



**PRC Version
Cost and Revenue Analysis
Fiscal Year 2007**

Revised: March 20, 2008

Finance

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2007

Revised March 20, 2008

Classes and Sub-Classes of Mail (note 1)	(in millions)				(per piece)			
	Revenue (note 1)	Attributable Cost (notes 2 & 4)	Volume Variable Cost (Note2)	Product Specific Cost	Revenue \$	Attributable Cost \$ (note 2)	Contribution \$ (note 2)	Cost Coverage (note 2)
	A	B	C	F	D	E	(D-E)	(D/E)
First-Class Mail:								
Single-Piece Letters.....	\$19,608.9	\$12,521.2	\$12,452.7	\$68.5	\$0.489	\$0.312	\$0.177	156.61%
Presort Letters.....	16,453.7	5,907.0	5,896.6	10.4	0.329	0.118	0.211	278.55%
Total Letters.....	36,062.6	18,428.2	18,349.3	78.9	0.400	0.205	0.196	195.69%
Single-Piece Cards.....	547.2	508.1	507.6	0.4	0.256	0.237	0.018	107.70%
Presort Cards.....	721.1	283.8	283.1	0.8	0.197	0.078	0.120	254.08%
Total Cards.....	1,268.3	791.9	790.7	1.2	0.219	0.137	0.082	160.17%
Fees (note 2).....	220.1	-	-	-	-	-	-	-
Total First-Class.....	37,551.0	19,220.1	19,140.0	80.1	0.392	0.200	0.191	195.37%
Priority Mail.....	5,232.8	4,059.0	4,053.7	5.3	5.835	4.526	1.309	128.92%
Express Mail.....	950.6	608.2	593.9	14.3	17.358	11.106	6.252	156.29%
Periodicals:								
In County.....	71.8	85.6	85.5	0.0	0.097	0.116	(0.019)	83.91%
Outside County (note 2).....	2,096.6	2,550.2	2,550.2	0.0	0.260	0.316	(0.056)	82.21%
Fees (note 2).....	19.5	-	-	-	-	-	-	-
Total Periodicals.....	2,187.9	2,635.8	2,635.7	0.0	0.249	0.300	(0.051)	83.01%
Standard Mail:								
Enhanced Carrier Route (note 2).....	6,041.5	3,188.1	3,183.2	4.9	0.173	0.091	0.082	189.50%
Regular (note 2).....	14,632.0	9,964.6	9,955.0	9.6	0.213	0.145	0.068	146.84%
Fees (note 2).....	105.7	-	-	-	-	-	-	-
Total Standard Mail.....	20,779.2	13,152.7	13,138.2	14.4	0.201	0.127	0.074	157.98%
Package Services:								
Parcel Post.....	1,206.6	1,168.9	1,168.8	0.1	3.461	3.353	0.108	103.22%
Bound Printed Matter.....	689.1	602.1	602.1	-	1.081	0.944	0.136	114.45%
Media Mail (note 2).....	406.3	445.3	445.3	-	2.300	2.521	(0.221)	91.24%
Fees (note 2).....	3.7	-	-	-	-	-	-	-
Total Package Services.....	2,305.6	2,216.3	2,216.2	0.1	1.983	1.906	0.077	104.03%

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Classes and Sub-Classes of Mail (note 1)	(in millions)				(per piece)			
	Revenue (note 1)	Attributable Cost (notes 2 & 4)	Volume Variable Cost (Note2)	Product Specific Cost	Revenue \$	Attributable Cost \$ (note 2)	Contribution \$ (note 2)	Cost Coverage (note 2)
	A	B	C	F	D	E	(D-E)	(D/E)
Free Mail - blind, handicapped & servicemen.....	-	61.2	61.2	-	-	0.857	(0.857)	
International Mail (note 2).....	2,061.2	1,779.7	1,726.4	53.2	2,474	2,136	0.338	115.82%
Total Mail.....	71,068.3	43,732.9	43,565.4	167.5	0.335	0.206	0.129	162.51%
Special Services:								
Registry.....	53.3	55.4	55.4	0.0	12,340	12,819	(0,479)	96.26%
Certified.....	698.2	508.7	508.2	0.5	2,492	1,815	0,676	137.24%
Insurance.....	156.7	129.3	129.2	0.1	2,749	2,269	0,480	121.15%
COD.....	9.6	6.5	6.5	0.0	6,799	4,631	2,168	146.82%
Money Orders (note 2).....	251.5	148.9	145.9	3.0	1,544	0,914	0,630	168.87%
Stamped Cards (note 5).....	2.1	1.3	1.3	-				
Stamped Envelopes.....	14.8	14.9	14.9	-				
Special Handling.....	13.8	0.7	0.7	0.0				
Post Office Box.....	836.9	601.2	600.8	0.4				
Other (note 2).....	661.3	482.4	480.3	2.1				
Total Special Services.....	2,698.2	1,949.4	1,943.4	6.1				
Total Mail and Services.....	73,766.5	45,682.3	45,508.7	173.6				
Miscellaneous items (note 2).....	949.0							
Appropriations: Revenue Forgone.....	63.1							
Total Operating Revenue.....	74,778.6							
Investment Income.....	194.2							
Total (note 3).....	74,972.8	45,682.3	45,508.7	-				
All Other.....		31,474.5	31,648.1					
Total.....		77,156.8	77,156.8					
Escrow Funding Reconciliation								
(notes 3 & 5).....		2,958.4	2,958.4					
Total (note 3).....		80,115.2	80,115.2					

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2007

VOLUME STATISTICS

Classes and Sub-Classes of Mail (note 1)	Pieces (thousands)	Weight in Pounds (thousands)	Weight per Piece (ounces)	Cubic Feet (thousands)	Weight per Cubic Foot (pounds)
First-Class Mail:					
Single-Piece Letters.....	40,119,083	1,946,400	0.8	109,232	17.8
Presort Letters.....	49,978,441	2,329,325	0.7	129,637	18.0
Total Letters.....	90,097,525	4,275,725	0.8	238,869	17.9
Single-Piece Cards.....	2,141,488	14,497	0.1	971	14.9
Presort Cards.....	3,656,291	42,585	0.2	2,852	14.9
Total Cards.....	5,797,778	57,082	0.2	3,823	14.9
Total First-Class.....	95,895,303	4,332,807	0.7	242,692	17.9
Priority Mail.....	896,858	1,795,956	32.0	398,040	4.5
Express Mail.....	54,764	52,538	15.3	8,334	6.3
Periodicals:					
In County.....	736,458	257,528	5.6	10,277	25.1
Outside County (note 2).....	8,059,373	3,638,099	7.2	145,187	25.1
Total Periodicals.....	8,795,831	3,895,628	7.1	155,464	25.1
Standard Mail:					
Enhanced Carrier Route (note 2).....	34,847,195	5,750,900	2.6	226,200	25.4
Regular (note 2).....	68,668,917	6,064,284	1.4	263,241	23.0
Total Standard Mail.....	103,516,112	11,815,185	1.8	489,441	24.1
Package Services:					
Parcel Post.....	348,613	1,529,158	70.2	302,504	5.1
Bound Printed Matter.....	637,595	1,414,226	35.5	149,015	9.5
Media Mail (note 2).....	176,615	365,106	33.1	47,026	7.8
Total Package Services.....	1,162,823	3,308,490	45.5	498,545	6.6

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VOLUME STATISTICS

Classes and Sub-Classes of Mail (note 1)	Pieces (thousands)	Weight in Pounds (thousands)	Weight per Piece (ounces)	Cubic Feet (thousands)	Weight per Cubic Foot (pounds)
U.S. Postal Service Mail.....	1,008,380	140,585	2.2	21,612	6.5
Free Mail - blind, handicapped & servicemen.....	71,363	33,481	7.5	3,024	11.1
International Mail (note 2).....	833,036	268,495	5.2	37,770	7.1
Total Mail.....	212,234,469	25,643,164	1.9	1,854,922	13.8
Special Services:					
Registry.....	4,321	NA	NA	NA	NA
Certified.....	280,226	NA	NA	NA	NA
Insurance.....	57,005	NA	NA	NA	NA
COD.....	1,407	NA	NA	NA	NA
Money Orders (note 2).....	162,899	NA	NA	NA	NA
Stamped Cards (note 5).....	0	NA	NA	NA	NA
Stamped Envelopes.....	0	NA	NA	NA	NA
Special Handling.....	2,115	NA	NA	NA	NA
Post Office Box.....	0	NA	NA	NA	NA
Other (note 2).....	1,112,387	NA	NA	NA	NA
Total Special Services.....	1,620,360	NA	NA	NA	NA

**UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
(PRC Methods)
Fiscal Year 2007**

1. Cost and Revenue Analysis

The U.S. Postal Service (Postal Service) has annually prepared the Cost and Revenue Analysis (CRA) covering the period from October 1 through September 30. The CRA aided in determining that the statutory requirements under Title 39 U.S. Code were met, that “each class of mail or type of mail service bear the direct and indirect costs attributable to that class or service....” These estimates were considered as one element of the postal rate making process.

However, due to the enactment of Public Law 109-435 on December 20, 2006 in Fiscal Year 2007, the Postal Regulatory Commission (PRC) was granted the responsibility for determining the required data elements of cost and revenue to be reported in an Annual Compliance Report. Therefore, the Fiscal Year 2007 CRA represents the PRC’s method when presenting each category’s estimated attributable and unit costs. The CRA also presents estimates of the total and unit revenues by category and class of mail. The PRC method is described in the recommended decisions in Docket No. R2006-1.

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 Origin-Destination Information System - Revenue, Pieces and Weight (ODIS-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 ODIS-RPW system, calculated sample revenue should approximate a subset of actual Postal Service Trial Balance revenue, but the RPW Reporting system has been designed to accommodate and adjust for any differences. Although the accuracy of the ODIS-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. In FY07, the Book Revenue Adjustment Factor stayed approximately the same as in FY06.

2. Definitions

Volume Variable Cost – The change in unit costs that result from a change in its volume alone, when the volumes of other subclasses or mail categories remain constant. That change in unit costs is multiplied by the total volume of the subclass or mail category to get total volume variable costs.

Product Specific Cost – Product specific costs, not included in volume variable costs, represent a portion of the attributable cost of certain subclasses of mail.

Attributable Cost – The sum of volume variable plus product specific costs are attributable costs.

Contribution – Revenue per piece minus attributable cost per piece.

Cost Coverage – Revenue per piece as a percentage of attributable cost per piece. Unit Revenue/Attributable 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 includes costs and revenues from both U.S. origin and foreign origin mail and special services. Volume statistics generally do not include foreign origin mail. Accordingly, the per piece figures on the International line, though indicative of changes from previous years, do not signify the true unit revenue, cost and contribution. Aggregate revenues and costs reflect adjustments to periodic accruals for transportation and terminal dues, among other factors, some of which relate to activity occurring in prior years.

Other – Other Special Services is a category that includes several cost items such as identifiable costs for return receipts, delivery confirmation, signature confirmation, merchandise return receipt, business reply, and Forms 3547/3579. The volume and revenues are the same as the RPW Report's Delivery Receipt Services.

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 \$41.9 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 Media Mail (formerly known as Special Standard.)

3. Miscellaneous Adjustments

A) Mortgage and escrow income of \$.546 million 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	\$74,778
Interest Income per Annual Report	195
Annual Report Revenue	<u>\$74,973</u>
CRA Report Revenue	<u>\$74,973</u>

A) Interest expense on borrowings and deferred retirement liabilities shown separately in the Annual Report are reported as part of the total CRA Report Expenses. Treatment of the escrow funding in the Annual Report and CRA Report is shown below and discussed in note 5.

	(in millions)
Operating Expenses per Annual Report	\$80,105
Interest expense on borrowings	<u>10</u>
Annual Report Expenses	<u>\$80,115</u>
CRA Report Total	\$77,157
Escrow Funding Reconciliation	<u>2,958</u>
Total	<u>\$80,115</u>

4. Cards

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

5. Public Law 108-18

On April 23, 2003, Public Law 108-18, the “Postal Civil Service Retirement System Funding Reform Act of 2003” was signed into law, which was in effect during a small part of Fiscal Year 2007. Under this legislation, the Postal Service reduces the amount paid for certain retirement benefits administered by the Office of Personnel Management (OPM). The legislation expresses that to the extent “savings” resulting from the Act are attributable to fiscal years prior to 2006, they will be used to reduce postal debt and to hold postage rates unchanged. The legislation expresses the sense of Congress that some portion of any anticipated “savings” after fiscal year 2005 be used to address debt repayment, pre-funding of postretirement healthcare benefits for current and former employees, productivity and cost saving capital investments, delaying or moderating increases in postal rates, and any other matter. Included in the legislation was the requirement that the Postal Service bear the CSRS cost associated with the prior military service of Postal Service retirees, a cost previously funded by the U.S. Treasury. The legislation included provisions for the Congress to reconsider whether responsibility for the cost will be borne in the future by the U.S. Treasury or by the Postal Service. Until provided for by law, the corresponding “savings” accruing to any fiscal year after 2005 are to be considered operational expenses of the Postal Service and held in escrow, and may not be obligated or expended. Consequently the \$2.958 billion accrued “savings” identified in FY2006 was treated, for rate making purposes, as an institutional amount in the Fiscal Year 2006 CRA. Public Law 108-18 was nullified in Fiscal Year 2007 by the passing of the Postal Accountability and Enhancement Act (Public Law 109-435.) As a result, this \$2.958 billion was paid to the U.S. Treasury in FY2007 and was therefore treated as an expense in the Fiscal Year 2007 Annual Report. However, since this \$2.958 billion expense was previously included in the Fiscal Year 2006 CRA, it was excluded in the Fiscal Year 2007 CRA.

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.