



COST AND REVENUE ANALYSIS

FISCAL YEAR 2000

FINANCE

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2000

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.....	\$21,774.1	\$13,068.1	\$12,494.9	\$0.416	\$0.239	\$0.177	174.26%
Presort Letters.....	12,553.0	4,661.8	4,475.6	0.275	0.098	0.177	280.47%
Total Letters.....	34,327.1	18,169.5	16,970.5	0.350	0.173	0.177	202.28%
Single-Piece Cards.....	559.4	526.4	512.7	0.206	0.189	0.017	109.11%
Presort Cards.....	446.7	138.5	138.4	0.162	0.050	0.112	322.87%
Total Cards.....	1,006.1	665.6	651.1	0.184	0.119	0.065	154.53%
Fees (note 2).....	182.7						
Total First-Class.....	35,515.9	19,032.5	17,621.6	0.343	0.170	0.173	201.55%
Priority Mail.....	4,837.1	3,457.2	3,152.7	3.957	2.579	1.378	153.43%
Express Mail.....	996.1	673.3	378.7	14.042	5.339	8.704	263.03%
Mailgram.....	1.5	0.8	0.7	0.415	0.195	0.221	213.34%
Periodicals:							
In County.....	76.7	76.8	75.9	0.086	0.085	0.001	101.10%
Outside County (note 2).....	2,076.3	2,224.7	2,199.2	0.219	0.232	(0.013)	94.41%
Fees (note 2).....	17.7						
Total Periodicals.....	2,170.7	2,303.2	2,275.1	0.209	0.220	(0.010)	95.41%
Standard Mail:							
Enhanced Carrier Route (note 2).....	5,095.8	2,454.7	2,315.8	0.143	0.065	0.078	220.04%
Regular (note 2).....	10,015.7	7,617.2	7,418.0	0.184	0.136	0.048	135.02%
Fees (note 2).....	81.8						
Total Standard Mail.....	15,193.3	10,352.1	9,733.7	0.169	0.108	0.061	156.09%
Package Services:							
Parcel Post.....	1,041.9	956.2	949.3	3.214	2.928	0.286	109.76%
Bound Printed Matter.....	502.9	458.3	455.8	0.898	0.814	0.084	110.33%
Media Mail (note 2).....	365.1	322.9	322.0	1.496	1.319	0.176	113.37%
Fees (note 2).....	2.4						
Total Package Services.....	1,912.3	1,749.2	1,727.1	1.695	1.531	0.164	110.72%

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2000

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.....	\$ -	\$33.7	\$33.2	\$ -	\$ 0.713	N/A	0.00%
International Mail (note 2).....	1,700.2	1,347.0	1,284.4	1.544	1.167	0.378	132.37%
Total Mail.....	62,326.9		36,207.2	0.300	0.174	0.126	172.14%
Special Services:							
Registry	72.3	87.5	87.3	8.113	9.796	(1.683)	82.82%
Ancillary Services.....	3.2						
Total Registry.....	75.5						
Certified	377.4	412.4	371.4	1.410	1.388	0.022	101.62%
Ancillary Services.....	301.4						
Total Certified.....	678.9						
Insurance.....	105.2	91.1	90.9	1.852	1.600	0.252	115.75%
Ancillary Services.....	2.2						
Total Insurance.....	107.4						
COD	21.5	15.3	15.1	5.198	3.649	1.549	142.46%
Ancillary Services.....	0.0						
Total COD.....	21.5						
Money Orders (note 2).....	271.5	215.2	157.1	1.174	0.679	0.495	172.89%
Stamped Cards (note 5).....	2.0	3.0	3.0				
Stamped Envelopes.....	13.4	6.2	6.2				
Special Handling.....	0.1	1.9	1.9				
Post Office Box.....	684.2	545.2	544.9				
Other.....	17.1		127.5				
Total Special Services.....	1,871.5	1,547.2	1,405.3				
Miscellaneous items (note 2).....	277.8		-				
Total Mail and Services.....	64,476.1		37,612.5				
Appropriations: Revenue Forgone.....	64.2						
Total Operating Revenue.....	64,540.3						
Investment Income.....	40.7						
Total (note 3).....	64,581.0		37,612.5				
All other costs.....			27,168.3				
Total Costs (note 3).....			64,780.8				

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2000

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.....	52,369,535	2,601,381	0.8	178,238	14.6
Presort Letters.....	45,675,472	1,751,435	0.6	120,002	14.6
Total Letters.....	98,045,007	4,352,816	0.7	298,240	14.6
Single-Piece Cards.....	2,719,298	17,001	0.1	1,298	13.1
Presort Cards.....	2,761,407	22,202	0.1	1,695	13.1
Total Cards.....	5,480,705	39,203	0.1	2,993	13.1
Total First Class.....	103,525,712	4,392,019	0.7	301,233	14.6
Priority Mail.....	1,222,454	2,352,320	30.8	191,292	12.3
Express Mail.....	70,935	80,017	18.0	10,073	7.9
Mailgram.....	3,656	0	0.0	0	0.0
Periodicals:					
In County.....	897,069	261,991	4.7	14,346	18.3
Outside County (note 2).....	9,467,716	4,458,267	7.5	244,127	18.3
Total Periodicals.....	10,364,785	4,720,258	7.3	258,473	18.3
Standard Mail:					
Enhanced Carrier Route (note 2).....	35,700,637	5,332,509	2.4	299,501	17.8
Regular (note 2).....	54,356,510	5,810,138	1.7	327,683	17.7
Total Standard Mail	90,057,147	11,142,647	2.0	627,184	17.8
Package Services:					
Parcel Post.....	324,167	2,040,870	100.7	290,888	7.0
Bound Printed Matter.....	560,218	1,383,631	39.5	97,514	14.2
Media Mail (note 2).....	244,046	349,272	22.9	31,523	11.1
Total Package Services.....	1,128,431	3,773,773	53.5	419,925	9.0

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2000

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)
US Postal Service.....	362,913	95,307	4.2	6,734	14.2
Free Mail - blind, handicapped & servicemen.....	46,638	25,134	8.6	2,455	10.2
International Mail.....	1,101,024	259,148	3.8	24,516	10.6
Total Mail.....	207,883,695	26,840,623	2.1	1,841,889	14.6
Special Services:					
Registry	8,913	N/A	N/A	N/A	N/A
Ancillary Services.....	2,444				
Total Registry.....	11,357				
Certified	267,635	N/A	N/A	N/A	N/A
Ancillary Services.....	231,860				
Total Certified.....	499,495				
Insurance.....	56,790	N/A	N/A	N/A	N/A
Ancillary Services.....	1,671				
Total Insurance.....	58,461				
COD	4,131	N/A	N/A	N/A	N/A
Ancillary Services.....	0.0				
Total COD.....	4,131				
Money Orders (note 2).....	231,213	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.....	9.0	N/A	N/A	N/A	N/A
Post Office Box.....	0.0	N/A	N/A	N/A	N/A
Other.....	123,042	N/A	N/A	N/A	N/A
Total Special Services.....	927,708	N/A	N/A	N/A	N/A

See accompanying notes.

**UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Fiscal Year 2000**

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 an increased difference between the two in Fiscal Year (FY) 2000.

In the FY 2000 CRA, 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 \$48.8 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 A Nonprofit ECR and Standard A Regular ECR.

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

“Media Mail” contains Library Rate and Special Standard.

3. **Miscellaneous Adjustments**

A) Mortgage income of \$0.6 million was included with interest income in the Annual Report and is reported as miscellaneous revenue in the CRA.

	(in millions)
Operating Revenue per Annual Report	\$64,540.0
Mortgage Income	.6
Other Interest Income	<u>40.4</u>
Annual Report Revenue	<u>\$64,581.0</u>
CRA Report Revenue	<u>\$64,581.0</u>

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

	(in millions)
Operating Expenses per Annual Report	\$62,992
Interest expense on borrowings	220
Interest expense on unfunded retirement liabilities	<u>1,568</u>
Annual Report Expenses	<u>\$64,780</u>
CRA Report Expenses	<u>\$64,780</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	\$276.7
Express Mail	284.3
International Mail	64.5

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.