



Testimony

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BREAST CANCER RESEARCH STAMP

Millions Raised for Research, but Better Cost Recovery Criteria Needed

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Breast Cancer Research Stamp: Millions Raised for Research, but Better Cost Recovery Criteria Needed

The Stamp Out Breast Cancer Act directed the U.S. Postal Service to create the Breast Cancer Research Semipostal (BCRS), the first-ever semipostal in this nation's history. The BCRS sells for 40 cents—with 33 cents covering the First-Class postage rate. After recouping its reasonable costs, the Service is to remit the net surcharge revenue to the National Institutes of Health and Department of Defense for breast cancer research.

The public and a majority of key stakeholders GAO spoke with believe it is appropriate to use semipostals issued by the Service to raise funds for special purposes—such as breast cancer research. The Service, although supportive of the BCRS, is generally opposed to semipostals because the Service believes them to be outside its mission. In GAO's opinion, the BCRS has been an effective fund-raiser. It has raised millions and, at the same time, has been convenient and voluntary. By the time BCRS sales conclude on July 28, 2000, the Service estimates it will have raised about \$14 million for breast cancer research. The average monthly surcharge revenue generated by the BCRS compared favorably with 7 of the 12 foreign semipostals included in GAO's survey, although it did not raise as much money as most of the foreign semipostals on a per capita basis.

It is not clear precisely how much it cost the Service to develop and sell the BCRS. The Service reported that the bulk of its costs, through the end of 1999, were about \$5.9 million. According to the Service, about \$5.4 million of those costs were recovered through the 33-cent First-Class portion of the BCRS, and the remaining \$482,000 had been recouped from surcharge revenue. Throughout the review, GAO was concerned that the Service had not formalized its criteria for determining what costs would be recouped from the BCRS' surcharge revenue and was not consistently applying its informal criteria, which changed over time. GAO recommended that the Service formalize and consistently apply its cost recovery criteria; and in response to that recommendation, the Postmaster General said the Service would do so shortly. He said the Service planned to recoup costs from the surcharge revenue that were over and above the costs normally incurred with a "blockbuster" commemorative stamp issue or new postal product.

The U.S. Mint's experiences offer some lessons learned that may be applicable to semipostals, because there are many similarities between the two. In the mid-1990s, GAO reviewed the commemorative coin program and found that some coins were unpopular and did not sell well. GAO also found that as the number of commemorative coins proliferated, the market became saturated and sales declined. As sales declined, the Mint was unable to cover its costs on some commemorative coin programs.

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to participate in the Subcommittee's hearing on semipostal postage stamps, and in particular the Breast Cancer Research Semipostal, which we will refer to by its acronym—BCRS.¹ As you know, the BCRS—which was mandated by the Stamp Out Breast Cancer Act—is the first-ever semipostal issued by the U.S. Postal Service. It costs 40 cents—with 33 cents covering the First-Class postage rate and the remaining 7 cents, less the Postal Service's reasonable costs, earmarked for breast cancer research at the National Institutes of Health (NIH) and Department of Defense (DOD).

My statement this morning is based primarily on the work we did in response to the requirement contained in the act that we review the appropriateness and effectiveness of the BCRS as a fund-raiser and the costs associated with developing and selling the BCRS. The results of that work are discussed in our recently issued report entitled Breast Cancer Research Stamp: Millions Raised for Research, but Better Cost Recovery Criteria Needed (GAO/GGD-00-80, April 28, 2000.) Today, I would like to highlight for the Subcommittee some of the key information contained in that report and also discuss some of the lessons learned from the work we did several years ago on the U.S. Mint's commemorative coin program.² Because of the many similarities between semipostals and commemorative coins, we thought this discussion might be helpful to the Subcommittee as it considers a myriad of legislative proposals calling for additional semipostals. Hopefully, by looking at some of the problems that befell the commemorative coin program, the government can avoid similar pitfalls should Congress decide to authorize additional semipostals.

By way of introduction, I would like to briefly describe the work we did in response to our congressional mandate. Because the act did not specify the criteria to be used for evaluating the appropriateness and effectiveness of the BCRS as a fund-raiser, we developed what we believed to be reasonable measures of appropriateness and effectiveness. One of those measures was to obtain the views of key stakeholders, including (1) the Postal Service, (2) the American Cancer Society, (3) the National Breast Cancer Coalition, (4) the Susan G. Komen Breast Cancer Foundation, (5) the president of the American Philatelic Society, (6) the Curator of the Smithsonian Institution's National Philatelic Collection, and (7) Dr. B.I.

¹ A semipostal is a stamp sold at a surcharge over postal value. The additional charge is for a special purpose.

² U.S. Mint: Commemorative Coins Could Be More Profitable (GAO/GGD-96-113, Aug. 7, 1996).

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Bodai—the individual credited with conceiving the idea for the BCRS. Another measure was to conduct a statistically generalizable survey of adults in the continental United States to determine the public's opinion of the BCRS and semipostals in general. We also obtained information on 12 semipostals issued by 8 foreign postal administrations that responded to our request for information. Additionally, we gathered and analyzed pertinent information on costs, revenue, and resources used to develop and sell the BCRS.

Our bottom-line assessments, based on the work we did, are that (1) the public and most of the key stakeholders we spoke with believed it appropriate to use semipostals issued by the Postal Service to raise funds for special, nonpostal purposes; (2) the BCRS has been an effective fundraiser; and (3) the cost of developing and selling the BCRS totaled about \$5.9 million as of December 31, 1999. The Service considers about \$5.4 million of those costs to have been recovered through the 33-cent First-Class postage portion of the BCRS; and said the remaining \$482,000 has been recouped from the BCRS' surcharge revenue as of April 14, 2000—the date of the latest transfers to NIH and DOD.

Throughout our review, we were concerned that the Service had not formalized its criteria for determining what costs would be recouped from the surcharge revenue generated by the BCRS. Additionally, we were concerned that the Service was not consistently applying its informal criteria for making such determinations to all costs being tracked. We recommended that the Postmaster General (PMG) promptly issue regulations that clearly state the Service's criteria for determining which costs are to be recouped from the BCRS surcharge revenue and ensure that the criteria are consistently applied to all costs. In response to that recommendation, the PMG stated that the Service will issue final regulations formalizing its cost recovery criteria by the time BCRS sales are scheduled to end on July 28, 2000, and will apply those criteria to all costs before making the last transfers of surcharge revenue to NIH and DOD. He said the Service planned to recoup costs from the surcharge revenue that were over and above the costs normally incurred with a "blockbuster" commemorative stamp issue or a new postal product.³

³ A commemorative stamp is a postage stamp that depicts the cultural and historical heritage of the United States; e.g., important people, events, places, or special subjects of national appeal or significance. A "blockbuster" commemorative is a commemorative stamp that has mass appeal; garners Postal Service support on a national level; and, in most cases, will be highly retained by postal patrons and not used for postage.

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I will now highlight for the Subcommittee the results of our work in a little more detail.

Appropriateness of Using Semipostals as a Means of Fund-Raising

The public and a majority of the key stakeholders we spoke with believe it is appropriate to use semipostals for fund-raising. However, there are some who view fund-raising as outside the Service's mission and therefore inappropriate.

The Service, although supportive of the BCRS, is generally opposed to semipostals because it believes that congressional mandates to issue semipostals expand the Service's mission beyond what was defined by the Postal Reorganization Act of 1970. As discussed in our report, we agree with the Service that the sale of semipostals is outside the Service's mission as defined by the 1970 act. Additionally, we do not believe the Service has the authority to issue semipostals on its own volition without specific legislation authorizing it to do so—assuming that it would ever want to do so. This is not to say, however, that legislation expanding the Service's mission and requiring it to participate in fund-raising activities by issuing semipostals is inappropriate. That decision is strictly a policy matter for Congress to decide.

The American Philatelic Society is also opposed to the use of semipostals as fund-raisers because it views them as a tax on the Society's members that falls disproportionately and unfairly on their hobby. However, the president of the American Philatelic Society recently stated, in commenting on a draft of our report, that if a fair process could be designed for choosing no more than two semipostals per year, he believed stamp hobbyists could live with that process.

On the other hand, the public and most of the key stakeholders we spoke with believed that it is appropriate to use semipostals issued by the Service to raise funds for special, nonpostal purposes. In fact, an estimated 71 percent of adults 18 years of age or older in the continental United States support using semipostals as fund-raisers. Key stakeholders believing it was appropriate to use the BCRS issued by the Service to raise funds for breast cancer research included the American Cancer Society, the Susan G. Komen Breast Cancer Foundation, Dr. B. I. Bodai, and the Curator of the Smithsonian Institution's National Philatelic Collection.

The eight foreign postal administrations that responded to our survey were evenly split on the question of the appropriateness of using semipostals to raise funds for special, nonpostal purposes. The postal administrations of Germany, The Netherlands, Belgium, and New Zealand believe that it is

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Effectiveness of the Breast Cancer Research Semipostal as a Fund-Raiser

appropriate to use semipostals to raise funds for nonpostal purposes. Conversely, the postal administrations of Austria, Canada, the United Kingdom, and Sweden believe it is inappropriate to use semipostals to raise funds for nonpostal purposes. Generally speaking, the postal administrations that did not believe semipostals are appropriate stated that semipostals are not popular with postal patrons in their countries.

Next, I would like to discuss the effectiveness of the BCRS as a fund-raiser.

The Stamp Out Breast Cancer Act did not provide quantitative measures for evaluating the effectiveness of the BCRS as a fund-raiser. However, the act provided that the BCRS was to provide the public a voluntary and convenient way of raising funds for breast cancer research. Because the act did not provide quantitative measures for evaluating the effectiveness of the BCRS, and historic comparisons were not possible because this is the first-ever U.S. semipostal, we developed what we believed to be reasonable measures of effectiveness. Those measures included (1) determining whether the BCRS raised funds for breast cancer research and was voluntary and convenient; (2) obtaining the views of key stakeholders, including the Postal Service; (3) obtaining the public's view of the BCRS and semipostals in general; and (4) comparing the BCRS' performance with several semipostals issued by foreign postal administrations. On the basis of the results of those measures, we believe that the BCRS has been an effective fund-raiser.

First, as provided by the act, the BCRS has raised money for breast cancer research and, at the same time, has been voluntary and convenient. Second, key stakeholders, for the most part, viewed the BCRS as an effective fund-raiser. Third, the public's view of the BCRS was generally positive; and a majority of the adults responding to our public opinion survey expressed a desire to see more semipostals in the future for other special, nonpostal purposes. Finally, the average monthly surcharge revenue generated by the BCRS compared favorably with 7 of the 12 foreign semipostals included in our survey, although it did not raise as much money as 8 of the 12 foreign semipostals on a per capita basis.

As of March 24, 2000, the Service had sold about 170 million BCRSs, which generated about \$12.5 million in surcharge revenue. The Service estimates that by the time sales are scheduled to end on July 28, 2000, about 194.8 million BCRSs will have been sold—generating about \$14.3 million in surcharge revenue.⁴ In accordance with the act, the surcharge revenue

⁴ H.R. 4069 and S. 2386 were introduced in Congress on March 23, 2000, and April 11, 2000, respectively, to extend the sales period for the Breast Cancer Research semipostal for 2 years.

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generated by the BCRS, less the Service's reasonable costs, is to be transferred to NIH and DOD. The act specifies that NIH is to receive 70 percent of the net proceeds, and DOD is to receive 30 percent. As of April 14, 2000—the date of the last transfers—about \$7.3 million had been transferred to NIH, and about \$3.1 million had been transferred to DOD for breast cancer research.

Monetary and Other Resources Used to Develop and Sell the Breast Cancer Research Semipostal

Next, I would like to discuss the costs associated with developing and selling the BCRS. At this point in my statement I should mention that this is the area where we had the most concerns with the BCRS program.

It is not precisely clear how much it cost the Postal Service to develop and sell the BCRS. There were costs the Service did not track because it believed those costs would be inconsequential or immaterial, such as minor accounting functions, including posting sales receipts to cashbooks in nonautomated post offices. As mentioned earlier, the Service reported that the bulk of its costs, through December 31, 1999, were about \$5.9 million. The \$5.9 million includes \$488,000 in costs identified by the Postal Office of Inspector General that had not been previously identified by the Service. At the time we concluded our review, there was an additional \$348,000 in costs that the Postal Office of Inspector General believed was attributable to the BCRS, but the Service disagreed.

Of the \$5.9 million, the Service considers about \$482,000 to be unique to the BCRS and had recouped those costs from the surcharge revenue as of April 14, 2000—the date of the last transfers to NIH and DOD. According to the Service, all other costs—about \$5.4 million—would have been incurred with any blockbuster commemorative stamp issue or new postal product, and those costs have been recovered through the 33 cents that constitutes the First-Class postage portion of the BCRS.

The Stamp Out Breast Cancer Act required that the Service prescribe regulations setting forth the criteria it would use to determine the reasonable costs to be recouped from the surcharge revenue generated by the BCRS. However, the act did not establish a deadline to prescribe such regulations.

As of mid-May 2000, the Service had not prescribed regulations containing formal, written criteria for determining the reasonable costs to be recouped from the BCRS' surcharge revenue. Through much of the BCRS' sales period, the Service has used an evolving set of informal criteria to decide what costs it would recoup from the surcharge revenue.

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Additionally, our review indicated that the Service did not consistently apply its informal criteria to all costs.

The Service initially planned not to recoup any costs from the surcharge revenue. We discussed this approach with postal officials as the sales program progressed and were told that the Service had decided to recoup costs that were above and beyond the costs normally associated with a commemorative stamp issue. After we examined the Service's application of those criteria and expressed concern that the Service had not consistently applied its commemorative stamp issue criteria, the Service again revised its informal criteria. Under its revised criteria, the Service planned to recoup costs that were above and beyond the costs normally associated with a blockbuster commemorative stamp issue. Our analysis of the Service's application of its revised informal criteria also showed that the Service was not consistently applying those criteria to all cost items. The results of that analysis are discussed in more detail in our recently issued report. In commenting on our recommendation that the PMG formalize and consistently apply the Service's cost recovery criteria, the PMG announced in a letter dated April 11, 2000, that the Service had again revised its informal criteria. He stated that the Service now plans to recoup costs over and above the costs normally incurred with a blockbuster commemorative stamp issue or new postal product. The PMG also stated that the Service will consistently apply its latest criteria to all costs the Service is tracking.

Throughout the review, we were concerned that the Service had not issued formal, written criteria to determine which of the BCRS' costs would be recouped from the surcharge revenue. Understanding what criteria the Service is applying, as well as the data or analysis underlying its cost recovery decisions, is key to establishing the appropriateness of the Service's decisions regarding those costs to be recouped from the surcharge revenue. Moreover, this information is essential to providing postal rate payers, who have not purchased the BCRS, assurance that they are not making involuntary contributions to breast cancer research. Involuntary contributions occur when costs that should have been recouped from the BCRS surcharge were not and must be covered by revenue generated from other First-Class postage.

We recognize that the act provides the Service with the discretion to establish reasonable criteria for determining the BCRS costs to be recouped from the surcharge revenue and that the act did not impose a time restriction. However, until such time that the Service prescribes formal, written criteria and consistently applies those criteria to all BCRS

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costs, it is difficult for Congress, us, and others to evaluate how well the Service is implementing its legislative mandate to recoup reasonable costs. The Service's failure to prescribe formal, written criteria also makes it difficult for Congress and others to determine whether the Service's criteria are appropriate. The need to prescribe formal, written criteria as soon as possible is particularly acute given that the Service's actions are potentially precedent-setting. Eight bills have been introduced in Congress that would mandate additional semipostals, and each of those bills contains the same language as the Stamp Out Breast Cancer Act regarding the recoupment of reasonable costs. As previously mentioned, however, the PMG has expressed assurances that the Service will issue final regulations formalizing its cost recovery criteria by the time BCRS sales are scheduled to end on July 28, 2000, and will apply those criteria to all costs being tracked before making the last transfers of surcharge revenue to NIH and DOD.

Lessons Learned From Commemorative Coins

Before concluding my testimony, I would like to mention some of the lessons learned from work we did several years ago on the U.S. Mint's commemorative coin program. We are hopeful that by looking at some of the problems the Mint experienced with commemorative coins, the government may be able to avoid similar pitfalls should Congress authorize additional semipostals.

Semipostals are similar to commemorative coins produced by the Mint in that both are authorized by Congress and produced by government agencies. The purpose of semipostals and commemorative coins is also similar. Semipostals are sold at a surcharge over postal value, with the net proceeds from the surcharge going to a special purpose—such as breast cancer research.

Commemorative coins are legal tender but are typically sold at several times their metal value, with surcharges being paid to sponsoring groups. They typically serve to honor certain events or individuals and raise funds for the coins' sponsors. For example, the Mint issued a set of 32 coins to commemorate and raise funds for the 1996 summer Olympic games in Atlanta, GA.

In August 1996, at the request of the Chairman of the Senate Banking, Housing, and Urban Affairs Committee, we issued a report on the Mint's commemorative coin program that focused primarily on coins issued between 1982 and 1996. Among other things, the Chairman had been concerned about the proliferation of commemorative coin programs and

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the market for commemorative coins. We believe at least two of the findings from our report are relevant to semipostals and merit revisiting.

First, the report noted that as the number of commemorative coin programs authorized proliferated, the market became saturated and sales declined. From 1982 through 1989, Congress authorized an average of less than one commemorative coin program per year. During that period, the total number of commemorative coins sold averaged 4.5 million annually. From 1990 to 1995, however, Congress authorized an average of 2.7 commemorative coin programs per year, but the total number of commemorative coins sold per year fell to an average of 2.8 million. The report noted that according to coin collectors, the Director of the Mint, and others, commemorative coin sales declined in the early 1990s because there were so many different commemorative coins that the market became saturated and could not absorb more. Additionally, they noted that some commemorative coin themes were not well accepted by the public. For example, some coins with broad public appeal sold well, such as those commemorating the centennial of the Statue of Liberty and Ellis Island. However, coins with seemingly narrower appeal, such as the United Service Organization⁵ commemorative, did not fare as well. As a consequence of these conditions—market saturation and some unpopular coin themes—commemorative coin sales during the early 1990s were significantly less than hoped for.

Second, the report noted that on some commemorative coin programs, the Mint recorded a loss because sales were not sufficient to cover costs. In 1994, for example, the Mint reported losing \$4.1 million on the World Cup coin program.

To help minimize the potential for future losses, the report concluded, among other things, that Congress could guard against (1) the production of more commemorative coins than the market can absorb, and (2) the selection of themes that are unlikely to have broad appeal to the commemorative coin market.

We believe semipostals could be vulnerable to some of the same pitfalls that befell the commemorative coin program in the early 1990s. As we noted in our report on the BCRS, there has already been a proliferation of semipostal bills introduced in Congress since the act creating the BCRS. Passage of several of these bills creating semipostals with similar sales

⁵ The United Service Organization provides services to active duty military personnel, such as emergency housing and food assistance.

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time frames might saturate the market and strain, if not overwhelm, the Service's capacity to effectively and efficiently develop, distribute, and market these semipostals.

Additionally, just as some commemorative coins failed to sell well because of themes lacking broad market appeal, semipostals with limited public appeal and marketability might also fare poorly. The BCRS benefited not only from a relatively high public awareness of breast cancer issues, but also from a nationwide network of health research and support organizations that supported and promoted the breast cancer semipostal—such as the Susan G. Komen Breast Cancer Foundation and the American Cancer Society. Semipostals for lesser known causes with limited organized support might not fare as well, possibly resulting in a monetary loss for the Service and no surcharge revenue for the stamps' beneficiaries. Competition from other semipostals may also have an impact on sales, as was the case with commemorative coins. For example, the Mint's experience with commemorative coins shows that total sales were the highest in years when only one commemorative coin program was ongoing—not two or more.

The Service projects that about 195 million BCRSs will have been sold by July 28, 2000, when sales are currently scheduled to end. The Service reports that these sales will cover its cost of developing and selling the BCRS, plus generate about \$14 million for breast cancer research. A semipostal without the broad market appeal and organized support enjoyed by the BCRS might fail to sell sufficiently to generate even enough revenue to cover the Service's costs—a situation that would be both costly and problematic for the Service in that rate payers would be covering losses incurred from postal fund-raising activities.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions you or Members of the Subcommittee may have.

Contact and Acknowledgements

For future contacts regarding this testimony, please contact Bernard L. Ungar, Director of Government Business Operations, on (202) 512-8387. Individuals making key contributions to this testimony include Gerald P. Barnes, Charles F. Wicker, and Roger L. Lively.

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