



COST AND REVENUE ANALYSIS

FISCAL YEAR 2002

FINANCE

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2002

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.....	\$21,452.1	\$12,890.1	\$12,180.3	\$0.436	\$0.247	\$0.188	176.12%
Presort Letters.....	13,742.3	4,986.0	4,798.4	0.288	0.101	0.188	286.39%
Total Letters.....	35,194.3	18,491.0	16,978.7	0.363	0.175	0.188	207.29%
Single-Piece Cards.....	592.5	503.8	492.9	0.222	0.185	0.037	120.19%
Presort Cards.....	484.7	174.5	174.1	0.173	0.062	0.111	278.41%
Total Cards.....	1,077.2	679.4	667.0	0.197	0.122	0.075	161.49%
Fees (note 2).....	207.5						
Total First-Class.....	36,479.0	19,447.8	17,645.7	0.356	0.172	0.184	206.73%
Priority Mail.....	4,720.1	3,606.6	3,286.9	4.729	3.293	1.436	143.60%
Express Mail.....	910.5	521.7	457.1	14.857	7.460	7.398	199.17%
Mailgram.....	1.4	0.8	0.8	0.492	0.292	0.200	168.66%
Periodicals:							
In County.....	78.3	79.2	79.1	0.092	0.093	(0.001)	98.99%
Outside County (note 2).....	2,066.9	2,186.3	2,155.1	0.234	0.244	(0.010)	95.91%
Fees (note 2).....	19.7						
Total Periodicals.....	2,164.9	2,269.8	2,234.2	0.223	0.231	(0.007)	96.90%
Standard Mail:							
Enhanced Carrier Route (note 2).....	4,939.5	2,274.2	2,207.3	0.153	0.068	0.084	223.79%
Regular (note 2).....	10,793.8	8,137.9	7,882.9	0.197	0.144	0.053	136.93%
Fees (note 2).....	85.4						
Total Standard Mail.....	15,818.8	10,674.3	10,090.2	0.181	0.116	0.066	156.77%
Package Services:							
Parcel Post.....	1,194.5	1,045.2	1,026.3	3.206	2.754	0.451	116.39%
Bound Printed Matter.....	535.3	469.6	465.7	1.054	0.917	0.137	114.93%
Media Mail (note 2).....	348.1	364.1	361.8	1.787	1.857	(0.070)	96.23%
Fees (note 2).....	1.7						
Total Package Services.....	2,079.6	1,917.2	1,853.8	1.934	1.724	0.210	112.18%

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2002

Classes and Sub-Classes of Mail (note 1)	(in millions)			(per piece)			
	Revenue (note 1)	Incremental Cost (notes 2 & 4)	Volume Variable Cost (note 2)	Revenue \$ (D)	Marginal Cost \$ (note 2) (E)	Contribution \$ (note 2) (D-E)	Cost Coverage (note 2) (D/E)
	A	B	C				
Free Mail - blind, handicapped & servicemen.....	-	28.6	28.6	-	\$0.503	N/A	0.00%
International Mail (note 2).....	1,612.9	1,338.5	1,251.7	1.782	1.383	\$0.399	128.86%
Total Mail	63,787.1		36,848.9	0.314	0.182	0.133	173.10%
Special Services:							
Registry	65.4	80.7	80.7	10.420	12.852	(2.431)	81.08%
Certified	605.9	358.1	342.4	2.137	1.208	0.930	176.97%
Insurance.....	130.3	101.8	101.1	2.227	1.728	0.499	128.89%
COD	13.8	10.7	10.7	6.030	4.671	1.359	129.09%
Money Orders (note 2).....	249.8	215.0	149.1	1.152	0.687	0.465	167.58%
Stamped Cards (note 5).....	4.7	3.3	3.3				
Stamped Envelopes.....	24.6	11.1	11.1				
Special Handling.....	7.1	3.3	3.3				
Post Office Box.....	750.6	587.4	587.4				
Other (note 2).....	459.3		217.6				
Total Special Services	2,311.6	1,695.3	1,506.5				
Miscellaneous items (note 2).....	317.8		-				
Total Mail and Services	66,416.5		38,355.5				
Appropriations: Revenue Forgone.....	47.6						
Total Operating Revenue	66,464.1						
Emergency Preparedness Appropriations.....	179.0						
Investment Income.....	45.2						
Total (note 3)	66,688.3		38,355.5				
All Other Costs			29,009.3				
Total Costs (note 3)			67,364.8				

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2002

VOLUME STATISTICS

<u>Classes and Sub-Classes of Mail</u> (note 1)	<u>Pieces</u> (thousands)	<u>Weight in</u> <u>Pounds</u> (thousands)	<u>Weight per</u> <u>Piece</u> (ounces)	<u>Cubic Feet</u> (thousands)	<u>Weight per</u> <u>Cubic Foot</u> (pounds)
First-Class Mail:					
Single-Piece Letters.....	49,253,266	2,454,373	0.8	144,826	16.9
Presort Letters.....	47,658,076	1,789,673	0.6	99,698	18.0
Total Letters.....	96,911,342	4,244,046	0.7	244,524	17.4
Single-Piece Cards.....	2,669,202	16,685	0.1	1,118	14.9
Presort Cards.....	2,798,088	22,918	0.1	1,535	14.9
Total Cards.....	5,467,290	39,603	0.1	2,653	14.9
Total First Class.....	102,378,632	4,283,649	0.7	247,177	17.3
Priority Mail.....	998,151	1,875,147	30.1	406,052	4.6
Express Mail.....	61,280	59,086	15.4	9,373	6.3
Mailgram.....	2,757	0	0.0	0	0.0
Periodicals:					
In County.....	849,911	241,781	4.6	9,649	25.1
Outside County (note 2).....	8,839,847	3,764,291	6.8	150,223	25.1
Total Periodicals.....	9,689,758	4,006,072	6.6	159,872	25.1
Standard Mail:					
Enhanced Carrier Route (note 2).....	32,367,678	4,935,652	2.4	194,767	25.3
Regular (note 2).....	54,862,958	5,379,870	1.6	230,297	23.4
Total Standard Mail	87,230,636	10,315,522	1.9	425,064	24.3
Package Services:					
Parcel Post.....	372,591	2,104,326	90.4	419,447	5.0
Bound Printed Matter.....	507,702	1,251,681	39.4	131,881	9.5
Media Mail (note 2).....	194,793	334,632	27.5	43,101	7.8
Total Package Services.....	1,075,086	3,690,639	54.9	594,429	6.2

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2002

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.....	424,929	87,502	3.3	14,576	6.0
Free Mail - blind, handicapped & servicemen.....	56,821	28,103	7.9	2,538	11.1
International Mail (note 2).....	904,983	217,092	3.8	31,738	6.8
Total Mail.....	202,823,033	24,562,812	1.9	1,890,820	13.0
Special Services:					
Registry	6,277	N/A	N/A	N/A	N/A
Certified	283,468	N/A	N/A	N/A	N/A
Insurance.....	58,516	N/A	N/A	N/A	N/A
COD	2,282	N/A	N/A	N/A	N/A
Money Orders (note 2).....	216,867	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.....	1390.0	N/A	N/A	N/A	N/A
Post Office Box.....	0.0	N/A	N/A	N/A	N/A
Other (note 2).....	534,793	N/A	N/A	N/A	N/A
Total Special Services.....	1,103,593	N/A	N/A	N/A	N/A

See accompanying notes.

**UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Fiscal Year 2002**

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.

The Fiscal Year 2002 CRA uses new 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 \$16.3 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	\$66,463
Interest Income per Annual Report	46
Emergency Preparedness Appropriations	179
Annual Report Revenue	<u>\$66,688</u>
CRA Report Revenue	<u>\$66,688</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	\$65,234
Interest expense on deferred retirement liabilities	1,601
Interest expense on borrowings	340
Emergency preparedness expenses	<u>189</u>
Annual Report Expenses	<u>\$67,365</u> *
 CRA Report Expenses	 <u>\$67,365</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	\$199.2
Express Mail	51.9
International Mail	83.7

5. Cards

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

6. Subsequent event

Public Law 108-18

Subsequent to September 30, 2002, Public Law 108-18, the “Postal Civil Service Retirement System Funding Reform Act of 2003” was signed into law. Under this legislation, which became effective on April 23, 2003, the Postal Service will reduce 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. Postal Service management is analyzing the impact of this legislation. The legislation did not affect 2002 costs or revenues as reflected in the FY2002 CRA Report.

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.