

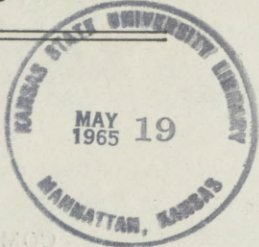
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**COST-OF-LIVING ADJUSTMENTS IN STAR
ROUTE CONTRACT PRICES**



**HEARING
BEFORE THE
COMMITTEE ON POSTAL OPERATIONS
OF THE
COMMITTEE ON
OFFICE AND CIVIL SERVICE
USE OF REPRESENTATIVES**

**EIGHTY-NINTH CONGRESS
FIRST SESSION**

**ON
H.R. 2035**

**A BILL TO PROVIDE FOR COST-OF-LIVING ADJUSTMENTS
IN STAR ROUTE CONTRACT PRICES**

APRIL 14, 1965

**Printed for the use of the
Committee on Post Office and Civil Service**



COST-OF-LIVING ADJUSTMENTS IN STAR
ROUTE CONTRACT PRICES

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COST-OF-LIVING ADJUSTMENTS IN STAR ROUTE CONTRACT PRICES

WEDNESDAY, APRIL 14, 1965

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

The subcommittee met, pursuant to notice, at 10 a.m., in room 215, Cannon House Office Building, Hon. Thaddeus J. Dulski (chairman of the subcommittee) presiding.

Mr. DULSKI. The meeting will come to order.

The hearing this morning is on H.R. 2035.

(The bill, H.R. 2035, follows:)

[H.R. 2035, 89th Cong., 1st sess.]

A BILL To provide for cost-of-living adjustments in star route contract prices

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6423 of title 39, of the United States Code is amended by inserting at the end thereof the following new subsection:

“(c) After January 1, 1965, and after each succeeding January 1, the Postmaster General shall determine the per centum change in the annual average of the Consumer Price Index published monthly by the Bureau of Labor Statistics of the United States Department of Labor from 1963 or the year immediately preceding the most recent contract price adjustment made pursuant to this subsection, whichever is later. On the basis of such determination by the Postmaster General, the following adjustments shall be made:

“(1) Effective July 1, 1965, if the change in such annual average from 1963 to 1964 shall have equaled a rise of at least 1 per centum, the contract price for each star route contract which has a commencing date earlier than January 1, 1964, shall be increased by (A) such per centum rise for the first \$5,000 of the contract price, (B) three-quarters of such per centum rise for that part of the contract price in excess of \$5,000 but not in excess of \$10,000, and (C) one-half of such per centum rise for that part of the contract price in excess of \$10,000 but not in excess of \$15,000.

“(2) Effective July 1 of any year other than 1965 if the change in such annual average from the second preceding year to the immediately preceding year shall have equaled a rise of at least 1 per centum, the contract price for each star route contract which has a commencing date earlier than January 1 of the immediately preceding year shall be increased by (A) such per centum rise for the first \$5,000 of the contract price, (B) three-quarters of such per centum rise for that part of the contract price in excess of \$5,000 but not in excess of \$10,000, and (C) one-half of such per centum rise for that part of the contract price in excess of \$10,000 but not in excess of \$15,000.

Each increase in a star route contract price made in the manner provided for by this subsection shall be adjusted to the nearest one-tenth of 1 per centum.”

Mr. DULSKI. The star route carriers represent one of the oldest arms of the postal service. For over 180 years the Nation has been served, and served well, by a complex of star routes.

Today there are some 12,000 star routes covering over 450 million scheduled miles a year, providing the only mail transportation avail-

able to some 26,000 post offices which otherwise would be completely isolated from the rest of civilization if it were not for the star routes that serve them. And most interesting, this service is performed at an average cost of less than 20 cents a mile for the equipment, gasoline, and labor. I suspect that when actual costs have been deducted there is little left in the way of wages for the small contractor who has chosen this means of attempting to provide a living for himself and his dependents.

The Government has adopted the principle of "comparability" in adjusting the pay of its 2 million-plus employees. It has adopted a policy of "cost-of-living" increases in the case of former employees on the retirement rolls.

While I am fully cognizant of the fact that star route carriers are contract operators and not regular employees of the Government in the real sense of the word, their economic problems are not one whit different.

First, one must realize that they are small operators in every sense of the word. Their contracts, on the average, run well below the combined salary and mileage allowance of a rural letter carrier even though the service performed, the hours worked, and the mileage covered are comparable. This results from the very fact that they bid for their jobs and the low bidder gets it. This often results in self-strangulation. Frequently, what they fail to take into account is that prices rise and the cost of living increases. H.R. 2035 is designed to protect these small public servants against undue hardship in the face of an ever-rising cost of living.

The record should show that 287 contracts are for less than \$1,000 a year. Some 1,200 contracts are from \$1,000 to \$2,000 a year. Another 1,650 are from \$2,000 to \$3,000 a year. All but 5 percent of the total are less than \$10,000 a year. When the cost of the equipment is considered and the actual operating expense is taken into account, it is easy to see that these people are receiving very little in the form of wages for their labor.

Last year, just prior to the adjournment of Congress, I introduced a bill identical to H.R. 2035. I knew that it was too late in the session for that measure to receive consideration. However, I thought that the introduction of the bill at that time would serve a most useful purpose. It would give all concerned an opportunity to consider the problem and be prepared to testify in a constructive manner during the current session.

I was pleased to note that the Honorable Silvio Conte, of Massachusetts, the ranking minority member of the Post Office Subcommittee of the House Appropriations Committee, in a speech last fall before the national convention of the star route carriers in Boston stated:

And now, one more thought—and it is a final one. As you know, we have just enacted into law a Federal pay bill which will reinforce, I hope permanently, the principle of comparability which was written into the Postal and Federal Pay Reform Act of 1962.

I think this is an excellent thing. It has been badly needed for many years. It will, once and for all, establish the principle that postal and Federal employees should not—and must not—be treated as second-class citizens and relegated to the rear ranks of the Nation's economic parade.

But I want to go this legislation one step further. I feel strongly that the principle of comparability should be extended to you contract carriers of the mail. I agree that at least the take-home portion of your star route contracts should be pegged to the cost-of-living index and that they should be proportionately increased whenever the cost of living shows a significant increase.

I have introduced a bill to this effect. I pledge myself to support that bill—to do whatever I can to get it to the floor for a vote and to vote for it when it comes up.

I appreciate greatly Congressman Conte's support of this worthy bill.

It has come to my attention that opposition has been voiced to H.R. 2035 on the basis that it could grant automatic cost-of-living increases to corporations as well as to self-employed contractors. Certainly there would be no objection on my part, and as a matter of fact, I would support an amendment to the bill which would limit the cost-of-living increases to self-employed contractors. It should be clear that the measure is designed to be helpful to the individual who is attempting to make a living by the sweat of his brow.

A letter has been sent to the chairman of the full committee by Acting Postmaster General Belen on this bill. If there is no objection, it will be inserted in the record.

(The letter follows:)

OFFICE OF THE POSTMASTER GENERAL,
Washington, D.C., April 13, 1965.

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

DEAR MR. CHAIRMAN: This is in reply to your request for a report on H.R. 2035, a bill to provide for cost-of-living adjustments in star route contract prices.

Under this measure the price of a star route contract would be increased each year of the contract term whenever the consumer price index of the Department of Labor indicates there has been a rise in the price structure of at least 1 percent. If such a rise is established star route contracts would be increased by the amount of the percentage rise as to the first \$5,000 of the contract price; three-quarters of the percentage rise for the next \$5,000; and one-half of the rise for the succeeding \$5,000.

This Department is opposed to the enactment of H.R. 2035.

The existing law (39 U.S.C. 6423) and implementing regulations already provide for the upward adjustment of star route compensation, not only for cost-of-living increases on self-operated routes based on the consumer price index but also on all routes because of increased operating costs, including higher wages paid by a star route contractor to his employees as a result of employer-employee negotiations.

The automatic increase contemplated by H.R. 2035 would result, in some cases, in granting cost-of-living increases to contractors whose routes are not self-operated. When these contractors increase the wages of their employees the Department increases the contractors' compensation to cover such increased operating costs. In light of this and other considerations we feel that a mandatory across-the-board increase in star route contract prices as proposed is not justified, but that each case should be judged on its individual merits.

The cost of furnishing star route service might not increase proportionately to the cost-of-living index. For example, the cost could well decrease after vehicles are fully depreciated. This aspect is not considered by the bill, and points up the merit of a case-by-case approach to the problem. The automatic increase feature proposed by H.R. 2035 would result in increasing compensation without a request by the contractor, and without a showing of increased expenses.

The cost of H.R. 2035 is estimated to be as follows:

	Number of contracts	Effective date of adjustments	Estimated annual cost	Net additional cost
Star route contracts commencing before—				
Jan. 1, 1964.....	11,542	July 1, 1965	\$729,000	\$365,000
Jan. 1, 1965.....	11,792	July 1, 1966	782,000	391,000
Jan. 1, 1966.....	11,969	July 1, 1967	831,000	416,000

4 COST-OF-LIVING ADJUSTMENTS IN STAR ROUTE CONTRACTS

Of recent years, the consumer price index has been rising at an approximate monthly rate of one-tenth of 1 percent for a yearly average of 1.2 percent. This rate has remained relatively consistent to November 1964. The above estimates are based on this yearly average increase. The net additional cost of the proposed legislation as shown above is estimated after allowing for an appropriate reduction in the readjustment costs of these contracts under existing legislation.

The Bureau of the Budget has advised that from the standpoint of the administration's program there is no objection to the submission of this report to the committee.

Sincerely yours,

FREDERICK C. BELEN,
Acting Postmaster General.

Mr. DULSKI. Our first witness this morning is Mr. Frederick E. Batrus, Deputy Assistant Postmaster General of the Post Office Department, Bureau of Transportation and International Services. He is accompanied by Mr. James C. Presgraves.

STATEMENT OF FREDERICK E. BATRUS, DEPUTY ASSISTANT POSTMASTER GENERAL, POST OFFICE DEPARTMENT, BUREAU OF TRANSPORTATION AND INTERNATIONAL SERVICES, ACCOMPANIED BY JAMES C. PRESGRAVES, ASSISTANT DIRECTOR, DOMESTIC TRANSPORTATION DIVISION

Mr. BATRUS. Mr. Chairman, my name is Frederick E. Batrus and I am the Deputy Assistant Postmaster General in the Bureau of Transportation and International Services. I am accompanied by Mr. James Presgraves, who is Assistant Director of Highway Transportation Branch in the Bureau of Transportation, International Services.

The Department welcomes this opportunity to present its views on H.R. 2035.

The general purpose of this bill is to provide for automatic cost-of-living adjustments in star route contracts based upon changes in the Consumer Price Index which is published monthly by the Bureau of Labor Statistics.

A similar proposal was introduced in the 88th Congress which the Department opposed, and we are likewise opposed to the enactment of H.R. 2035.

Under current law (39 U.S.C. 6423) the Postmaster General with the consent of the contractor may readjust the compensation under a star route contract for increased or decreased costs occasioned by changed conditions occurring during the contract term which could not reasonably have been anticipated at the time the original bid was made or the bond for a renewed contract was executed. Changed conditions include increases and decreases in the cost of living, maintenance and operation of equipment, and other operating costs.

Thus, under the present law, we are not only making allowances for cost-of-living increases based on the consumer price index, but also for increased operating costs. Increased compensation is based on higher costs to the contractors, resulting from such things as (1) higher salary payments to their employees, (2) increased costs of motor fuel and repair and replacement parts, (3) newly imposed highway and other taxes, and (4) many other operating costs.

We believe that the present law provides more flexibility and results in more equitable adjustments of compensation for direct cost

increases on star route contracts. Moreover, we believe that the present practice is more equitable to the Government because each increase granted is based upon a showing and application by the contractor. This method takes into account the fact that the cost of furnishing star route service does not necessarily increase proportionately to the cost-of-living index. Allowance is also made for the fact that changed conditions will have a varying impact on contractors' costs in different parts of the country.

For example, the contractors' operating costs might not increase proportionately to the cost-of-living index after their vehicles are fully depreciated. This aspect is not considered by the bill and points up the merits of a case-by-case approach to the problem.

Under the present law, cost-of-living increases are granted to contractors for that part of the service which they personally operate. H.R. 2035, on the other hand, would also grant cost-of-living increases to contractors who do not personally operate their routes but conduct their star route operations as a business by employing others to drive their vehicles. Thus, under the bill, the cost-of-living increases in a great many cases would be granted to a business firm rather than to an individual. For example, we feel it would be inappropriate to be required, as we would under this bill, to grant additional compensation for a cost-of-living increase to a corporate contractor on a contract which may have a contract price of as much as a million dollars, even though the increase would only be applied to the first \$15,000 of the contract price. We believe that it is more equitable to all concerned to grant compensation increases to such contractors based on a showing of direct increased business operating costs.

We also wish to point out that under the present law that part of readjustment of compensation attributable to an increase in the cost of living is applied on a percentage basis only to the wage allowance portion of the contract price. That portion is determined by subtracting the operating expenses from the annual rate of the contract. However, the bill would require the cost-of-living increase to be applied to the entire contract price. This, in effect, would result in granting a contractor additional compensation for operating costs without any evidence of an actual increase in such costs, and even in the face of a possible decrease in such costs.

Mr. Chairman, I would like to summarize very briefly for you what actually we do in our everyday practice. This law which was enacted—the existing law—in 1948 was a very general law, the intention being that when there were cost increases that couldn't be anticipated by the contractor at the time he entered into the contract at the time he bid, then he would be permitted to make application to us and justify these cost increases and we could adjust his contract accordingly.

We have over the years been making a great number of adjustments and have considered a great number of applications. Most of those received have been acted upon favorably.

Now in the case of the cost-of-living type of adjustment, we have been using the consumer price index in each instance where the contract is the kind of contract that is operated principally by the contractor himself. We use the standard that if he operates the route more than 50 percent of the time, 50 percent or more, we apply the consumer price index increase to that part of his contract price which

we have calculated to be what we would term the salary or wage that he earns, his take-home pay.

In a \$6,000 contract, for example, after deducting the actual operating expenses, exclusive of labor, we may find that his take-home pay may be \$3,500. On his application, and based on the consumer price index, we would apply the increase to that portion of the contract. In addition to this, in connection with all contracts, we always will consider any showing of actual increases in operating costs. As, for example, an increase in gasoline prices, an increase in his taxes or his insurance or other operating costs, and upon proper justification and satisfaction to those on our staff who must consider these, the adjustment is made in the contract.

It is this that we like to point out that differentiates our situation today, as it is today under the law, from that which is proposed in the bill. The bill would automatically cause us, with our 11,000 contracts, to apply the consumer price index increase to the contract price up to a maximum of \$15,000 on all contracts. We do have over 11,000 star route contracts.

I would be pleased, Mr. Chairman, to answer any questions about our procedures to date and how we handle it under the existing law.

Mr. DULSKI. Thank you very much.

You have 11,000 contractors?

Mr. BATRUS. We have over 11,000.

Mr. DULSKI. What is the average amount of each contract?

Mr. BATRUS. Between 50 and 60 percent are under \$5,000. The greatest number of them are small.

Mr. DULSKI. In your statement you said that under the bill the cost-of-living increases in a great many cases will be granted to a large corporation as well as to an individual contractor. I hope your Department is not opposed to private enterprise?

Mr. BATRUS. No, sir.

Mr. DULSKI. What do you mean by this, that you would rather deal with individuals instead of somebody that is leasing the route?

Mr. BATRUS. We treat the requests for increases under existing law in two categories, generally. It was several years ago that we began employing the consumer price index, which we receive from the Bureau of Labor Statistics, to applications from the small contractor, who in effect is receiving a salary for himself. When a contractor employs 4 or 5 or 8 or 10 drivers, he has, by comparison, a major operation. We grant his adjustment on the basis of a showing that he has increased his operating costs, including the salaries he pays his drivers. So, in effect, we are doing the same thing there. It is just that we don't use the consumer price index for the salaries to drivers in an instance where there are several drivers and he has a major type contract. The principle is that the consumer price index would be directed toward the small contractor as a way of adjusting his take-home pay.

Mr. DULSKI. Are you familiar with the Internal Revenue regulation that accelerated depreciation costs? Let's use the cost of \$4,000 for a new vehicle. If he is permitted to take 50 percent of his costs the first year and he applies those figures, would you use those figures?

Mr. BATRUS. We have set out a scale of depreciation rates.

Mr. DULSKI. That is your scale?

Mr. BATRUS. That is right.

Mr. DULSKI. Would you judge his depreciation costs under Internal Revenue standards or would you use your own standards?

Mr. BATRUS. We have been doing it by our own scale of depreciation rates, which are made known to all of the contractors. For example, on the smaller vehicles, the automobiles—

Mr. DULSKI. Congress has passed legislation that gave relief to businessmen because they are doing business with the Government, and they are allowed to take additional depreciation costs. Are you following the same practice of other agencies in the Post Office Department?

Mr. BATRUS. We would follow the same practice as Internal Revenue insofar as it would be appropriate, Mr. Chairman. If his rate of depreciation has increased, then we will cover that increase. We recognize the depreciation rate of 3 years.

I will ask Mr. Presgraves to comment on that.

Mr. PRESGRAVES. The original contract determines the rate of depreciation, and it is a rate of depreciation schedule which he makes himself and we use a guide which is based on the Internal Revenue depreciation schedule. We will continue such depreciation schedule unless the contractor applies to the Internal Revenue Service for a change.

Mr. DULSKI. I am not talking about schedules. I want to make sure that if a contractor applies for an additional depreciation cost that he is permitted to take an accelerated depreciation. Do you follow the law passed by Congress?

Mr. PRESGRAVES. Yes, sir; we allow him whatever the Internal Revenue Service approves as his depreciation schedule. We have such a statement in our instructions to our regional offices.

Mr. DULSKI. If a star route man filed an application to get additional depreciation costs, as per the new law, you would approve it?

Mr. PRESGRAVES. Yes.

Mr. DULSKI. It is well known that small business contractors, such as most of these star route contractors, very seldom keep books. They pay a small income tax because they operate on a small profit. They are supposed to keep records but I can sympathize with them when they don't have all of their receipts. Isn't it true that many contractors are afraid to submit a request for increases in their contracts because you might say when the term expires, "Well, you are too high and we are not going to renew your contract, but will re-advertise." Let us say he has \$7,000, \$8,000, or \$10,000 invested and he can't afford to lose the contract. You say, "You are too high." You have him in a predicament because he has geared himself to this star route and if you do not renew his contract, he has a great loss. My question is, what practice do you usually follow when a man doesn't submit all of his records but tries to substantiate it on a quarterly basis or maybe on a monthly basis without substantiation of all of his deductions or his bills? All you do is take 1 month or a quarter and multiply either by 4 or multiply by 12. What is the Department's practice in those cases?

Mr. BATRUS. Mr. Chairman, we treat separately the question of adjustment of their contracts. They are free to make application to us any time they feel that they have a case for increased compensation, and this will be fully considered. As I explained earlier, our statistics show that favorable action has been taken in the great majority of the cases.

With respect to the other point of their concern about whether they will lose their contract, this is an entirely different matter not directly related to this question of cost adjustments in their contracts. Under the law, we must determine when contracts expire, and one-fourth of them expire every year, whether they should be renewed or whether they should be advertised for bids. The law requires that we make this decision.

Our experience has been, in the past several years, that a very minor proportion, probably around 1 to 2 percent of the total number of contracts, are advertised for bids for the reason that the price is considered too high. This becomes a judgment factor but every region must go through this process and is compelled under the law to render judgment on the basis of the best experience in the region as to whether the cost of the service has gotten completely out of line with what might normally be obtained through competitive bidding. From our experience, I don't see that any rigid standard has been applied. There should be no connection between the two. They should be free to apply for their cost adjustment.

It may be that there have been cost adjustments which for one reason or another does put them out of line with what other contractors are doing. But we do have the separate question, under the law, of making a determination as to whether it should be advertised for bids. Most of the contracts are renewed. Around 80 percent are renewed and only about 2 percent are not renewed because of the price. The rest are not renewed because of changed circumstances, substantial alterations in the operation, where under the law, we are compelled to advertise for bids.

Mr. DULSKI. My last question is this. Who reviews these contracts?

Mr. BATRUS. They are reviewed in the regional offices, Mr. Chairman.

Mr. DULSKI. The determination is made by the region and the recommendation is sent to Washington?

Mr. BATRUS. That is correct. In a lot of instances, they have the authority to take the action in the region without approval from the Department.

Mr. DULSKI. You don't have any special committee that sits down and works on these consumer price index files? You have no outside committee or post office committee that is working just on star routes? If there is a question of increase or of default, you just take up each problem as it arises; is that correct?

Mr. BATRUS. That is correct. Those who are responsible for administering that service, Mr. Chairman, are the ones who handle it.

Mr. DULSKI. Mr. Green.

Mr. GREEN. You say a certain percentage of the contractors do not have their requested increases approved. What percentage is that? You said actually a majority do, but I wonder what percentage don't get it? Do you have any idea?

Mr. BATRUS. I would say, for example, out of about 1,800 requests a year for adjustments, that probably 1,500 or 1,600 receive favorable consideration. But I can get the statistics and supply it for the record.

Mr. GREEN. How does someone go about applying for an increase of a contract?

Mr. BATRUS. Every contractor is advised fully of the procedures that are involved and the forms he must fill out if he wants to make a request for adjustment because of changed conditions, for an increase in costs. Our people in the field will supply these forms to him. These procedures are made known fully and our people in the field will work with him if he needs help. The postmasters will work with him if he needs help.

In the case of the small contractor, he fills out this form and he submits it for review. If it is a contractor whose request would fall within our policy of applying the consumer price index, whether he raises this question or not, we will apply the consumer price index.

Mr. GREEN. You say there are forms?

Mr. BATRUS. That is correct.

Mr. GREEN. There are forms he must fill out?

Mr. BATRUS. Yes, sir.

Mr. GREEN. In order to determine what information is required on these forms, do you have copies of those forms?

Mr. BATRUS. Yes, sir.

Mr. GREEN. I think maybe we should have these forms submitted for the record.

Mr. DULSKI. If there is no objection, it is so ordered.

(The forms submitted follow:)

10 COST-OF-LIVING ADJUSTMENTS IN STAR ROUTE CONTRACTS

POST OFFICE DEPARTMENT		ROUTE NUMBER
TRANSMITTAL LETTER AND INSTRUCTIONS FOR COMPLETING FORM 5478		
FROM	DIRECTOR, TRANSPORTATION DIVISION (Region, City and State)	
To:		DATE
		TYPE OF ROUTE (Check)
		☐ STAR
		☐ MAIL MESSENGER
		☐ CONTRACT MOTOR VEHICLE
		☐ WATER
		☐ HPO
Dear Contractor: This acknowledges your application for increased compensation on the above route. The Department is permitted by law to consider an adjustment in your contract rate. To justify this there must be changed conditions that could not have reasonably been anticipated at the time of signing the original or renewal contract, subcontracting, or latest adjustment, whichever is most recent. Attached are three copies of Form 5478, Comparative Cost Statement and Operating Data—Contract Service. The purpose of this form is for you to show us just how your costs have changed. This does not necessarily mean during last year, but since the date that you contracted, sub-contracted, or received the last adjustment in your contract rate, whichever is most recent. "Previous year", therefore, may be several years ago, or the same year in which you are making your request. Supply complete and accurate information, leaving any non-applicable spaces blank. The Department reserves the right to request you to furnish proof of unusually high costs or increases by furnishing receipts, payroll information, or other applicable bookkeeping records. Department records must show justification for any increase allowed. Where space is provided in Columns B and E, show the average number of units used per week, year, etc., as indicated. Columns C and F are to be used to show the unit cost of items (Cost of one gallon of fuel, one tire, etc.) The entries in Columns D and G will be the result of multiplying B times C, and E times F, respectively. If your equipment is used for other purposes than your mail contract, or to carry other commodities at the same time you carry mail, for which you receive income, report the amount of income and sources from which received. If you receive no other income but use the equipment for personal purposes, show the annual miles you operate the vehicle for personal use. If your contract is on an annual rate basis, state the amount requested in dollars per year, in the space provided for that purpose. If you are paid on a per trip basis, show the appropriate unit instead of year. If you receive this letter and the Forms 5478 from a postmaster, return two completed copies of the form to him. If necessary, he will review and discuss with you the information furnished, after which he will transmit it to this office. If you received the forms directly from this office, return two completed Forms 5478 to the same place from which you received them. In either case, keep one copy of the completed form for your records. No further consideration will be given until you comply with these instructions. If no reply is received within 30 days, your request will be considered as withdrawn. Sincerely yours, Attachments: Forms 5478 Director, Transportation Division IMPORTANT: See instructions and example for completing Form 5478 on reverse of this letter.		

ITEM (A)	PREVIOUS YEAR 18			PRESENT YEAR 19			(DO NOT USE)
	NO. OF UNITS PER YEAR (B)	UNIT COST (C)	ANNUAL COST (D)	NO. OF UNITS PER YEAR (E)	UNIT COST (F)	ANNUAL COST (G)	
1. DEPRECIATION		2,000.00 500.00 TRADE-IN 1,500.00 NET COST	375.00		2,500.00 500.00 EST. TRADE-IN 2,000.00 NET COST	500.00	
6. GARAGE RENT - CHECK WHETHER ☒ MONTH ☐ YEAR		3.00	36.00		4.00	48.00	
7. WASHING (Every 2 weeks)	26	x 1.25 =	32.50	26	x 1.50 =	39.00	
10. FUEL - MILES PER GALLON (Gallons) (Per gallon)	10	x 1,000 =	299.00	1,000	x 31.9 =	319.00	
PREVIOUS YR. PRESENT YR.							
12. NEW TIRES (Life 30,000 miles)	4	x 15.00 =	60.00	4	x 18.00 =	72.00	

INSTRUCTIONS

- Line 1. Show net cost (vehicle cost, less trade-in or anticipated trade-in in unit columns). Depreciation increase can be claimed only when replacement vehicle is obtained. Divide this (or these) figures by the number of years' use obtained or anticipated. Depreciation schedule is related to annual service mileage. Once set, it cannot be changed unless a new vehicle is obtained or major mileage revisions have occurred. It may not change if replacement equipment has not been obtained. Show depreciation scale (years) under remarks.
- Line 2. The total financing cost for purchase of equipment, averaged to an annual rate over the same period of time as depreciation. It is not for the financing period, which is usually a lesser time than the depreciation period. It may change only when equipment is replaced. For example, equipment is purchased and expected to operate four years. It is financed for two years and the total interest to be paid in the two years is \$300. Dividing the \$300 by the 4-year depreciation scale is \$75 per year.
- Line 3. Only operational taxes or business licenses not included in other items.
- Line 4. Self-explanatory. If more than one, show breakdown under remarks.
- Line 5. The cost of the same rated insurance included in the bid estimate unless raised by state law or local statute. Cost of added coverage, not required by law nor included in bid estimate, but purchased by contractor's choice, cannot be considered.
- Line 6. Garage rent. An increase caused by local ordinance, loss of parking privileges, etc., if not anticipated, may be a changed condition.
- Line 7. Allowable only for the same number of washings per vehicle per year.
- Line 8. Self-explanatory. Annual cost, not contract term cost.
- Line 9. General overhead. Supervision (if not included under labor), actual telephone calls in conjunction with route or pro-rated monthly bills, office expense, stationery, auditing, terminal pro-rated charges, parking lot rent (if not included under 6), etc. Itemize in detail under remarks.
- Line 10. Self-explanatory.
- Line 11. Include average number of quarts added between changes.
- Line 12. List sizes used for all vehicles, under remarks, if necessary. Indicate stires (4-6-10-14) on road at one time. Include snow tires under new or recap, whichever is applicable.
- Line 13. Chains, anti-freeze, oil filters, transmission oil, brake fluid, battery; also periodic checkup, motor tune-up, focusing lights, checking brakes, etc. Explain any major one-time repairs, such as motor replacement, that can be anticipated as useful for more than one year. Such total increases must be reduced to an annual rate based on useful life of replacement. Include emergency road service in this item.
- Line 14. Self-explanatory. May be included with item 18, if no separate record is maintained.
- Line 15. Self-explanatory.
- Line 16. Under applicable state laws.
- Line 17. Bridge, turnpike, ferry, tunnel, etc.
- Line 18. Show only actual payroll cost of any employed driver. Do not show wages for your personal operation of a route or part of it. If paying other than hourly, indicate under remarks how driver is paid (per week, month, etc.). Since all contractors are subject to The Fair Labor Standards Act of 1938, (Minimum Wage Law), no increased compensation will be allowed on account of increased labor costs brought about by enforcement of the law by the Labor Department or through voluntary compliance by the contractor.
- Line 20. Social Security, Workmen's Compensation, unemployment tax, etc., give rates of each.
- Line 21. Include here other costs not easily included under other items but applicable to operation, with explanation under remarks.

12 COST-OF-LIVING ADJUSTMENTS IN STAR ROUTE CONTRACTS

COMPARATIVE COST STATEMENT AND OPERATING DATA - CONTRACT SERVICE											ROUTE NO.					
CONTRACTOR'S NAME, ADDRESS, CITY AND STATE (Please print)				NO. OF VEHICLES BY CONTRACTOR		PERCENT OF TIME ROUTE IS DRIVEN				DATE						
						BY CONTRACTOR FOR MANY OTHER DRIVERS										
TERMINI				MAKE AND YEAR		CUBIC FOOT CAPACITY		TYPE AND SIZE		DATE BOUGHT		REAR TIRES (X)				
												SINGLE			DUAL	
COMPARATIVE COSTS													FOR CONTRACTING OFFICER'S USE ONLY			
ITEM (A)		PREVIOUS YEAR 19....			PRESENT YEAR 19....			APPROVED PRESENT COSTS			DIFFERENCE BETWEEN PREVIOUS COSTS AND APPROVED PRESENT COSTS (K)					
		NO. OF UNITS PER YEAR (B)	UNIT COST (C)	ANNUAL COST (D)	NO. OF UNITS PER YEAR (E)	UNIT COST (F)	ANNUAL COST (G)	NO. OF UNITS PER YEAR (H)	UNIT COST (I)	ANNUAL COST (J)						
FIXED COSTS		1. DEPRECIATION														
		2. INTEREST														
		3. TAXES														
		4. VEHICLE LICENSE(S)														
		5. INSURANCE														
		6. GARAGE RENT OR PARKING FEE (Check whether) ☐ MONTH ☐ YEAR														
		7. WASHING (Every weeks)											(per job)			
		8. BOND														
		9. GENERAL OVERHEAD														
		10. FUEL-MILES PER GAL. PREV. YEAR PRESENT YEAR											(gallons) (per gal.)			
VARIABLE COSTS		11. OIL CHANGES PER ANNUM MILES PER CHANGE ADDED RE- THREE RE- CHANGES											(quarts) (per qt.)			
		12. TIRE SIZE(S) NEW (Life miles) RECAP (Life miles) ☐ TUBES ☐ TUBE- LESS											(tires per year) (each)			
		13. REPAIRS (Paints, maintenance, etc.)											(hours) (per hr.)			
		14. REPAIRS (Labor)											(hours) (per hr.)			
		15. LUBRICATION (Every miles)											(no. jobs) (per job)			
		16. MILEAGE TAX (Tax or rate)											(trips) (per trip)			
		17. TOLLS											(hours) (per hr.)			
		18. STRAIGHT TIME											(hours) (per hr.)			
		19. OVERTIME											(hours) (per hr.)			
		20. PAYROLL TAXES														
COST FOR DRIVERS EMPLOYED		21. MISCELLANEOUS														
		22. TOTAL COST														
ADDITIONAL REMARKS ON COMPARATIVE COSTS																

COST-OF-LIVING ADJUSTMENTS IN STAR ROUTE CONTRACTS 13

OPERATING DATA						
ITEM		PREV. YEAR	PRES. YEAR	ITEM	PREV. YEAR	PRES. YEAR
HOURS ACTUALLY WORKED EACH DAY TO PERFORM DAILY SERVICE	23. SCHEDULED HOURS			23. TOTAL STOPS (Line 31 + 32)		
	24. LOAD & UNLOAD (Start & finish of each trip only) & CASE FOR BOX DELIVERY			24. TYPE OF ROAD (Blacktop, concrete, etc.)		
	25. TOTAL (Line 23 + 24)			25. ROAD CONDITION (Excellent, good, fair, poor)		
26. LAYOVER TIME (Outer terminal)	27. OUTBOUND (Leaving initial terminal or post office)			26. DID YOU CARRY OTHER COMMODITIES FOR WHICH YOU RECEIVE INCOME AT THE SAME TIME YOU PERFORM REQUIRED CONTRACT SERVICE	☐ YES ☐ NO	☐ YES ☐ NO
AVERAGE LOAD	28. INBOUND (Arriving at initial terminal or post office)			26a. HOW MUCH ANNUALLY DID YOU RECEIVE FOR THIS (previous) AND HOW MUCH DO YOU RECEIVE FOR IT NOW (present)	☐ YES ☐ NO	☐ YES ☐ NO
NO. OF POUCHES, SACKS AND OUTSIDE PARCELS				27. DO YOU USE THE SAME EQUIPMENT FOR INCOME PURPOSES WHEN IT IS NOT BEING USED TO CARRY THE MAIL	☐ YES ☐ NO	☐ YES ☐ NO
29. NO. OF BOXES SERVED				27a. HAS THE INCOME DESCRIBED IN ITEM 27 DECLINED DUE TO A SCHEDULE CHANGE	☐ YES ☐ NO	☐ YES ☐ NO
30. BOXES SERVED BOTH WAYS		☐ YES ☐ NO	☐ YES ☐ NO	27b. HOW MUCH ANNUALLY DID YOU RECEIVE FOR THIS (previous) AND HOW MUCH DO YOU RECEIVE FOR IT NOW (present)	☐ YES ☐ NO	☐ YES ☐ NO
31. NO. OF BOX STOPS (two or more boxes served at one stop are one unit)				28. ESTIMATED ANNUAL MILEAGE OR PERCENT EQUIPMENT IS USED FOR NON-INCOME PERSONAL PURPOSES		
32. NO. OF POSTAL UNIT STOPS (PO's, terminals, bus stations, AMP's, etc. Do not include offices at start & finish of service)				29. WHAT TYPE OF GENERAL MAINTENANCE WORK SUCH AS WASHING DO YOU PERSONALLY PERFORM ON YOUR EQUIPMENT		
REMARKS						
WARNING: A fine not to exceed \$10,000 or imprisonment of not more than five years, or both, is provided by law (18 U.S. Code 1001) for making a false statement or concealing any material fact concerning this claim.						
AMOUNT OF INCREASE REQUESTED:				CONTRACTOR'S SIGNATURE		
\$ _____ PER ☐ YEAR ☐ TRIP ☐ PIECE						
POSTMASTER'S STATEMENT						
1. INSIDE MEASUREMENT OF TRUCK BODY (Length, width, height)				2. CONTRACTOR'S SERVICE (Adequate, good, fair, etc.)		
3. CHARGES FOR SIMILAR SERVICES IN THE AREA				HOURLY RATE FOR DRIVER		HOURLY RATE FOR DRIVER AND TRUCK
4. GENERAL CONDITION OF EQUIPMENT (Excellent, good, fair, poor)				5. IS EQUIPMENT ADEQUATELY MAINTAINED?		
6. IS VEHICLE LARGE ENOUGH FOR NORMAL MAIL VOLUME?				7. HAS CONTRACTOR VOLUNTARILY PLACED LARGER EQUIPMENT IN SERVICE BECAUSE OF INCREASED MAIL?		
8. IN YOUR OPINION WILL MAIL VOLUME INCREASE SUFFICIENTLY IN THE NEAR FUTURE TO REQUIRE LARGER EQUIPMENT?				9. HOW MANY HOURS A WEEK IS DRIVER ENGAGED IN THE MAIL SERVICE?		
☐ YES ☐ NO (How much larger _____ cu. ft.)						
10. DRIVER'S RATE PER HOUR		CURRENT RATE	OVERTIME RATE (After 40 hours)	DATE OF DRIVER'S LAST INCREASE		AMOUNT OF DRIVER'S LAST INCREASE
		\$	\$			\$
11. IF ITEMS SUCH AS FUEL, OIL, TIRES, LUBRICATION, REPAIR PARTS OR LABOR HAVE SHOWN MARKED INCREASES RECENTLY, DESCRIBE HERE.						
12. REMARKS						
To the best of my knowledge the information on this form is correct.						
POSTMASTER						

Mr. GREEN. I have no further questions.

Mr. DULSKI. Mr. Daniels.

Mr. DANIELS. Mr. Chairman, I regret that I was not here when Mr. Batrus testified. I was at an executive committee meeting of the Education and Labor Committee. Inasmuch as I have not heard his testimony, I am not in a position to ask any questions.

Mr. BATRUS. Thank you.

Mr. DULSKI. The next witness is Mr. L. E. Ernst; general manager, National Star Route Mail Carriers Association.

STATEMENT OF L. E. ERNST, GENERAL MANAGER, NATIONAL STAR ROUTE MAIL CARRIERS ASSOCIATION, ACCOMPANIED BY ROBERT E. SODREL, NATIONAL PRESIDENT, NEW ALBANY, IND.; BURGESS WILLIAMS, VICE PRESIDENT; JAMES R. WOODRUFF, SECRETARY-TREASURER; AND SECTIONAL DIRECTORS WILLIAM FURCH, JAMES JESSEN, W. R. GOLDSTON, AND RAY JACKMAN

Mr. ERNST. Thank you, Mr. Chairman.

Mr. DULSKI. We are very happy to have you with us, Mr. Ernst.

Mr. ERNST. Mr. 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.

I would like the record to show that I am accompanied by our national president, Robert E. Sodrel, New Albany, Ind.; our vice president, Burgess Williams, Warren, Ark.; our secretary-treasurer, James R. Woodruff, Thomasville, Ga.; our sectional directors, Messrs. William Furch, Buffalo, N.Y.; James Jessen, Atlantic, Iowa; W. R. Goldston, Roswell, N. Mex., and Ray Jackman, Cook, Wash.

First, I wish to thank you for scheduling hearings on H.R. 2035, to provide for cost-of-living adjustment in star route contract prices, and giving us the opportunity to appear before your committee to express the views of the National Star Route Mail Carriers Association with respect to enactment of a new law to be known as cost-of-living adjustments in star route contract prices. This proposed legislation was introduced by the chairman under date of January 7, 1965, and proposes to provide for cost-of-living adjustments in star route contract prices commensurate to the annual average of the consumer price index published by the Bureau of Labor Statistics of the U.S. Department of Labor.

Star route contracts are awarded according to section 6411 of the United States Code, title 39, and are awarded to the lowest responsible bidder with sufficient guarantee for faithful performance in accordance with the terms of the advertisement. Section 6416 provides for the renewal of contracts and states the Postmaster General, by mutual agreement with the holder of a star route, contract motor vehicle service, or water route contract, and without advertising, may renew the contract for successive terms, of not more than 4 years each, at the rate of compensation prevailing at the end of the preceding contract term, and so forth.

At the present time there are approximately 12,000 contracts, held by an estimated 10,000 contractors. These contractors provide

exclusive mail service to some 26,000 post offices of the 34,000 offices, and supplemental service to most of the remaining offices.

The Annual Report of the Postmaster General, 1964, lists the average cost of star route service as 19.87 cents per mile; whereas the 1963 report states the average cost was 20.05 cents per mile. In the same reports the cost of rural route service for 1964 is stated as being 54.97 cents per mile, and the mileage rate for 1963 is shown as 52.54 cents per mile, reflecting an increase of 2.43 cents per mile for rural route service, whereas there has been a slight decrease in cost of star route service.

Even though the cost of rural route service is two to three times greater than contract service, it is not our intention to downgrade this service, but instead we are seeking ways and means to bring our earnings up, instead of down, as reflected in the Postmaster General's report ending June 30, 1964, over the same period ending June 30, 1963.

This comparison is given since approximately 4,000 star route contractors now provide box delivery and collection service (with rural route features) to patrons on their route. We believe the reason for the reduction in the unit cost of star route service is due to pressure used by the Post Office Department in the past, and especially at time of renewal of contract. Here is a quote from a letter mailed to contractors some 60 days prior to time of renewal:

We have reviewed your contract on this route and have determined that the rate of pay for service performed is in excess of competitive rates paid for like services in your area, and cannot justify renewing your contract at the existing rate of 20.876 cents per mile.

If you are interested in negotiating a renewal at competitive rates, please let us know within 10 days.

If we do not hear from you within the specified time, we must assume that you do not care to enter into negotiations and we will proceed to advertise your route for bid.

More than 3,000 contractors now receive an annual pay of less than \$3,000. Six thousand contractors receive less than \$5,000 to \$10,000, with 900 in the pay bracket from \$10,000 to \$15,000, leaving only about 2,000 contractors who are considered in the higher pay bracket from \$15,000 or more. It must be kept in mind that this pay includes depreciation of equipment, vehicle insurance, license tags, gas, oil, and tires, as well as maintenance. Also, labor costs if drivers are employed.

True, Public Law 669, enacted during the 2d session of the 80th Congress, approved June 19, 1948, states the Postmaster General may, in his discretion and under such regulations as he may prescribe, with the consent of the contractor, readjust the compensation of a star route contractor for increased or decreased costs occasioned by changed conditions occurring during the contract term which would not reasonably have been anticipated at the time of making his original proposal or executing his bond for a renewal contract as provided herein.

The Post Office Department is continually making changes in star route service such as curtailing, extending, changing schedules, and so forth. When routes are curtailed or extended, the annual pay is adjusted accordingly on a pro rata basis, but no consideration is given to expanded schedules, unless the contractor prepares a copy of POD form 5478 and requests an increase in compensation due to additional time required on the job. When such requests are pre-

pared and submitted only a very small increase, if any, is allowed for the additional time required—never the minimum hourly rate of \$1.25 cents per hour.

When adjustments are made in compensation, due to extension of the route, on a pro rata basis, the increase allowed is later deducted from any increase in cost of operation before an adjustment is approved. We have a case pending where a carrier's annual pay is \$3,086.52, which includes a \$212.86 increase allowed July 19, 1961, due to extension of the route, and recently he submitted a request for an increase, due to increase in cost of operation, which was rejected.

The request was evaluated by the regional office and it was stated that the cost statement reflected an increase of \$194, but the allowance of \$212.86 approved some 4 years ago due to extension of the route was applied against the increase requested and as a result the increase in cost of operation was denied.

Even though Public Law 669 provides for an adjustment in compensation for increased costs, yet contractors are having difficulty in getting favorable consideration, especially if there has been a pro rata increase allowed due to extension of the route during the contract term.

Some 4 or 5 years ago contract service experienced many radical changes in service under a program called the metro plan and many contractors had their contracts canceled or drastically changed. Now we are going through an even more rigorous program called the sectional center concept and the ZIP code program. It has been stated that there are some 566 sectional center offices throughout the country with 60 national transportation centers, or major concentration centers, serving the 34,000 post offices.

Each sectional center is being scheduled to serve some 77 post offices, referred to as "satellite offices," and will be served by star route service leaving the sectional center in early morning and deliver mail to all offices on the route in a period from 2½ to 3 hours, and then return in the late afternoon. This means the carrier will be required to lay over in some small community all day, with no allowance for the layover time. Such scheduling increases the operating cost of the contractor, and the proposed increase in cost of living will most certainly be welcome relief to the carriers.

Contractors have been told that their routes must be scheduled to operate within the confines of the sectional center as one route cannot serve offices within two centers. This restriction does not apply to rural route service and we feel that this is discriminatory and will impose undue hardships on many contractors.

The Consumer Price Index, published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor, shows there was an increase in cost of living of 1.245 percent for 1962; 1.694 percent for 1963; and 1.299 percent for 1964.

It is estimated that only about 25 percent of our contractors have requested an increase, due to increase of operation, for the reason that many have been advised in the past that they are pricing themselves out of business and if the increase requested is approved, the route will be advertised for new bids at the beginning of the next contract term. With such a threat foremost in their minds, they have been afraid to request an increase for fear of losing their contract, keeping in mind that "half a loaf of bread is better than no bread at all."

There is no group that is more loyal to the Post Office Department than star route contractors, nor is there a group that requires as little or no supervision as star route contractors. When star route contracts are awarded, the lowest responsible bidder is furnished with a statement of service required on the route, such as line of travel, offices to be served, and schedule on which he must operate. From that day on the contractor is on his own and almost without exception he provides 100 percent service according to the provisions of his contract.

Regardless of the number of years of faithful service that is given, or the increase in cost of operation, he cannot be granted an increase to compensate him for his increased costs unless he prepares and submits a comparative cost statement on POD form 5478, showing cost of operation at time of renewal of contract, and what it is costing him to operate at the present time. In many cases, the carrier is required to submit itemized, receipted bills to support his stated cost of operation. This is difficult for the carrier to do since only limited records are maintained due to the small amount of money he receives and the excessive hours he is required to put in on the job.

Please understand that our contractors are excellent drivers on the highways, and good mechanics, but they find it most difficult to maintain detailed records to reflect their actual cost of operation. Enactment of this law will most certainly be appreciated by all concerned and will provide much needed relief, especially to the small contractor, who at the present time is afraid to request an increase in pay for fear of losing his contract.

Mr. Chairman, I am happy to have been privileged to appear before you and your committee and present the views of the National Star Route Mail Carriers Association and we are indeed grateful for the many courtesies extended to the association 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 and that we are always interested in legislation that will improve the position of contractors and benefit the postal service.

We respectfully urge this committee to report favorably on H.R. 2035. This proposed change in the law will afford the Postmaster General needed authority to adjust the compensation of star route contractors and help to keep stated income in line with the increase in cost of living.

Thank you, Mr. Chairman.

Mr. DULSKI. Thank you very much, Mr. Ernst. Do you recollect when we had the first postal pay increase some years ago?

Mr. ERNST. Yes, sir.

Mr. DULSKI. From the figures you have submitted here, you did not receive an increase because when it was down to the operating costs, if the gasoline, tire, or labor goes up, say, \$50, you are only compensated \$50, so you are operating at the same costs that you are operating when?

Mr. ERNST. At the time of the contract.

Mr. DULSKI. It is a 4-year contract?

Mr. ERNST. Four-year contract.

Mr. DULSKI. Let's assume you give a \$6,000 bid on the first contract. Then if there is an increase within that time, you are permitted to submit data to increase this contract?

Mr. ERNST. To increase the cost of operation of contract, and not until 1960 were contractors given any consideration for the increase in cost of living.

Mr. DULSKI. When the other pay increase went through last year, you didn't receive any increase in your salaries?

Mr. ERNST. No; we did not.

Mr. DULSKI. It just goes up when the consumer price index goes up. That is when you are permitted to file.

Mr. ERNST. That is when we are permitted to file and request an increase to reimburse the carrier for his increase in costs of operation.

Mr. DULSKI. Very well. Let's assume that in the year 1964, when we passed legislation to increase the salaries of all of the employees—we didn't use any index but we just increased salaries by percentages.

Mr. ERNST. That is right.

Mr. DULSKI. Did you receive any consideration for that same increase for your services?

Mr. ERNST. No; we did not. We continued to operate the routes for the same money.

Mr. DULSKI. In other words, there was no increase?

Mr. ERNST. No increase.

Mr. DULSKI. Do you have any contractors that have employees and who are operating as a corporation or partnership?

Mr. ERNST. We do have; yes, sir.

Mr. DULSKI. How many would you have, roughly?

Mr. ERNST. That employ help?

Mr. DULSKI. Yes; that are on a larger scale?

Mr. ERNST. On the larger scale, I would say between 200 and 300.

Mr. DULSKI. Out of the 10,000?

Mr. ERNST. Yes.

Mr. DULSKI. What is the average pay of an employee, not the employer, but the employee?

Mr. ERNST. It would vary from \$1.25, which is the minimum, up to perhaps \$1.75 per hour.

Mr. DULSKI. That would be on a yearly basis?

Mr. ERNST. That is regular employment; yes, sir.

Mr. DULSKI. That is \$1.75 an hour for a 40-hour week?

Mr. ERNST. That is regular employment; yes, sir.

Mr. DULSKI. This would almost fit into the poverty program; wouldn't it?

Mr. ERNST. There might be a few exceptions where the employee might get as much as \$2 per hour.

Mr. DULSKI. This letter that you speak about that is mailed 60 days previous to the time the contract expires, does a person receive a letter from the Postmaster General regardless of whether he makes an application or is that the regular procedure?

Mr. ERNST. No, sir; it isn't even suggested by the postal officials that he submit a request for an increase in pay.

Mr. DULSKI. I say, suppose the contract expires?

Mr. ERNST. Yes, sir.

Mr. DULSKI. It is expiring and he receives a letter 60 days before expiration?

Mr. ERNST. The first letter he receives from the Department asks whether he is interested in renewing his contract for another term at the present rate of pay?

Mr. DULSKI. At the present rate of pay?

Mr. ERNST. Yes, sir.

Mr. DULSKI. Supposing he returns the letter and says that he is interested in the contract but there are some specific items that he would like to have increased. Does that second letter follow?

Mr. ERNST. He is told or furnished with a copy then of the form, the POD form 5478, and he is requested to submit an itemized cost of his operation for consideration.

Mr. DULSKI. This is 60 days prior to the time of renewal he receives this first letter?

Mr. ERNST. Yes, sir; these letters I quoted went out approximately 60 days prior to renewal time and that is hardly sufficient time for the Post Office Department to evaluate the contractor's cost of operation. Yes, the Department would have no difficulty if they only had 1 or 2, but they might have 50 or 100 such requests and it is time consuming.

Mr. DULSKI. What would be the cost of this legislation?

Mr. ERNST. No, sir, I don't. I figure that the costs would be from \$50 to \$75 per contract or for the major portion of our contracts.

Mr. DULSKI. Using your figures of 10,000, it would be less than \$1 million, wouldn't it?

Mr. ERNST. Yes, sir; I estimate it would be.

Mr. DULSKI. I have the cost of the legislation. The additional cost would be \$416,000, which would be a total of about \$1.2 million. That is on a 3-year basis?

Mr. ERNST. Yes, sir.

Mr. DULSKI. Thank you very much, Mr. Ernst. I appreciate your testimony.

Mr. ERNST. Thank you, Mr. Chairman.

Mr. DULSKI. Mr. Green.

Mr. GREEN. No questions.

Mr. DULSKI. Mr. Daniels.

Mr. DANIELS. You say that the Post Office Department is exercising some pressure upon the star route carriers. Then you proceed to go into detail as to the contents of a letter that was sent out by the Post Office Department. Could you tell us to whom that letter was sent and when?

Mr. ERNST. That particular letter that was quoted was mailed to a great many contractors from the Memphis, Tenn., regional office and that represents the States of Alabama, Tennessee, and Mississippi.

Mr. DANIELS. As a result of that letter being received by the star route carriers, do you know if there have been any changes in the rates?

Mr. ERNST. Yes; there were a great many that were downgraded. None were upgraded.

Mr. DANIELS. For how long is a contract made on a star route? For what period of time is it made?

Mr. ERNST. A 4-year term.

Mr. DANIELS. The contract may be renewed for additional 4-year periods?

Mr. ERNST. Yes.

Mr. DANIELS. Under the 1948 law, the Postmaster General may, in his discretion, with the consent of the contractor, readjust the compensation based upon changed conditions which did not exist at

the time when he entered into the contract. Has the Postmaster General, to your knowledge, increased the contracts of most of those people with whom he has contracts?

Mr. ERNST. There has been no increase granted unless the contractor submitted an individual cost statement itemizing his actual increase in costs of operation.

Mr. DANIELS. Do you have any figures to submit to the committee as to how many such requests were submitted to the Postmaster General and what the Postmaster General's action was on those requests?

Mr. ERNST. No; I do not. I would say approximately 75 or 80 percent were granted an increase.

Mr. DANIELS. How did the increase compare with the amount requested?

Mr. ERNST. Due to the fact that many of our carriers unfortunately keep poor records and, in many instances, some of them have had a tendency to inflate their costs of operation, they have had to be downgraded. I must say that the Post Office Department has been fair in dealing with those who submitted intelligent requests for adjustments. Now that includes only the increase in costs of operation. That has not included an item for the increase in cost of living until 1960.

The Department issued a regulation at that time stating that they would give consideration to percentage increase on their take-home pay.

Mr. DANIELS. If the contractor were to take more time to prepare records and keep more careful records, do you think that might resolve the problem?

Mr. ERNST. I don't believe so, sir.

Mr. DANIELS. Would you say that the Postmaster General has been fair in awarding the increases to those contractors who have filed applications indicating their increased costs with the exception of the consumer price index costs?

Mr. ERNST. That statement should be modified just a wee bit. That refers to the larger contractors, many of whom do employ bookkeepers or accountants to keep their records. But the individual operator, which represents, I would say, about 60 to 75 percent of all contractors, do not hire employees to keep their books. They do the job themselves and there is little time left for them to keep records and prepare a detailed statement showing their actual costs of operation.

Mr. DANIELS. In that case that you have just alluded to, do those contractors engage in other employment other than the handling of this mail?

Mr. ERNST. Not many.

Mr. DANIELS. They are entirely dependent upon the small amount they earn?

Mr. ERNST. Entirely dependent on the small amount of money they get.

Mr. DANIELS. I think you made reference to 3,000 receiving an annual pay of less than \$3,000 a year.

Mr. ERNST. Yes, sir. They live in small rural areas and perhaps they do have a garden that helps to supplement their living.

Mr. DANIELS. They would all qualify to be recipients under our antipoverty program.

Mr. ERNST. I understand that; yes, sir. That is not an understatement. Those are the facts.

Mr. DANIELS. I have no further questions.

Mr. DULSKI. Mr. Sodrel, do you have anything to add?

Mr. SODREL. In most cases, I feel that the Post Office Department has gone as far as they could on a lot of these pay adjustments. The problem seems to be that a lot, at least of the smaller contractors that need a little more money, a lot of them are reluctant to ask for these increases. Consequently, if they don't ask for them, they never get them. This is for a lot of reasons.

Some of them are in bad financial conditions and they feel if they did ask and something came up—it is not that the Post Office Department has threatened that particular fellow or anything like that, but some of them are just reluctant because they are afraid of the change. They are afraid if they do ask for an increase, there might be some change in their contract and they would rather just get along the way they are than call attention to themselves by asking for an increase.

That type of person, we feel, would be helped considerably by this bill. The larger contractor can document his expenses and the Post Office Department has been very fair in their adjustments.

Mr. DANIELS. Mr. Chairman, I would like to ask another question. What do you think would be a fair, reasonable cost-of-living increase at the present time?

Mr. SODREL. I am sorry, I can't answer that, sir.

Mr. DANIELS. Can you answer that?

Mr. ERNST. We are basing our contention on the statistical report furnished by the U.S. Labor Department.

Mr. DANIELS. You set forth on page 5 some figures—

Mr. ERNST. Five percent.

Mr. DANIELS. You set those out and they total 4.229 for the 3 years.

Mr. ERNST. I might say, had the law been enacted this year, the carrier would have been entitled to receive a 1.299-percent increase, the way I interpret the intent of the law.

Mr. DANIELS. And under this legislation, if it were to be enacted into law, the increase would automatically go into effect?

Mr. ERNST. Automatically go into effect and each contractor would have his pay adjusted annually.

Mr. DANIELS. Do you have any idea of the costs that would be involved in the enactment of this legislation?

Mr. ERNST. No, sir; I don't.

Mr. DANIELS. Is there anyone here who can give us some idea of the cost?

Mr. DULSKI. The figures were submitted by the Department.

Mr. DANIELS. On the basis of 1.2 percent, the Postmaster General says for the year 1964 the increased costs would amount to \$365,000, and in the year 1965, \$391,000, and in 1966, \$416,000. Do you agree with those figures or do you have any reason to disagree?

Mr. ERNST. I estimated approximately \$1 million, but apparently I was very high on my estimate.

Mr. DULSKI. It is over \$1 million on the 3-year basis.

Mr. ERNST. Yes, sir.

Mr. DULSKI. But the figures quoted, divided by 3—

Mr. ERNST. It would be less than half a million dollars on an annual basis.

Mr. DULSKI. It would be \$365,000, \$391,000, and \$416,000. Are you through, Mr. Daniels?

Mr. DANIELS. Yes.

Mr. DULSKI. I imagine in the year 1966, perhaps you won't have as many, with the ZIP code and everything else that is coming through the Post Office. There won't be as many star routes.

Mr. ERNST. There may be more star routes, but they will be short runs requiring 2 or 3 hours of service and then sit out in a fence corner all day before coming back home at night. There may be more in number but they certainly will less in cost.

Mr. DULSKI. Then there will be more individually run star routes. The contractors will need other jobs.

Mr. ERNST. Right.

Mr. DULSKI. It is pretty difficult to make a living on 3 hours a day.

Mr. ERNST. That is right.

Mr. DULSKI. You have other members here who have traveled quite a distance to be here. Is there any other gentleman that would like to make any statement or add to the testimony of your general manager and president?

How about the Buffalo man?

Mr. FURCH. I think they did a very fine job in covering it, Mr. Dulski.

Mr. DULSKI. If there are no further questions, the committee will stand adjourned.

Mr. ERNST. Thank you, Mr. Chairman and committee members. (Whereupon, at 11:35 a.m., Wednesday, April 14, 1965, the subcommittee was adjourned.)



