdrawal of mail service from that particular train or trains.

This bill would extend the same authority to the Postmaster General as refers to contractors holding contracts for highway post office service. In most cases where highway post office service has been authorized same replaced star route service, and this bill would more or less restore the same star route service under a special contract. This would afford holders of contracts for highway post office service an opportunity to recover a part of their investment in specialized equipment thereby reducing the financial hardship that would be imposed on them when the specialized service is discontinued.

This would also place the contractors of highway post office service in the same position as is now accorded railroad companies, and permit the Postmaster General to negotiate for a new contract for the remainder of the contract term, with option for renewal, as is now provided for under the star route laws.

Approval of this section of the bill would only be extending the same rights and privileges to holders of specialized highway contract service as is now afforded railroad companies.

This bill also provides for indemnities on account of cancellation of contract, and outlines the manner in which the contractor shall be reimbursed for loss of compensation due to cancellation.

At the present time the only indemnity that can be awarded to a contractor for cancellation of his contract is 30 days which cannot under any consideration begin to reimburse him for his financial loss due to such cancellation.

The 30 days' indemnity clause was approved many years ago when most star routes were operated by horse and buggy. Old Dobbin could be turned out to pasture, the buggy parked in the barn, and the loss was not too great. That is not true today with motor vehicles being used in the transportation of mail, and I am sure you will agree. Regardless of whether or not the vehicle is being used each day or parked on a parking lot, the depreciation is about the same and in a few short months it more or less becomes useless.

This not only applies to highway post office buses, but to all motor trucks used in the transportation of mail over the highway, whether they be used for highway post office service or star route service.

For that reason I wish to recommend that consideration be given to including star route contractors as part of this bill whereby they

will be entitled to receive further indemnities on account of cancellation of their contracts.

Highway post office service was inaugurated in 1941, and for several years this specialized service was operated by the Government. Later it was determined that it would be more economical to the Government to convert this service from Government service to contract service. Until recently, highway post office contracts were governed by star route laws and of course the contractor was entitled to receive only 1 month's indemnity, in case of cancellation of contract, the same as now applies to star route contracts.

Star route contracts are now awarded for a 4-year term and they should be entitled to receive not in excess of one-twelfth of the compensation which would have been earned in 1 year if the service discontinued had been performed, in addition to an equitable allowance on account of any vehicle made surplus resulting from such discontinuance of the service.

Most star route contractors depreciate their equipment over a 4-year period and I beg of you to give consideration to allowing the contractor an indemnity computed by multiplying one forty-eighth of the original cost of the vehicle when new, by the number of months, or parts of months, the vehicle was used in the performance of the contract, and allow the contractor the difference between the cost of the vehicle and the depreciation recovered by use of the vehicle on the contract. This would be in addition to the 1 month's indemnity being allowed at the present time.

The National Star Route Mail Carriers Association recommends favorable consideration of the bill and requests holders of star route contracts be included in the law as provides for payment of indemnities due to loss of contract through no fault of the contractor.

I am happy to have been privileged to appear before you and present the views of the association, and we are indeed grateful for the many courtesies extended to the association, and all star route contractors, during the past years.

Also, I wish to assure this committee, and officials of the Post Office Department, that we want to work with you to improve the postal service and that any favorable consideration you may give our request will be greatly appreciated. Thank you.

Mrs. NORRELL. Do you agree with the amendment proposed by the Post Office Department as to the contract rate on substitute contract service—that is, the amendment which would limit the converted contract rate to an amount not in excess of that being paid for like star route service in a competitive area?

Mr. ERNST. Yes, I do agree.

Mrs. NORRELL. Do you agree with the proposed amendment requiring consent of the contractor before conversion of a highway post office route to a star route?

Mr. ERNST. Yes.

Mrs. NORRELL. Do you agree that the star route residence requirements should not apply in the event of conversion?

Mr. ERNST. Yes, I do. As you know, the present law requires that a star route contractor must live in the county or adjacent to the county through which the star route operates. That would not

be possible under our present residence of highway post office contractors.

Mrs. NORRELL. Can you express a view on the Post Office Department's proposal regarding the limits of indemnity to be paid if a highway post office contract is canceled?

Mr. ERNST. I am sorry, Madam Chairman. I just do not quite follow your question there.

Mrs. NORRELL. It appears on page 7 of Mr. Batrus' statement. "The equitable allowance shall be equal to one-half of the difference between the depreciated value," and so forth.

Mr. ERNST. I did not quite understand that. As I interpreted that proposal, it would mean that immediately when the new vehicle was purchased by the contractor, it would be considered as 50 percent depreciated before it actually started operation. That was my interpretation of the proposed amendment. If that is true, then I would not agree.

Mrs. NORRELL. Then following that, in the next paragraph, do you agree with the Post Office Department's amendment to the effect that indemnity for cancellation of highway post office contracts should not be paid if the contract is converted with the contractors consent to a star route?

Mr. ERNST. No, I do not.

Mrs. NORRELL. Those are all the questions I have. Are there questions by members of the subcommittee?

Mr. HAGAN. Referring to your previous question, the life of the vehicle is involved. Do you propose a 4-year life, whereas the Post Office Department proposes a 6-year life?

Mr. ERNST. No. The term of the contract for the highway post office is 6 years. For star routes, the term is 4 years. Perhaps I may have confused the issue by bringing into this picture the star route contracts.

Mrs. NORRELL. We thank you very much for your appearance.

Mr. ERNST. Thank you, Madam Chairman.

Mrs. NORRELL. We are glad to have with us at this time Mr. J. C. Steinmetz, of Atlanta, Ga.

STATEMENT OF J. C. STEINMETZ, ATLANTA, GA.

Mr. STEINMETZ. Madam Chairman and members of the subcommittee, my name is J. C. Steinmetz, of Atlanta, Ga. I am identified with a number of highway post office companies in the southeast representing approximately 50 highway post office vehicles. We have been operating some of these vehicles since 1949.

This matter has been so ably presented by those who have preceded me, especially the Honorable James C. Davis, Congressman Alford, and the members of the Post Office Department, who have recognized our problem, there is not much more that I can add.

The Department itself has recognized our problem and has recommended certain amendments which were brought to my attention early this morning. I have not been able to review them. I would make this comment on the suggested amendments by the Post Office. Anything they have offered is better than what we have now, because we have no indemnifying agreement, and our contracts can be canceled

on 30 days' notice. The small amount that we receive is not much assistance.

For example, we had an operation in South Carolina covering four routes, on which we had a total of, I think, six vehicles operating, and an investment of \$150,000. We operated the contract for the first 4-year period, and it was renewed. Shortly thereafter, two of the routes were canceled. That left two remaining routes away from our base of operations, which made it difficult to operate. The surplus vehicles were parked on a lot. They are still there. We have no use for them.

This means that we are operating this contract without any profit. We had no alternative but to accept the remaining portion of the contract in the hope of recovering the money which we have invested in the original vehicles.

Likewise, we had a similar situation between Macon and Savannah, where the portion of the service was reduced. We have surplus vehicles from that operation.

As brother Ernst pointed out, years ago a contractor operating under the star route made a small investment which was easily disposed of. It is much the same even with automobiles. There is a ready market for that equipment. When cars are used in a star route service they can be put on a used car lot and disposed of. However, with trucks it is much easier because they are not a specialized type of equipment—trucks and tractors are salable.

My company took a temporary contract in Georgia some years ago and I purchased brandnew tractors and trailers realizing that I had only a 1-year contract and that I would have to bid at the end of the year. I was not successful in getting the renewal contract so I took the vehicles out of service and put them on a used car lot and they were sold within 30 days so it was not much of a loss. Highway post office vehicles increased in cost over the years that I have been operating from some \$16,750 to as high as \$28,000. They are a specialized vehicle as a substitute for rail service and I am sure you are thoroughly familiar with them. There is no ready market for that equipment. I have tried to dispose of some through advertising in magazines, newspapers, and I have even had photostat pictures made and sent them over the country to manufacturing van companies and various other companies. I have not been able to find any market for the highway post office surplus equipment that we have had as a result of contract cancellations.

Just recently I was with an operator up in Buffalo who had several vehicles sitting on the lot and I offered him junk value for the parts that might be usable in some of our equipment.

In the interest of time I will conclude my argument.

As I stated, Mr. Davis has very ably presented our position and so has the Department itself, recognizing our problem. It was pointed out that there are certain extensions that are permitted to work in areas where the service might be extended to make it useful. As an example, we have a service operating between Nashville and Owensboro, Ky. That was the terminal point of the railroad train at that time of the service. The extension of service, a distance of 28 miles, would put it into a termini point such as Evansville, a greater distribution center.

A further example is the route between Macon and Savannah. There might be a time in the future when that might be extended into Atlanta where they come in contact with more rail lines and ground transportation. There is not much more that I can add to what has been presented, and in the interest of time I will conclude my remarks.

Mrs. NORRELL. Are there any questions?

Mr. BARRY. I would like to ask Mr. Steinmetz if, under the revised general provisions of the highway post office contracts in 1960, where there are new provisions affording some protection for premature cancellation, if your contract has the benefit of those new provisions?

Mr. STEINMETZ. No; none of ours. They are all older contracts.

Mr. BARRY. Made before 1960?

Mr. STEINMETZ. Yes.

Mr. BARRY. I notice that the bill calls for the possible conversion of the use of this equipment, and of the contract in particular, to a star route contract.

Is the \$25,000 vehicle suitable for a star route?

Mr. STEINMETZ. I think it would meet the needs in many areas after interior equipment is removed. It has the capacity of a normal tractor-trailer. A trailer as commonly used in transportation of mail, that is.

My company made some of those conversions but the Department ruled we could not substitute one type of service for another and, therefore, that equipment is now surplus under the old law.

Mr. BARRY. My idea of a star route is somewhat at variance with the tractor-trailer vehicle, insofar as use is concerned.

Mr. STEINMETZ. Of course, there are many tractor-trailer units used in the transportation of mail today under star route contracts, thousands of them.

There are many smaller type trucks, too, and, in my opinion, it would be very easy to convert these highway post office vehicles for certain uses of bulk mail transportation. That is usually what takes place when a highway post office is substituted, anyway.

Mr. BARRY. You would expect, or hope, under this bill, that this star route would be awarded to someone who had a highway post office contract on a negotiated basis?

Mr. STEINMETZ. On a negotiated basis, that is correct.

Mr. BARRY. Do you have any thought as to the criteria or how that would be negotiated?

Mr. STEINMETZ. I think it is a normal procedure being done with railroads. There are a number of railroad companies operating substituted type service and they negotiate contracts; for example, Central of Georgia, Frisco, Gulf of Mobile, and Southern & Northern, and a number of railroad companies that have negotiated contracts.

Mr. BARRY. You would not feel that the new contract would have to have as a basis the same amount of profit that perhaps you would anticipate in the highway post office contract?

Mr. STEINMETZ. No, I think the language of the law as proposed suggests the prevailing rate being paid, which, I might add, is lower than the highway post office contract rate. I do not recall the exact language but it is on the basis of negotiation of similar rates being made for star route contract service.

Mr. BARRY. In your particular case, where star routes are available in the area and up for bidding, have you been able to make the negotiated contracts for the two trucks that you have?

Mr. STEINMETZ. We attempted to but the legal department ruled we could not substitute one for the other under existing laws.

Mr. BARRY. But you were permitted to bid on the contracts?

Mr. STEINMETZ. We were permitted to bid, yes.

Mr. BARRY. There was no availability of negotiations you could undertake with the Department?

Mr. STEINMETZ. That is right.

Mr. BARRY. Had you been able to do that, you could have come out whole?

Mr. STEINMETZ. Yes. Likewise, if we were able to negotiate a contract for the further use of equipment, we would not expect any benefits provided in the suggested amendments by the Department. In other words, we could run out our equipment but we certainly would not expect indemnity.

Mr. BARRY. You approve the amendments the Department suggested?

Mr. STEINMETZ. I have not had a chance to read them but I would say that anything they have suggested here as an amendment is much more than we have at the present time. We have nothing.

Mr. HAGAN. Would the gentleman yield?

Mr. BARRY. Yes.

Mr. HAGAN. The primary purpose of this legislation is to alleviate the condition you were just discussing?

Mr. STEINMETZ. That is correct.

Mrs. NORRELL. Are there any more questions?

(No response.)

Mrs. NORRELL. If not, thank you so much.

Mr. STEINMETZ. Thank you very kindly.

Mrs. NORRELL. We are very happy to have you this morning.

I have a telegram from Mr. Burgess Williams which will be placed in the record, without objection. He is supporting the general opinion that Mr. Ernst has expressed here.

(The telegram follows:)

WARREN, ARK., August 7, 1961.

Mrs. CATHERINE NORRELL,
House of Representatives, Washington, D.C.:

Hearing scheduled August 8 on bill, H.R. 6695. Our contractors need these law changes. We believe it will benefit Post Office Department. Your support will be appreciated "greatly." Our general manager, L. E. Ernst, is to be there.

BURGESS WILLIAMS.

Mrs. NORRELL. We are very happy to have as our next witness, Mr. Warren A. Goff, representing the National Trailways Bus System.

Mr. Goff.

STATEMENT OF WARREN A. GOFF, NATIONAL TRAILWAYS BUS SYSTEM

Mr. GOFF. Madam Chairman and members of the committee, I will be very brief because I know you are pressed for time.

I have submitted a statement, copies of which you have, which is self-explanatory, I feel.

(The statement follows:)

PREPARED STATEMENT OF WARREN A. GOFF, ASSISTANT GENERAL COUNSEL,
CONTINENTAL TRAILWAYS

I am Warren A. Goff, assistant general counsel, Transcontinental Bus System, Inc., Dallas, Tex., more commonly known as Continental Trailways. I appear here today representing the following highway post office contractors who support H.R. 6695: Transcontinental Bus System, Inc.; General Highway Services, Inc.; Continental Southern Lines, Inc.; and Westex Transport, Inc.

Historically, the forerunner of the highway post office, hereinafter referred to as HPO, was the railway post office, hereinafter referred to as RPO. The purpose of both the RPO and the HPO is to provide a vehicle which serves a dual purpose. That vehicle not only provides a means of moving mail from one place to another but provides both the space and facilities for employees of the Post Office Department to perform various sorting operations while mail is being transported, thus speeding the delivery of mail as well as taking a portion of the load of sorting mail out of local post offices during peak periods.

In the case of an HPO operation, the Post Office Department requires that a vehicle of certain specifications be used as set forth by the Department. In order to meet these specifications, anyone wishing to operate an HPO service must buy a special made vehicle for this purpose.

An HPO is an expensive vehicle. Rising costs in the past few years have made them even more expensive. Four years ago, this vehicle cost slightly more than \$26,000. Today that same vehicle costs a little more than \$30,000. Normally, the vehicle is constructed on special order because there is not enough demand for the vehicle to manufacture even one for which a buyer is not in sight.

By the same token, the vehicle has practically no resale value. Its construction and eye appeal is not such that it could effectively compete as an intercity passenger coach. In reality, if it cannot be used for the special job for which it was built, it simply has no use. Under some circumstances, it might be possible to strip the interior of the sorting bins and use it for a makeshift truck but it is doubtful that anyone would buy it for that purpose.

A few years ago, it appeared that the Post Office Department was going to make a great deal of use of HPO's. Many long-term contracts requiring various numbers of vehicles were let. Today, the view of the Department has changed with regard to HPO's. Fewer contracts are being let. Some of the older ones have been canceled and others are in grave danger of cancellation.

The possibility of a premature cancellation of an HPO contract makes the performance of this service for the Post Office Department extremely risky because present HPO contracts provide for only an indemnity equal to one-twelfth of the yearly compensation of the contract in the event of cancellation. In order to fully understand the import of this situation, let us take a hypothetical example. Suppose that a contractor has bid on and received a contract for an HPO operation. The term of the contract is 6 years. The route requires two vehicles, purchased at a cost of \$60,000. The annual compensation is \$24,000. Contractor operates for 1 year, at which time the contract is prematurely canceled. Contractor still owes \$45,000 on the two vehicles, which have almost no resale value. He receives as an indemnity \$2,000 leaving an unpaid balance of \$43,000 on the vehicles.

Usually, a canceled HPO contract is replaced by a truck route. The route must, under existing law, be rebid. Contractor must try to renovate his two HPO's for use in a truck service and with this additional cost, plus the fact that HPO equipment is much higher priced equipment than truck equipment in the first place, he has little chance of getting the new truck route.

H.R. 6695 provides relief from these conditions for HPO contractors through several provisions. First of all section (b) (1) gives the Postmaster General the authority to make changes in an HPO route by either increasing or decreasing mileage on the route as needed, or by adding new route segments to the existing route provided that the new segment and the old route have at least one common terminus point. This may be done and the rate of compensation adjusted without resubmitting the matter for bid. With this authority the Postmaster General may be able to make enough changes in existing HPO routes to avert their cancellation, where otherwise changing conditions and rising costs would require cancellation.

It might be noted in passing that section (b) (2), (3), (4), (5), and (6) are not changed from the present law.

As already mentioned, canceled HPO contracts are often replaced by a truck route. (Sec. (c) provides that the Postmaster General can allow the HPO contractor to substitute a truck service in lieu of the HPO service without bid and at a rate not to exceed the already existing HPO contract rate. This would allow the conversion of the HPO into a vehicle usable as a truck, thus allowing the contractor to finish the contract term and pay for the vehicles.

Failing these alternatives, section (d) (1) (2) (a) (b) provides for a more equitable indemnity than presently exist in case of the complete cancellation of an HPO contract. This section sets out the precise formula for reaching the amount to be paid as an indemnity but, stripped to its essentials, it provides for the one-twelfth of the annual compensation now in effect plus an amount equal to 50 percent of the undepreciated book value of the vehicle or vehicles made surplus by the cancellation, minus the proceeds of the sale or disposal of such surplus vehicles.

The bill as originally drafted provided that the indemnity would be equal to 100 percent of the undepreciated book value of the surplus vehicles. The bill as it now stands before this committee has been amended to provide for only 50 percent. While HPO contractors feel that 100 percent is more equitable considering the circumstances, the 50 percent now in the bill is, to say the least, a far more equitable indemnity than is now available.

HPO contractors of the United States have served the Postal Department and the public well over the years, investing large sums of money in specialized equipment to meet the needs and specifications of the Department. That they did so at considerable risk becomes apparent inasmuch as many of the same contracts are in jeopardy of cancellation. Without the latitude provided for in H.R. 6695 to effect changes of various sorts, many of these contracts may well be canceled. If they are canceled, the loss will be considerable without the indemnity protection provided by H.R. 6695.

The HPO operators of this country respectfully request favorable action by this committee on H.R. 6695.

Mr. GOFF. I want to make one or two additional comments with reference to the statement.

I am Warren A. Goff, of Dallas, Tex., and I represent today several of the larger highway post office contractors as is shown by my statement.

I would simply like to say that we feel this problem really revolves around the vehicles that we are talking about, the highway post office vehicles. This thing is a rectangular box on wheels and, just to be frank with you, it is an ugly vehicle. The reason is that it is functional. It was designed to do a job for a purpose. Nevertheless, it is ugly. If it cannot do the job that it was designed for, if it cannot be a highway post office, there is no use for the vehicle.

We are in the bus business otherwise, and we know that this particular vehicle, which is the size of an intercity bus, has absolutely no passenger appeal whatsoever. If you tried to convert the thing to a passenger coach, you would go broke.

Mr. HAGAN. It might make a good camp to put down on the river?

Mr. GOFF. I think it would be an awfully good fishing vehicle, but other than that, I doubt whether it would be very much good.

At any rate, other than that suggested use, you are not going to use it for a passenger coach.

It has been suggested that the thing be stripped and used for a truck. If you own one of them and try to run your money out of it in some kind of a contract, that would be all right, but if you take the inside out and sell it for a truck, nobody is going to buy that vehicle for that purpose, to run as a truck. If they cancel that contract on you, you have a highway post office on your hands.

I believe they said that the Government sold theirs for \$600, but when you buy yours for \$30,000, you expect to amortize it over a period

of 6 years and then when you get canceled in 2 years, you just have a highway post office on your hands with no way to get your money out. That is the whole crux of the problem.

There is one facet of this thing that nobody has talked about and I would like to just say a word about it. It is not in my statement.

These vehicles cannot be run over 8 or 10 years, to be safe. If you take a bus, first-line equipment, and put it on the road, you are only going to run it about 5 years and get your miles out of it.

Then you put it on a standby basis, and it does not run much, but one of these highway post offices is on the road every day and after about 8 years you have all of the use of that vehicle that you can safely get. You need to replace that vehicle but without the indemnity provisions that this bill gives, these highway post office contractors are hard put to plunk down \$30,000 for a highway post office vehicle. Furthermore, when one of these new bids comes up for a new run, they have to take an awful close look at that thing to decide whether they even want to bid on it or not. You take quite a risk.

You also have some other problems. If we want to stay in business, we have to have these ugly vehicles whether we like them or not. Somebody has to make them.

There are two principal contractors in the United States who make highway post office vehicles. One is in Kent, Ohio, and one in California. These people have a problem in that if they do not buy enough parts for at least 15 to 25 highway post office vehicle, the price goes sky high. If you are going to make one vehicle at a time, jerry built, the cost is going to be so exorbitant that the highway post office contractor simply cannot afford it.

Here is the man who makes these vehicles and he has to buy enough parts to make up several at a time. When he makes them up, and something happens and he cannot sell them, here he sits. That is no problem of ours except that we want these folks to stay in business and provide the vehicles when we need them. That is the only problem we have in connection with that.

I have a letter from the highway products people in Kent and this is what happened to them in 1960. They surveyed the thing to see how many highway post offices they thought they could build under the outlook of what the Post Office Department looked like they would do. They decided that 15 vehicles would be the number they would build and they bought the stuff, put the 15 vehicles together, and then there was a change in the Post Office Department requirements and they sold only 12. They have four of those vehicles sitting right there today, sitting on the lot for a year.

They had to go ahead and make them up since they had all the stuff to make them with. They made the vehicles up and they still have them. How long they will have them, nobody knows. Maybe there will be a highway post office contract tomorrow and maybe not. However, they have the vehicles and they have the problem, and we are interested in their problem because we want them to be able to make these vehicles so that we can buy them as we need them. The whole problem revolves around the vehicle. Without these indemnity provisions, you have just got an economic situation that is awfully hard. We feel that this is one of the principal things this bill does along with the possibility of the substitution of truck service or the allowance for

the Post Office Department to change this route, if they need to. We feel this will go a long way in keeping them from canceling these contracts.

If you have got a route out here that does not pay, perhaps it is costing too much, maybe you could take a little chunk off it, or maybe add a little more to it. Perhaps that would save the highway post office route and, therefore, this indemnity would not be required. If they have to take it off, the highway post office contractor can substitute service for it. We can go ahead and strip that vehicle, run it out, get our money, and the Government does not have to pay us indemnity. Everybody is happy.

These provisions help us and the Post Office Department to do something about a highway post office route so that cancellation does not occur. But when it finally does, then we need this indemnity. I think it is not something that anyone could have foreseen but I think it is just something that has come about over the years. It is a situation that needs to be rectified.

The highway post office contractors believe that they need the provisions of this bill and they support it and ask your favorable consideration.

Thank you very much.

Mrs. NORRELL. Are there any questions?

Mr. BARRY. What percentage of the cost of one of these vehicles is accounted for by this unusual interior makeup?

Mr. GOFF. Frankly, sir, I do not know. I cannot answer that question specifically although there is a gentleman here who makes them and perhaps he could give you that information.

Mr. CARLSON. I am W. H. Carlson and I represent one of the principal manufacturers of these vehicles.

The answer to the question that came up is that you would have to have some point to break off. In other words, we put in letter cases, pouch racks, heating facilities, and a lot of other things, but as to the basic vehicle, if you were to use it is as suggested, a stripped vehicle for bulk haul mail, as compared to the standard vehicle with all facilities for distributing mail en route, a good horseback figure, I think, would be about \$5,000 to \$5,500, as the difference for that interior.

Mr. BARRY. A person who converted it would only have an out-of-pocket loss of that amount of money, in other words?

Mr. CARLSON. Yes; that is right. In comparing the highway post office—

Mr. BARRY. He can buy a truck to do the star route job for around \$20,000, as distinguished from—

Mr. CARLSON. There is quite a difference there. You could buy a truck to do the star route work for half of that because you do not have to have all the performance abilities built into the vehicle originally that we have to put in the highway post office vehicles. The highway post office vehicle is almost the same as intercity bus, such as you see in Greyhound or Trailways use. They cost \$40,000 to \$50,000, but it is the performance factor that they build into them, big diesel engines, heating equipment, air conditioning, all the niceties that go into those things, that make up the big difference in the original cost of either a bus or highway post office vehicle as compared to a standard truck in which you could haul this bulk mail.

Mr. BARRY. In any event, it would be a deluxe star route service?

Mr. CARLSON. It would be deluxe in two ways: Very convenient for the driver and it would have a very high performance factor capable of moving the mail longer distances, much faster than a standard truck would. That is what we mean by "performance."

Mr. BARRY. From a business standpoint, would the additional initial investment over a truck pay off over a number of years, in your opinion?

Mr. CARLSON. It would if the routes were long and you needed the performance. The high vehicle speed and grade ability which they provide with the big diesel engines in them and the economy that goes with the big diesel engine as compared with the gasoline engine.

Mr. BARRY. In your opinion, there would not be any justification if this conversion feature were granted in the new bill to come back here in another year and say, "We did convert this all right, and we did get the star routes, but we had a loss because we are now using much more expensive equipment than we would have used had we been able to get the star route" and, therefore, we should make some kind of allowance for that?

Mr. CARLSON. Only to the extent that if they get proper utilization out of the vehicle. It goes right back to the 100,000-mile-a-year figure which Mr. Goff used. That is roughly what the highway post office vehicles run in main-line service. If they are relegated to star route service where they might run only 40,000 or 50,000 miles a year, then of course you are not getting the same relative usage out of the vehicles and yet your fixed cost, depreciation, and all of that, remain the same. Your costs go up in relation to the work that you are doing.

Mr. BARRY. How many miles do you usually get from one of your vehicles, or do you expect to get? That is, the ones you are manufacturing today?

Mr. CARLSON. They run about 100,000 miles a year and most of them go 8 or 9 years.

Mr. BARRY. They must be very heavy duty?

Mr. CARLSON. That is the reason they cost so much. That is what we compare them with, main-line, over-the-road buses, such as Greyhound or Trailways.

Mr. BARRY. Thank you very much, Mr. Carlson and Mr. Goff.

Mrs. NORRELL. Thank you so much.

Mr. Goff. Thank you very much, Madam Chairman.

Mrs. NORRELL. We will now hear from Mr. Paul Nagle, president, National Postal Transport Association.

STATEMENT OF PAUL NAGLE, PRESIDENT, NATIONAL POSTAL TRANSPORT ASSOCIATION

Mr. NAGLE. Madam Chairman, my name is Paul Nagle and I am president of the National Postal Transport Association. I am about to become the administrative vice president of the United Federation of Postal Clerks, an organization of postal employees with whom our organization is merging. We represent the postal employees assigned to duty in the highway post office vehicles under discussion in this legislation here this morning. Prior to the time when the highway post office routes were let to private contractors, we also repre-

sented the operators who had come from clerical service and who were postal clerks assigned to duty as operators and as clerks in a dual capacity.

I would like to express my thanks to you, Madam Chairman, and to your committee, for allowing me to appear.

I would also like to applaud the sponsors of the legislation—Congressman Davis of Georgia and Congressman Alford of Arkansas—and I would like to declare that we in the National Postal Transport Association do wish to protect the highway post office contractors who undertake to serve the Government of the United States.

We accordingly associate ourselves with them in this objective and specifically we support the legislation as it stands before you. Also specifically we support the amendments which the Post Office Department has brought in this morning.

However, that is a point on which we end our agreement. We begin now to enter into an area of difference.

In my considered judgment, this bill is "iceberg" legislation. We are treating the effect rather than the cause. We are attempting now, by legislation, to overcome what I consider to be a benighted postal policy which has extended over a period of many years, to which Mr. Goff referred in his statement which he did not read. He said:

A few years ago, it appeared that the Post Office Department was going to make a great deal of use of highway post offices.

This, indeed, appeared to be a probable then. However, the policy changed rather drastically.

I believe that any man who is in business wants to find a productive yield, rather than to indemnify his investment. I think, accordingly, the contractors here might be making a mistake in not assuming the same position we assume, which is that the Post Office Department should fundamentally revise its policy.

I noticed in the opening remarks by Judge Davis this morning, the distinguished gentleman from Georgia, that he said this bill will provide for correction of the undesirable conditions which have arisen from the standpoint of highway post office contractors under existing law.

Again, I associate myself with that remark except that I feel the final word should not be "law," but should be "policy." The present condition results from what I consider to be a primitive policy on the part of the Post Office Department.

I wish emphatically to declare also that Postmaster General Day has said that he intends to provide the best possible service—I believe he does, and have no criticism at this point of the policy that he does intend to implement—but I am hoping now that the Senate, which has confirmed the Honorable William J. Hartigan to be Assistant Postmaster General for Transportation, that we will be able to see a firm grasp of postal transportation problems. I hope that the transfer of certain functions, taken away from the Bureau of Transportation, put in the Bureau of Operations 2 years ago, and now being returned, will effect a further improvement in the new approach.

I cannot get away from the idea that we really are not getting to the fundamentals of the problem here.

In his statement concerning the condition in Berlin, President Kennedy referred, for the third time in public recently, to the need for adjusted postage rates. The full Post Office Committee has been concerned with postage rates, and I draw the allegory because the President of the United States thought the postage rate situation sufficiently important to introduce it into the discussion on national defense. Consequently, I draw a comparison between the policy of the postal administration of the United States in regard to general transportation programs and the fact that a new transportation policy study has been undertaken at the Cabinet level by the President of the United States.

The fact is that President Kennedy called for an increase in postage rates. Part of the need for this increase is to improve the Postal Establishment, but nothing has been done to put the post office transportation policy into harmony with the overall national concern for the state of railroads, the transportation industry as a whole. I believe that while we have this present concern for the condition in Berlin and elsewhere in the world that production people will certainly not be coming in and asking for indemnification for a Saturn rocket. I believe also that since the transportation industry in the United States is important to the welfare of the United States, and certainly the Postal Establishment is so important the President has chosen to introduce it into the defense picture, that the same attitude should apply here and we should have no problem of seeking indemnification for the highway post office contractor. We should rather be seeking ways to utilize existing equipment wisely.

The remark was made here earlier in regard to the metropolitan area plan and I should like to applaud the gentleman from the Post Office Department, Mr. Williams, who spoke very frankly and correctly about the way in which such things as the metropolitan area plan had had an impact on the Post Office Department and the highway post office program.

I believe that the biggest offender probably in the field of regional policy is the Atlanta postal region. Consequently, it is highly understandable to me that the gentleman from Georgia, Mr. Davis, should have introduced his bill. It is highly gratifying to me because right now we have been trying to persuade the current leadership in the Atlanta postal region to revise a restatement of previous policy which is a retrenchment of distribution in four different highway and railway post offices in the area of the Atlanta region—specifically, Tennessee, Georgia, and Florida. The Atlanta postal region is following a formerly benighted policy of the Post Office Department that a truck is either assigned to run ahead of the train, or ahead of the highway post office transporting mail and providing distribution en route. Or the truck is assigned to run just ahead of the railway post office to siphon off the mail, and then the railway post office is no longer justified. This has become a longstanding tactic in the Atlanta region.

The other approach is that you take some of the mail off the railway post office and reduce the size of the installation. This is happening right now on the route between Knoxville, Tenn., and Atlanta, Ga. It is about to happen on the route between Nashville and Atlanta, by way of Cartersville, Tenn.

These are the two approaches which the Post Office Department uses in what we in the association call civilized sabotage.

The Post Office Department on page 3 of its statement said, and I would like to read these two or three lines:

The Department has been making changes in its mail operations which has required, and will continue to require, modification of a number of existing highway post office contracts.

Consequently, this can only leave us with the conclusion that the Post Office Department is planning further contractors. The favorite excuse is the fact that the metropolitan area plan has been set up and that we need to make use of these terminal points, and that consequently the mail must be diverted or may be diverted from the highway post offices.

Mr. Williams said in his statement this is not always a matter of improving the postal service and sometimes it is a matter of policy which needs to be fulfilled. I believe that it is incumbent upon the Post Office Department to provide indemnification to the post office contractor.

I remember a few years ago, and reference was made to it this morning, where the railway industry is allowed alternative opportunities if they are deprived of mail traffic. I remember just a couple of years ago when the Baltimore & Ohio Railroad took off the conventional railroad service between Washington and Pittsburgh. They were substituting diesel cars individually powered. The railroad at that time was prepared to purchase those cars and to install them on the route provided the Post Office Department was prepared to assure them they would be used for 10 years.

The Post Office Department was not prepared to give this assurance of amortization, and I believe this is something in which the whole transportation industry is involved, just as the President of the United States indicated, that the Nation as a whole must be concerned about the transportation picture.

I believe these contractors, and the rail industry, too, should be assured the specialized equipment they furnish will be properly amortized.

I remember the last Assistant Postmaster General for the Truman administration, the Honorable John M. Redding, diverted some of the highway post office business from Government operation to contract operation. At that time, I recall Mr. Redding said to me that he felt the ideal way was to have some contract operation and some Government operation so the Government would have a running yardstick on the actual cost of the operations of its own, and also the proper cost at which a highway post office contract might be let privately.

The gentleman from New York, Mr. Barry, asked some questions about that point which I think are highly pertinent, and I would like to sum up, if I may, by making three recommendations.

First, I think that it is appropriate to determine whether this use of vehicles might not be made less of an investment, less of a financial hazard, if, in fact, at least some of them were owned by the U.S. Government.

Secondly, we now come to the legislation before you. I feel that in reporting this bill, as I hope you will since it certainly is worth-

while legislation, there should be included in the legislative history of the bill a testimonial directed to the Post Office Department to resurvey its entire highway post office policy and to determine whether the fabric of en route distribution is being used to the end it should be; and whether, indeed, proper utilization is being made of the equipment now, and whether, in fact, the policy now being followed does not cause financial hazard to the Post Office Department through higher contract costs and also higher costs to the contractor because of the hazards involved in making this investment.

Thirdly, and I would like to tie the two together in a sense, there should be a directive to the Post Office Department saying that its program of en route distribution needs to be surveyed and that this could be done at the earliest possible moment.

With those remarks, I would like to declare my gratitude at being allowed to appear before you to present rather informally our views in regard to this legislation.

Mrs. NORRELL. Are there any questions?

Mr. BARRY. I would like to ask you if you wholeheartedly approve the postal rate hike?

Mr. NAGLE. Mr. Barry, I certainly do feel that an adjustment in postage rates is fully justified.

Mr. BARRY. Do you believe in the metropolitan system of operations as it now exists, or do you believe in the system as you know it?

Mr. NAGLE. No, sir; I do not.

In my opinion, the metropolitan area plan should have been established on a fluid framework of en route distribution routes. Specifically, we suggested that, and let me point this out: The metropolitan area plan is set out now on the premise that mail is collected in the evening from particular areas and assembled in satellite offices and then sent to concentration centers for dispatch. There are routes connecting these concentration centers within a particular metropolitan area and the position of our organization was that the sectional centers should have been set up in highway post offices because these highway post offices provide flexible scheduling and a fluid basis upon which changes in service can be premised readily. One of the reasons why we support this legislation is that the recommendations for amendment by the Post Office Department would make that sort of a reappraisal possible and would make it conceivable that the highway post office fabric could be woven into the metropolitan plan.

Mr. BARRY. You referred to our not getting to the bottom of the Post Office Department, and you referred to a rather primitive policy on the part of the Post Office Department. You feel that each one of these little matters we take up here in a way changes the policy of the Department as a whole and rather the way to really reorganize anything is to begin in a small way and do these things as they come up and as they are brought to the attention of the Congress?

Mr. NAGLE. Congressman Barry, my original reference to the primitive policy was premised on the fact that this metropolitan area plan was first instituted after the Civil War 100 years ago. This was used then and it was discarded about 10 years later. The thinking we have in regard to the subcommittee's approach to this problem is that if this bill is taken out of context of the general postal policy in regard to en route distribution, then this does nothing. On the other hand, if the

bill is considered within the framework of the need to revise the Post Office Department's attitude on en route distribution and use of highway post office vehicles, then the highway post office contractors involved would be fully protected and the purpose which this subcommittee undoubtedly intended will be attained.

Otherwise, it will simply snowball the proposition and the Post Office Department will be inclined to feel that the contractors are indemnified and there is no need to continue what they think might be relatively inefficient highway post office routes.

Mr. BARRY. Your statement in regard to primitive policy only referred to the lack of an end-use program for this type of vehicle on behalf of the Post Office Department?

Mr. NAGLE. No, sir. It was my intention to allude to the entire policy of postal transportation as being benighted and primitive.

Mr. BARRY. You are familiar with the REA battle that has just been completed?

Mr. NAGLE. I think so, sir.

Mr. BARRY. Were you in favor of that bill and the fact that the REA is in a position to divorce itself from the railroads, insofar as some of their operations are concerned?

Mr. NAGLE. Congressman Barry, I appeared in the Senate in opposition to the bill. I did so by associating myself completely and without reservation with the position of the Post Office Department. I feel that there is a hazard in giving this broader authority to the Railway Express Agency. That was the reason why we felt that it would be a mistake to enact the bill which has now become law. We thought that the increase in use of the Railway Express Agency and the elimination of the requirement that the Interstate Commerce Commission report to the Post Office Department would tend to induce a raise in postage rates for parcel post.

Since the Railway Express Agency does not serve all post offices in the United States, it was our further opinion that the Post Office Department would find it would be distributing parcel post only for the smaller unprofitable post offices and the cost of handling parcel post would rise dramatically.

Mr. BARRY. Certainly, you see in a lot of these measures an opportunity to reorganize in order to perform a service, or at least make it break even or be profitable.

The reason I ask these questions of you is because I think the way to reorganize anything is to reorganize it from the bottom. If we start reorganizing from the top, we superimpose another study group, or another little bureau to do haggling over the operations already in existence. The metropolitan plan was supposed to come along and be the cureall that was superimposed upon the Department, and your testimony now is that in many instances it is hurting in other ways and you have cited a few.

I wonder if the very thing we are doing here is that?

There is another committee meeting in another room straightening out some policy.

We had any number of these and this is not the real way to do it rather than expecting some great reorganization of 600,000 people engaged in something you cannot stop while you are reorganizing. The mail continues every day and with every little change you make, or every change that is made, there has to be a small change.

The only way you can really cure this thing is in lots of little ways, such as this. If you start changing at the top, with that mail flowing every day and 600,000 people responsible for getting that mail out, you often create a bigger mess than you cure.

I just throw that out for your comment.

Mr. NAGLE. It was not our intention to suggest there should be a wholesale survey of the Post Office Department. It was our intention rather to declare that the concern for the transportation industry in the United States cannot be conducted intelligently without considering the state of the Postal Service and the transportation policy of the Post Office Department.

Let me emphasize that in our opinion, without a statement from this committee concerning what you believe the transportation policy should be in regard to the use of highway post offices, unless this subcommittee indicates it feels the Post Office Department should make intelligent use of existing highway post office service, what you are doing here is providing a close-out assurance of payment to highway post office contractors.

They will be closed out if the present trend continues.

Mr. BARRY. The Government should be concerned with moving the mail and not in utilizing equipment that may not even belong to them. You can have a concern, such as you have here, where there is compensation involved but if you get someone in the business and then withdraw it, that is what this bill attempts to do. However, to set up as your objective the use of equipment, to me is going at it the wrong way around, the wrong way around the barn. What we want to do is to move the mail and keep our objective totally on the idea of the best way of moving the mail.

If you can use some equipment, fine, but you do not start out by trying to make equipment work, but start out by trying to get the mail there the fastest way and the best way and the cheapest way.

Whereas, I think you and I might end up in the same way, we do not get there by the same route.

I do not think you should try to force equipment. I think England has attempted over the years to force the use of machinery, some of which was outmoded, and they got themselves into a terrible position.

I do not think that kind of thinking should creep into our Government or business operations.

Mr. NAGLE. Congressman Barry, you put your finger on the nub of this very beautifully. We neither start nor end with the proposition that the existing equipment should be used. We say that the metropolitan area plan is now being used because it is here. The whole thing that we have before us is that highway post offices cannot have their potential fulfilled because the Post Office Department has a big investment in the metropolitan area plan. Consequently, I am testifying against the use of the metropolitan area plan for its own sake. I believe firmly my organization is the outstanding spokesman for a sound postal service and I declared here my support for postal rate legislation.

We have always come here and said we want the best postal service but we say the metropolitan area plan is a barrier because of the adverse impact it has had on the highway post office transportation.

Mrs. NORRELL. I want to thank the gentleman for appearing before us this morning, but we are running just a little short of time. I think we will have to conclude your testimony.

Mr. NAGLE. Thank you very much, Madam Chairman.

Mrs. NORRELL. I would now like to recall Mr. Batrus to the stand for a minute. There is one amendment, suggested by Mr. Ernst, and that is to authorize further indemnities on account of the canceling of star route contracts. I wonder if you have a view on that at this point?

Mr. BATRUS. Madam Chairman, I would like to say this: With respect to the proposal made by Mr. Ernst and subject to confirmation on superior authority, in the Department, the Department would be opposed to the inclusion in this bill of the question of indemnities for star routes.

We would prefer that any question such as that be treated as a separate matter in a separate bill. The question at hand today relates to a very limited type of operation, a specialized vehicle for which we have about 164 contract routes and about 88 contractors. The question of star routes involves about 10,000 contracts. We have vehicles of all kinds running and actually we are moving some star routes operated by horseback and we have vehicles of all kinds running from small passenger vehicles to the larger kinds of tractors and trailers.

Our view would be that this should be treated, not with this bill, but, if at all, as a separate matter.

(The foregoing view was later confirmed officially by the Post Office Department.)

Mrs. NORRELL. Thank you.

I believe that our counsel has a question he would like to put to you.

Mr. JOHNSON. Thank you, Madam Chairman.

For the record, and to clarify the effect of the proposed amendment by the Post Office Department dealing with the indemnification of contractors when their contracts have been canceled, I would like to propound a question in the form of assumed figures.

Mr. Batrus, let us assume that under the Post Office Department's proposed amendment, a new vehicle was procured by a contractor for use as a highway post office, at a cost of \$30,000. This vehicle is used as a highway post office for 4 years, which is two-thirds of the 6-year expected contract and also two-thirds of the 72 months' period specified in your amendment.

Under these circumstances, if the contract is canceled at the end of the 4-year period, is it not true that depreciation would represent, under your formula, two-thirds of the original cost of \$30,000, or \$20,000 depreciation?

If we add to this \$20,000 depreciation an assumed disposal sale price of \$2,000, we reach a total of \$22,000 that has, in effect, been amortized by the contractor through service and disposal. That is, \$22,000 deducted from \$30,000, the original cost price, which leaves \$8,000.

Under the Post Office Department amendment, indemnity would be limited to one-half of that \$8,000, or \$4,000, would it not?

Mr. BATRUS. That is correct, Mr. Johnson.

Mr. JOHNSON. Under those same circumstances, as H.R. 6695 is written, let us assume a \$24,000 annual contract rate, and that the vehicle is used for 4 years before cancellation of the contract.

Under the first paragraph of the indemnification provision of the bill, the immediate allowance would be one-twelfth of the compensation or one-twelfth of \$24,000, or \$2,000. That is under the first paragraph of page 3 of the bill.

In addition to that \$2,000, under the bill the depreciation allowance would be computed by multiplying one seventy-second of the original cost of the vehicle when new by the number of months the vehicle was used in the performance of the contract. One seventy-second of the original cost multiplied by the number of months used in this instance would represent two-thirds of the original cost. Actually, it is 4 out of 6 years, which is two-thirds, whether you state it in terms of months or years. Is that correct?

Mr. BATRUS. No, Mr. Johnson.

Perhaps I can clarify it this way. There is only one difference actually between H.R. 6695 and our amendment, and that relates to the first example you gave where, under our proposed amendment the allowance, the equitable allowance, we recover only 50 percent of the difference between the original cost and the disposal price, plus the amount of the depreciation.

You cited a difference of \$8,000 which was the remaining unamortized portion and in the case of H.R. 6695, the full amount of the \$8,000 would be the allowance made.

In the case of our amendment, it would be 50 percent of that, or \$4,000.

Secondly, with respect to the one-twelfth payment, that refers to an additional indemnity that is allowed in the case of discontinuance or full termination of the service. This one-twelfth of the annual rate is 1 month's payment which he will receive after his service is terminated. That is the indemnity which is paid today.

Under the proposed legislation, our amendment, or H.R. 6695, the contractor will get two forms of allowance; one is the 1 month's indemnity as the rate of pay, and the other is an equitable allowance covering the unamortized portion of the vehicle investment which, in our case, would cover 50 percent of the unamortized portion, and in the case of H.R. 6695, the full amount.

Mr. JOHNSON. That answers my question very clearly as to the total payment to the contractor. Under your amendment, he receives one-twelfth of the annual compensation, or \$2,000, so he would get a direct indemnity of \$2,000, and, in addition, he would get an equitable compensation of \$4,000, a total of \$6,000? On the other hand, under the bill, he would get the same \$2,000 plus \$8,000 equitable compensation?

Mr. BATRUS. That is correct, assuming that the \$2,000 represented one-twelfth of his annual rate, which is 1 month's pay.

Mr. JOHNSON. Yes.

Mr. BATRUS. This would apply in an instance where the contract is not converted into a star route.

Mr. JOHNSON. I wanted to get that on the record because I think it spells out clearly the results of the amendment itself.

Thank you, Madam Chairman.

Mrs. NORRELL. Are there any questions?

Mr. BARRY. Just one question. By no stretch of the imagination would you get this compensation if you also converted to a star route?

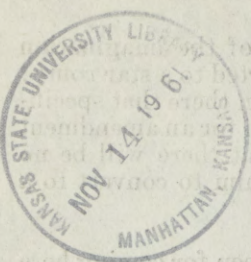
Mr. BATRUS. No, sir. We have an amendment in there that specifically precludes that. In other words, we have asked for an amendment to be included that will make that very clear, that there will be no benefits to the contractor if we consent to allow him to convert to a star route operation.

Mr. BARRY. Thank you.

Mrs. NORRELL. I want to thank all of you gentlemen for coming here this morning and appearing before our subcommittee.

The committee will stand adjourned, subject to the call of the Chair.
(Thereupon at 11:50 a.m., Tuesday, August 8, 1961, the hearing was adjourned.)





Mr. Barry: Just one question. By no stretch of imagination would you get this compensation if you also converted to star-route operation. Mr. Barry: No, sir. We have an understanding in our contract that we have a right to be included that will make that very clear, and we have to consent to allow the contractor to allow the star-route operation. Mr. Barry: Thank you. Mrs. Zerkow: I want to thank all of you gentlemen for coming here this morning and appearing before our subcommittee. The committee will stand adjourned, subject to the call of the chair. (Thereupon at 11:50 a.m., Tuesday, August 8, 1961, the hearing was adjourned.)