



COST AND REVENUE ANALYSIS

FISCAL YEAR 2001

FINANCE

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2001

Classes and Sub-Classes of Mail (note 1)	(in millions)			(per piece)			
	Revenue	Incremental	Volume	Revenue	Marginal	Contribution	Cost
	(note 1)	Cost	Variable Cost	\$	Cost \$	\$	Coverage
	A	B	C	D	E	(D-E)	(D/E)
First-Class Mail:							
Single-Piece Letters.....	\$21,451.4	\$13,055.5	\$12,365.5	\$0.421	\$0.243	\$0.178	173.48%
Presort Letters.....	13,224.1	4,966.2	4,756.9	0.280	0.101	0.179	278.00%
Total Letters.....	34,675.6	18,492.1	17,122.5	0.353	0.174	0.179	202.52%
Single-Piece Cards.....	551.5	490.6	477.7	0.208	0.180	0.028	115.46%
Presort Cards.....	462.9	165.0	162.7	0.163	0.057	0.106	284.50%
Total Cards.....	1,014.5	656.4	640.4	0.185	0.117	0.068	158.42%
Fees (note 2).....	184.0						
Total First-Class.....	35,874.0	19,396.4	17,762.8	0.346	0.171	0.175	201.96%
Priority Mail.....	4,916.1	3,572.5	3,250.4	4.398	2.908	1.490	151.25%
Express Mail.....	995.7	707.0	393.8	14.350	5.675	8.675	252.86%
Mailgram.....	1.4	0.6	0.5	0.416	0.167	0.248	248.45%
Periodicals:							
In County.....	79.3	73.2	72.4	0.090	0.082	0.008	109.54%
Outside County (note 2).....	2,106.9	2,231.6	2,207.1	0.229	0.240	(0.011)	95.46%
Fees (note 2).....	19.1						
Total Periodicals.....	2,205.2	2,306.5	2,279.5	0.219	0.226	(0.007)	96.74%
Standard Mail:							
Enhanced Carrier Route (note 2).....	4,980.5	2,260.3	2,136.0	0.147	0.063	0.084	233.17%
Regular (note 2).....	10,636.0	8,085.4	7,853.6	0.190	0.140	0.050	135.43%
Fees (note 2).....	88.4						
Total Standard Mail.....	15,704.9	10,631.2	9,989.6	0.175	0.111	0.064	157.21%
Package Services:							
Parcel Post.....	1,128.4	1,088.0	1,077.1	3.182	3.037	0.145	104.76%
Bound Printed Matter.....	549.8	508.5	505.4	0.990	0.910	0.080	108.78%
Media Mail (note 2).....	313.7	309.9	309.2	1.711	1.687	0.024	101.44%
Fees (note 2).....	1.9						
Total Package Services.....	1,993.8	1,921.1	1,891.7	1.824	1.731	0.093	105.39%

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2001

Classes and Sub-Classes of Mail (note 1)	(in millions)			(per piece)			
	Revenue	Incremental	Volume	Revenue	Marginal	Contribution	Cost
	(note 1)	Cost	Variable Cost	\$	\$	\$	Coverage
	A	B	C	D	E	(D-E)	(D/E)
Free Mail - blind, handicapped & servicemen.....	-	\$37.7	\$37.7	-	0.845	N/A	0.00%
International Mail (note 2).....	1,769.3	1,401.8	1,338.6	1.632	1.235	0.397	132.17%
Total Mail.....	63,460.3		36,944.6	0.306	0.178	0.128	171.77%
Special Services:							
Registry	73.3	90.8	90.8	9.409	11.655	(2.246)	80.73%
Ancillary Services.....	3.3						
Total Registry.....	76.6						
Certified	486.1	383.3	356.9	1.826	1.341	0.486	136.21%
Ancillary Services.....	341.9						
Total Certified.....	828.0						
Insurance.....	119.0	102.9	102.2	2.027	1.742	0.285	116.38%
Ancillary Services.....	2.0						
Total Insurance.....	121.0						
COD	15.2	12.9	12.9	5.696	4.807	0.888	118.48%
Ancillary Services.....	0.1						
Total COD.....	15.3						
Money Orders (note 2).....	266.9	222.8	148.9	1.182	0.659	0.523	179.30%
Stamped Cards (note 5).....	3.1	2.5	2.5				
Stamped Envelopes.....	24.1	4.3	4.3				
Special Handling.....	2.5	0.6	0.6				
Post Office Box.....	699.0	561.6	561.6				
Other.....	31.4		171.5				
Total Special Services.....	2,067.9	1,624.4	1,452.2				
Miscellaneous items (note 2).....	239.0		-				
Total Mail and Services.....	65,767.2		38,396.8				
Appropriations: Revenue Forgone.....	66.9						
Total Operating Revenue.....	65,834.1						
Investment Income.....	34.8						
Total (note 3).....	65,868.9		38,396.8				
All other costs.....			29,152.0				
Total Costs (note 3).....			67,548.9				

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2001

VOLUME STATISTICS

<u>Classes and Sub-Classes of Mail</u> <u>(note 1)</u>	<u>Pieces</u> <u>(thousands)</u>	<u>Weight in</u> <u>Pounds</u> <u>(thousands)</u>	<u>Weight per</u> <u>Piece</u> <u>(ounces)</u>	<u>Cubic Feet</u> <u>(thousands)</u>	<u>Weight per</u> <u>Cubic Foot</u> <u>(pounds)</u>
First-Class Mail:					
Single-Piece Letters.....	50,945,861	2,524,385	0.8	148,958	16.9
Presort Letters.....	47,214,210	1,799,064	0.6	100,221	18.0
Total Letters.....	98,160,071	4,323,449	0.7	249,179	17.4
Single-Piece Cards.....	2,653,454	16,588	0.1	1,111	14.9
Presort Cards.....	2,842,078	22,770	0.1	1,525	14.9
Total Cards.....	5,495,532	39,358	0.1	2,636	14.9
Total First Class.....	103,655,603	4,362,807	0.7	251,815	17.3
Priority Mail.....	1,117,835	2,149,697	30.8	465,504	4.6
Express Mail.....	69,384	72,129	16.6	11,442	6.3
Mailgram.....	3,280	0	0.0	0	0.0
Periodicals:					
In County.....	879,101	253,884	4.6	10,132	25.1
Outside County (note 2).....	9,198,266	4,154,450	7.2	165,793	25.1
Total Periodicals.....	10,077,367	4,408,334	7.0	175,925	25.1
Standard Mail:					
Enhanced Carrier Route (note 2).....	33,843,362	5,148,130	2.4	218,034	23.6
Regular (note 2).....	56,095,067	5,674,035	1.6	227,943	24.9
Total Standard Mail	89,938,429	10,822,165	1.9	445,977	24.3
Package Services:					
Parcel Post.....	354,628	2,148,634	96.9	429,727	5.0
Bound Printed Matter.....	555,070	1,345,523	38.8	141,768	9.5
Media Mail (note 2).....	183,294	307,538	26.8	39,611	7.8
Total Package Services.....	1,092,992	3,801,695	55.7	611,106	6.2

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2001

VOLUME STATISTICS

<u>Classes and Sub-Classes of Mail</u> <u>(note 1)</u>	<u>Pieces</u> <u>(thousands)</u>	<u>Weight in</u> <u>Pounds</u> <u>(thousands)</u>	<u>Weight per</u> <u>Piece</u> <u>(ounces)</u>	<u>Cubic Feet</u> <u>(thousands)</u>	<u>Weight per</u> <u>Cubic Foot</u> <u>(pounds)</u>
US Postal Service.....	380,603	82,328	3.5	13,714	6.0
Free Mail - blind, handicapped & servicemen.....	44,570	24,886	8.9	2,247	11.1
International Mail (note 2).....	1,083,853	251,876	3.7	34,726	7.3
Total Mail.....	207,463,916	25,975,917	2.0	2,012,460	12.9
Special Services:					
Registry	7,790	N/A	N/A	N/A	N/A
Ancillary Services.....	2,000				
Total Registry.....	9,790				
Certified	266,161	N/A	N/A	N/A	N/A
Ancillary Services.....	230,750				
Total Certified.....	496,911				
Insurance.....	58,691	N/A	N/A	N/A	N/A
Ancillary Services.....	1,391				
Total Insurance.....	60,082				
COD	2,677	N/A	N/A	N/A	N/A
Ancillary Services.....	21.0				
Total COD.....	2,698				
Money Orders (note 2).....	225,806	N/A	N/A	N/A	N/A
Stamped Cards.....	0.0	N/A	N/A	N/A	N/A
Stamped Envelopes.....	0.0	N/A	N/A	N/A	N/A
Special Handling.....	540.0	N/A	N/A	N/A	N/A
Post Office Box.....	0.0	N/A	N/A	N/A	N/A
Other.....	189,157	N/A	N/A	N/A	N/A
Total Special Services.....	984,984	N/A	N/A	N/A	N/A

See accompanying notes.

**UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Fiscal Year 2001**

1. Cost and Revenue Analysis

The U.S. Postal Service (Postal Service) annually prepares the Cost and Revenue Analysis (CRA) covering the period from October 1 through September 30. The CRA aids us in determining that we are meeting the statutory requirements under Title 39 U.S. Code, that “each class of mail or type of mail service bear the direct and indirect costs attributable to that class or service....” The CRA presents management’s estimates of the total and per unit revenue by category of mail or service. It also presents each category’s estimated incremental and marginal costs. These estimates are considered as one element of the postal rate making process.

The postal system of accounts is the basis for CRA data; however, the postal system of accounts generally does not accumulate financial data by class and subclass of mail. Apportionment factors, derived from various postal operational and statistical information sources, are required for development of the data for CRA purposes. Some of these sources (e.g., In-Office Cost System and Revenue, Pieces and Weight (RPW) System) are dedicated to this purpose and involve extensive statistical sampling of postal activity during the year. We compare and scale calculated amounts to actual data in the postal system of accounts, as appropriate. With respect to the RPW system, while calculated sample revenue should approximate actual Postal Service revenue, the RPW system has been designed to accommodate and adjust for any differences. Although the accuracy of the RPW system does not necessarily depend on how close calculated revenue is to actual revenue, we are investigating reasons for the continuing differences between the two. The ongoing project to merge the RPW system and the Origin-Destination Information System beginning in FY 2004 may assist in resolving these differences.

In the FY 2001 and FY 2000 CRAs, we reverted to a pre-1999 method for computing city carrier costs to conform our CRA methodology to the Postal Rate Commission (PRC) approach. Other methods we proposed that have not been adopted by the PRC are still used in the CRA development. For example, we attribute mail processing costs differently from the PRC, generally assuming that costs vary less than proportionately with volume. The methods employed in developing CRA data are described in the Summary Description and in testimony we filed before the PRC. These documents are available from Product Cost Analysis in Finance.

2. Definitions

Incremental Costs – An estimate of the cost we incur as a result of providing the entire annual quantity of a subclass of mail or service. Incremental cost of a subclass of mail or service can be determined by estimating the cost avoided by eliminating that particular subclass of service, assuming that all other products continue to be provided at their current volumes. The purpose of this determination is to indicate whether the customers of one subclass of mail (or group of subclasses) may be subsidizing (or contributing revenue to) customers of another subclass of mail (or group of subclasses.)

Marginal Costs – We estimate the marginal cost of a subclass or mail category as the change in cost that results from a small change in its volume alone, when the volumes of other subclasses or mail categories remain constant.

Volume Variable Costs – Volume times Marginal Cost.

Contribution – Revenue per piece minus Marginal Cost per piece. Contribution indicates the rate at which a given subclass offsets all other costs.

Cost Coverage – Revenue per unit as a percentage of Marginal Cost. Unit Revenue/Marginal Cost times 100.

Fees – Fees associated with a specific class or subclass of mail are included in the reported revenue for that class or subclass.

International Mail – International mail costs include costs of both U.S. origin and foreign origin mail and special services. Volume statistics do not include foreign origin mail.

Miscellaneous Items – Miscellaneous items include philatelic sales, fees, fines, unclaimed money from dead letters, sales of services performed for government agencies and private contractors. They do not include the \$49.0 million in revenue earned from the money order float, which is included in special services and international mail revenue in the CRA.

Combined Mail Categories – The following mail categories include more than one subclass due to the enactment of Public Law 106-384 (October 27, 2000):

“Outside County” contains Nonprofit Periodicals, Classroom Periodicals and Regular Periodicals.

“Enhanced Carrier Route” (ECR) contains Standard Mail Nonprofit ECR and Standard Mail Regular ECR.

“Regular” contains Standard Mail Nonprofit and Standard Mail Regular.

“Media Mail” contains Library Rate and Special Standard.

3. **Miscellaneous Adjustments**

A) Mortgage income is included with interest income in the Annual Report and is reported as miscellaneous revenue in the CRA.

	(in millions)
Operating Revenue per Annual Report	\$65,834
Interest Income	35
Annual Report Revenue	<u>\$65,869</u>
CRA Report Revenue	<u>\$65,869</u>

B) Interest expense on borrowings and deferred retirement liabilities shown separately in the Annual Report is reported as part of CRA Report Expenses.

	(in millions)
Operating Expenses per Annual Report	\$65,640
Interest expense on borrowings	306
Interest expense on deferred retirement liabilities	1,603
Annual Report Expenses	<u>\$67,549</u>
CRA Report Expenses	<u>\$67,549</u>

4. **Product Specific Costs**

Product specific costs represent a portion of the incremental cost of certain subclasses of mail. Though these costs make up a very small portion of overall costs, they are a significant part of certain subclasses, as shown below (in millions):

Priority Mail	\$288.8
Express Mail	302.6
International Mail	60.4

5. Cards

Volume variable costs are for the printing costs related to stamped cards.

6. Other

All figures in the CRA are rounded and may not add to totals.

Percents are rounded to the nearest decimal.

- Denotes zero values.
- () Denotes negative values.