



COST AND REVENUE ANALYSIS

FISCAL YEAR 2003

FINANCE

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2003

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.....	\$21,198.9	\$12,411.7	\$11,736.4	\$0.455	\$0.252	\$0.203	180.62%
Presort Letters.....	14,498.6	4,799.9	4,611.6	0.307	0.098	0.209	314.40%
Total Letters.....	35,697.5	17,794.2	16,348.0	0.380	0.174	0.206	218.36%
Single-Piece Cards.....	605.7	477.9	465.9	0.237	0.183	0.055	130.01%
Presort Cards.....	495.8	167.0	166.7	0.186	0.063	0.124	297.49%
Total Cards.....	1,101.5	646.1	632.5	0.211	0.121	0.090	174.14%
Fees (note 2).....	242.3						
Total First-Class.....	37,041.3	18,705.8	16,980.5	0.374	0.171	0.203	218.14%
Priority Mail.....	4,490.7	3,209.8	2,880.4	5.224	3.351	1.873	155.90%
Express Mail.....	888.1	474.5	420.6	15.906	7.533	8.373	211.15%
Mailgram.....	1.2	0.4	0.4	0.432	0.133	0.300	326.22%
Periodicals:							
In County.....	75.1	67.0	66.8	0.095	0.084	0.010	112.35%
Outside County (note 2).....	2,139.6	2,072.9	2,045.5	0.251	0.240	0.011	104.60%
Fees (note 2).....	20.1						
Total Periodicals.....	2,234.8	2,143.2	2,112.3	0.240	0.227	0.013	105.80%
Standard Mail:							
Enhanced Carrier Route (note 2).....	5,177.5	2,028.7	1,969.2	0.161	0.061	0.100	262.92%
Regular (note 2).....	11,932.2	8,130.8	7,845.8	0.205	0.135	0.070	152.08%
Fees (note 2).....	93.5						
Total Standard Mail.....	17,203.1	10,390.0	9,815.0	0.190	0.109	0.082	175.27%
Package Services:							
Parcel Post.....	1,262.8	1,025.3	1,008.3	3.264	2.606	0.658	125.25%
Bound Printed Matter.....	585.4	444.1	440.8	1.075	0.809	0.266	132.82%
Media Mail (note 2).....	364.9	344.7	343.2	1.855	1.744	0.110	106.33%
Fees (note 2).....	1.8						
Total Package Services.....	2,214.9	1,844.0	1,792.2	1.963	1.588	0.375	123.59%

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2003

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)
Free Mail - blind, handicapped & servicemen.....	-	38.7	38.6	-	\$0.511	N/A	0.00%
International Mail (note 2).....	1,646.0	1,303.7	1,228.4	1.751	1.307	\$0.444	134.00%
Total Mail.....	65,720.2		35,268.4	0.325	0.174	0.151	186.34%
Special Services:							
Registry	61.5	82.1	82.1	11.207	14.959	(3.752)	74.92%
Certified	624.2	354.9	344.0	2.300	1.267	1.033	181.46%
Insurance.....	133.3	94.7	93.9	2.316	1.633	0.684	141.88%
COD	11.1	8.8	8.8	5.976	4.721	1.255	126.58%
Money Orders (note 2).....	236.8	182.4	123.3	1.193	0.621	0.572	192.12%
Stamped Cards (note 5).....	3.1	2.1	2.1				
Stamped Envelopes.....	21.2	9.0	9.0				
Special Handling.....	11.3	1.8	1.8				
Post Office Box.....	788.1	611.4	611.3				
Other (note 2).....	502.1		227.3				
Total Special Services.....	2,392.8	1,707.2	1,503.6				
Miscellaneous items (note 2).....	386.5		-				
Total Mail and Services.....	68,499.4		36,772.0				
Appropriations: Revenue Forgone.....	30.7						
Total Operating Revenue.....	68,530.1						
Emergency Preparedness Appropriations.....	176.8						
Investment Income.....	56.9						
Total (note 3).....	68,763.8		36,772.0				
All Other Costs.....			28,123.3				
Total Costs (note 3).....			64,895.3				

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2003

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.....	46,552,975	2,262,703	0.8	133,516	16.9
Presort Letters.....	47,287,788	1,933,235	0.7	107,695	18.0
Total Letters.....	93,840,763	4,195,938	0.7	241,211	17.4
Single-Piece Cards.....	2,551,206	15,947	0.1	1,068	14.9
Presort Cards.....	2,661,505	24,287	0.1	1,627	14.9
Total Cards.....	5,212,711	40,234	0.1	2,695	14.9
Total First Class.....	99,053,474	4,236,172	0.7	243,906	17.4
Priority Mail.....	859,572	1,622,891	30.2	351,428	4.6
Express Mail.....	55,831	53,183	15.2	8,436	6.3
Mailgram.....	2,791	0	0.0	0	0.0
Periodicals:					
In County.....	793,521	230,643	4.7	9,204	25.1
Outside County (note 2).....	8,526,383	3,764,394	7.1	150,227	25.1
Total Periodicals.....	9,319,904	3,995,037	6.9	159,431	25.1
Standard Mail:					
Enhanced Carrier Route (note 2).....	32,194,417	5,202,968	2.6	205,314	25.3
Regular (note 2).....	58,164,052	5,594,312	1.5	239,460	23.4
Total Standard Mail	90,358,469	10,797,280	1.9	444,774	24.3
Package Services:					
Parcel Post.....	386,942	2,132,985	88.2	425,160	5.0
Bound Printed Matter.....	544,807	1,302,143	38.2	137,198	9.5
Media Mail (note 2).....	196,757	358,663	29.2	46,196	7.8
Total Package Services.....	1,128,506	3,793,791	53.8	608,554	6.2

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2003

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.....	391,369	80,086	3.3	13,341	6.0
Free Mail - blind, handicapped & servicemen.....	75,658	30,006	6.3	2,710	11.1
International Mail (note 2).....	940,054	243,450	4.1	34,896	7.0
Total Mail.....	202,185,628	24,851,896	2.0	1,867,476	13.3
Special Services:					
Registry	5,487	N/A	N/A	N/A	N/A
Certified	271,412	N/A	N/A	N/A	N/A
Insurance.....	57,547	N/A	N/A	N/A	N/A
COD	1,858	N/A	N/A	N/A	N/A
Money Orders (note 2).....	198,454	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.....	1881.0	N/A	N/A	N/A	N/A
Post Office Box.....	0.0	N/A	N/A	N/A	N/A
Other (note 2).....	748,205	N/A	N/A	N/A	N/A
Total Special Services.....	1,284,844	N/A	N/A	N/A	N/A

**UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Fiscal Year 2003**

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 merger of the RPW system and the Origin-Destination Information System that was implemented beginning October 1, 2003 may assist in resolving these differences.

The Fiscal Year 2002 and 2003 CRAs used revised methodologies for computing city carrier costs, based on updated studies. Other methods we proposed that have not been adopted by the Postal Rate Commission 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 Cost Attribution 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 piece 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.

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 RPW'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 \$10.2 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 of \$0.9 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	\$68,529
Interest Income per Annual Report	58
Emergency Preparedness Appropriations	177
Annual Report Revenue	<u>\$68,764</u>
CRA Report Revenue	<u>\$68,764</u>

B) Interest expense on borrowings, deferred retirement liabilities, and emergency preparedness expenses shown separately in the Annual Report are reported as part of the total CRA Report Expenses.

	(in millions)
Operating Expenses per Annual Report	\$63,902
Interest expense on deferred retirement liabilities	116
Interest expense on borrowings	334
Debt repurchase expense	360
Emergency preparedness expenses	<u>184</u>
Annual Report Expenses	<u>\$64,895</u> *
 CRA Report Expenses	 <u>\$64,895</u>

* Does not add exactly due to rounding.

4. Product Specific Costs

Product specific costs, not included in volume variable 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 constitute the largest part of the difference between volume variable and incremental cost for some products. Selected product specific costs are shown below (in millions):

Priority Mail	\$211.9
Express Mail	43.5
International Mail	73.0

5. Cards

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

6. 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. 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 shall 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, prefunding 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. Volume variable and institutional costs for all products reflect an aggregate \$3.4 billion cost reduction from Public Law 108-18. 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. The legislation also required the Postal Service to submit a proposal on the

use of the “savings” from the legislation. 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.

7. 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.