

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON DC 20268-0001

USPS-T-9

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

DIRECT TESTIMONY OF  
WILLIAM P. TAYMAN  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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Direct Testimony  
of  
William P. Tayman  
AUTOBIOGRAPHICAL SKETCH

1

2           My name is William P. Tayman, Jr. and I am the Manager, Budget &  
3 Financial Analysis for the United States Postal Service. I was appointed to this  
4 position in September 1995 and my primary responsibilities include the  
5 development and administration of national operating budgets.

6           Prior to this appointment, I was Manager, Strategic & International  
7 Finance and Manager, Revenue, Volume and Cost Analysis. I began my career  
8 with the Postal Service in 1975. From 1975 through 1978, I held positions at the  
9 Postal Service Training & Development Institute and in the Accounting Division  
10 at Postal Headquarters. During the period from 1978 through 1980 I was  
11 employed by the Pension Benefit Guaranty Corporation (PBGC). At PBGC, I  
12 held the position of Deputy Controller.

13           In 1980, I returned to the Postal Service Headquarters as General  
14 Manager and then Office Director of Accounting. In this position I served as  
15 chief accountant of the Postal Service. In 1991 I was selected to attend the  
16 Sloan Fellows Program at Stanford University where I received a Master's  
17 Degree in Management. I also received a Bachelor Degree in Business and  
18 Public Administration from the University of Maryland in 1972. After graduation  
19 from the University of Maryland I was employed at Hoyer, Graves, Bailey & Co., a  
20 regional Certified Public Accounting firm.

21           In addition to my educational background, I am a licensed Certified Public  
22 Accountant in the State of Maryland. I also am a member of the American  
23 Institute of Certified Public Accountants and the Maryland Association of  
24 Certified Public Accountants. In Docket Nos. R87-1 and R90-1 I sponsored  
25 testimony concerning the estimation of workers' compensation and retirement  
26 costs.

1 I. PURPOSE OF TESTIMONY

2 My testimony presents the Postal Service's revenue requirement for the Test  
3 Year (TY)<sup>1</sup>. This testimony was prepared in conformance with the Commission's Rules  
4 of Practice and Procedure to support the Postal Service's revenue requirement for the  
5 Test Year. The attached exhibits and the material included in Library References H-10,  
6 H-12, and H-116 supplement my testimony.

7 My testimony is organized into five chapters as described below.

8 Chapter I explains the purpose of my testimony. Chapter II, entitled "Summary  
9 of Financial and Operating Results and Current Financial Condition," describes (1)  
10 financial and operating results over the last ten years, (2) the current financial condition  
11 of the Postal Service, and (3) service performance and customer satisfaction. This  
12 chapter shows the recent progress the Postal Service has made in improving its  
13 financial position, improving service, and restoring equity. The material presented  
14 supports a proposed level of rate increases consistent with management's goals of  
15 continuing to strengthen the Postal Service's financial position, improve service, and  
16 restore equity.

17 Chapter III, entitled "Test Year Revenue Requirement" (1) describes the specific  
18 sources of the changes in Postal Service costs which are included in the revenue  
19 requirement, (2) identifies the assumptions used to project cost increases, and (3)  
20 defines the change in the revenue requirement by cost segment. This chapter also  
21 addresses the bases for estimating the provisions for contingencies and recovery of  
22 prior years' losses required to support the financial integrity and stability of the Postal  
23 Service.

24 Chapter IV, entitled "Revenues Before and After Rates," describes the level of  
25 revenue anticipated during the Test Year on a before-rates and after-rates basis. This

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<sup>1/</sup> The various fiscal or other periods discussed in this testimony include the following:

The Test Year (FY 1998)	- October 1, 1997 to September 30, 1998
Fiscal Year 1997	- October 1, 1996 to September 30, 1997
The Base Year (FY 1996)	- October 1, 1995 to September 30, 1996
Fiscal Year 1995	- October 1, 1994 to September 30, 1995

chapter provides a comprehensive analysis of our revenue estimates by combining a discussion of the revenue anticipated from mail and special services with a discussion of anticipated revenues from appropriations and investment income.

In Chapter V, entitled "Test Year Revenue Deficiency," I calculate the overall revenue deficiency and analyze the effect of the proposed rates on that deficiency.

## II. SUMMARY OF FINANCIAL AND OPERATING RESULTS AND CURRENT FINANCIAL CONDITION

In this chapter, I discuss financial results over the last ten years, the current financial condition of the Postal Service, and recent service performance. Unless otherwise noted, the data used in this analysis are drawn from the Audited Financial Statements of the United States Postal Service for Fiscal Years 1987 through 1996.

The financial results for this ten-year period reflect the recent reversal of the difficulties the Postal Service previously had in meeting its break-even requirement over time, while providing reliable service and a reasonable degree of rate stability. During this period, the Postal Service dealt with unprecedented financial burdens as a result of cost transfers totaling almost \$11.0 billion,<sup>2</sup> resulting from five separate Omnibus Budget Reconciliation Acts (OBRA's). There have been no additional cost transfers since the Omnibus Reconciliation Act of 1993. This fact, coupled with the benefits of the 1992 restructuring, debt refinancing, moderate increases in the cost of labor and other resources, improved service, and continued growth in mail volume and revenue, have enabled the Postal Service to reverse the historical pattern of rate cycle losses.

I will elaborate on the specific reasons postal costs are estimated to rise through the test year later in my testimony. Table 1 presents the net income (loss) and equity by year for this period.

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<sup>2</sup> Exhibit USPS-9K

**Table 1**  
Postal Service Net Income/(Loss) and Equity  
(\$ Millions)

Period	Net Income/(Loss)	Equity
FY 1987	(223)	138
FY 1988	(597)	(460)
FY 1989	61	(402)
FY 1990	(874)	(1,278)
FY 1991	(1,469) <sup>3</sup>	(2,747)
FY 1992	(536) <sup>4</sup>	(3,283)
FY 1993	(1,765) <sup>5</sup>	(5,048)
FY 1994	(914)	(5,961)
FY 1995	1,770	(4,191)
FY 1996	1,567	(2,624)
Cumulative Net Income (Loss)	(2980)	

During the ten year period losses occurred in seven of the years, and 98% of the net income occurred during the past two years. Prior to Fiscal Year 1995 every year reflects a net loss, with the exception of Fiscal Year 1989, which had a small net income of \$61 million. Equity declined from \$138 million in Fiscal Year 1987, to an all time low of negative \$6.0 billion in Fiscal Year 1994. Substantial net incomes in both Fiscal Year 1995 and 1996 have since improved the Postal Service's equity position to a negative \$2.6 billion. The two year period of Fiscal Year 1994 and 1995 is the only time revenue growth has exceeded expense growth in consecutive years. The significance of these recent results is also apparent when cumulative expense growth for the ten year period is examined. As shown in Table 2, annual revenues have risen a total of \$25.4 billion or 81.6 percent since Fiscal Year 1986. This is marginally greater than the \$24.1 billion or 78.3 percent increase in annual expenses over the same period. The Postal Service has narrowed the cumulative gap between revenues and expenses as a result of the turnaround accomplished in Fiscal Years 1995 and 1996.

While recent results are very favorable, it is important to recognize that equity

<sup>3/</sup> Includes OBRA 1991 Extraordinary retroactive assessment for employee benefits (\$1,810 million).

<sup>4/</sup> Includes restructuring costs of \$1,010 million.

<sup>5/</sup> Includes OBRA 1993 (\$857 million) and debt refinancing premium (\$536.5 million).

remains substantially negative and expense growth once again exceeded revenue growth in Fiscal Year 1996. The negative revenue to expense growth relationship seen in Fiscal Year 1996 indicates that future losses are likely unless rates are increased. Table 2 presents the year-to-year and cumulative percentage increases in total revenue and expenses for the ten-year period ending September 30, 1996.

**Table 2**  
Comparison of Annual Percent Increase in  
Revenue and Expense for the Ten Years  
FY 1987 - FY 1996  
(\$ Millions)

Period	Revenue <sup>6/</sup>	% Chg.	Expense <sup>7/</sup>	% Chg.
FY 1987	32,505	4.4	32,728	6.2
FY 1988	35,939	10.6	36,536	11.6
FY 1989	38,920	8.3	38,859	6.4
FY 1990	40,074	3.0	40,948	5.4
FY 1991	44,202	10.3	45,671	11.5
FY 1992	47,105	6.6	47,642	4.3
FY 1993	47,986	1.9	49,751	4.4
FY 1994	49,577	3.3	50,491	1.5
FY 1995	54,509	9.9	52,739	4.5
FY 1996	56,544	3.7	54,977	4.2
Ten-Year Increase FY 1996 vs. FY 1986	25,409	81.6	24,147	78.3

With only a moderate increase in rates effective in January 1995, the Postal Service's financial position has shown unprecedented improvement, reversing the previous trend of rate cycle losses since the period FY 1981-1984, the last time a cumulative net income was achieved over a rate cycle.

Two financial indicators used in the Docket No. R94-1 revenue requirement testimony as examples of worsening financial condition are the current ratio and working capital. These indicators have continued to decline; however, this is mainly due to a financial policy change, not a fundamental worsening of financial condition. The Postal Service has implemented a more aggressive cash management program that emphasizes the economic use of available cash to reduce debt, while still meeting

<sup>6/</sup> Includes interest income and appropriations.

<sup>7/</sup> Includes interest expense and all extraordinary, unusual, and non-recurring expenses.

1 current liabilities as they come due. This has reduced cash, reduced debt, and lowered  
2 interest expense.

3 Table 3 compares the ratio of current assets to current liabilities at the end of  
4 each fiscal year since 1986. This comparison indicates that with the exception of  
5 Fiscal Years 1989 and 1995, the Postal Service's current ratio has declined  
6 substantially and consistently since Fiscal Year 1987. Table 4 shows that during the  
7 period Fiscal Year 1986 to 1992 the amount of debt outstanding also increased each  
8 year. Taken together, a declining current ratio and an increasing debt level are often  
9 indicative of worsening financial condition. However, the decline in working capital that  
10 occurred in Fiscal Year 1996 was mainly the result of changes in debt management,  
11 not worsening financial condition.

12 **Table 3**  
13 **Comparison of Current Ratios Since FY 1986**

Period	Current Assets (\$ Millions)	Current Liabilities (\$ Millions)	Ratio
FY 1987	5,341	5,603	.95
FY 1988	4,732	5,500	.86
FY 1989	5,448	5,898	.92
FY 1990	4,393	6,290	.70
FY 1991	4,863	7,400	.66
FY 1992	6,027	9,484	.64
FY 1993	4,478	10,140	.44
FY 1994	2,683	11,665	.23
FY 1995	2,775	11,299	.25
FY 1996	1,447	12,573	.12

14

15

**Table 4**  
**Change in Working Capital and Debt**

Period	Increase/(Decrease) In Working Capital (\$ Millions)	Increase/(Decrease) In Debt (\$ Millions)
FY 1987	(75)	
FY 1988	(506)	1,152
FY 1989	318	596
FY 1990	(1,447)	494
FY 1991	(640)	1,470
FY 1992	(920)	1,484
FY 1993	(2,205)	(176)
FY 1994	(3,321)	(761)
FY 1995	457	(1,708)
FY 1996	(2,601)	(1,361)

The ratio of total assets to total liabilities reflects the recent improvement in financial position. After declining in every year since Fiscal Year 1986 except one, this ratio has increased two years in a row from a low of .73 in FY 1994, to .83 in Fiscal Year 1996. The most significant declines occurred between Fiscal Year 1989 and Fiscal Year 1994 as shown in Table 5. As stated above, public policy changes resulting in reductions in revenue forgone appropriations and increased OBRA payments for annuitant costs, expenses related to restructuring, and the refinancing of debt also contributed to this decline. While the recent improvement in this ratio is encouraging, it is important to recognize that the ratio is still less than one and well below historical levels.

**Table 5**  
Comparison of Total Assets to Total Liabilities<sup>8</sup>  
(\$ Millions)

Period	Total Assets	Total Liabilities	Ratio
FY 1987	13,703	14,014	.98
FY 1988	14,282	15,392	.93
FY 1989	15,801	16,814	.94
FY 1990	15,943	17,880	.87
FY 1991	18,069	21,770	.83
FY 1992	20,885	25,231	.83
FY 1993	20,215	26,414	.77
FY 1994	19,169	26,364	.73
FY 1995	19,962	25,499	.78
FY 1996	19,659	23,768	.83

The Postal Service has also achieved consistent service improvements during the recent period of financial improvement. As reflected in Table 6, key national indicators of service performance from the Residential Customer Satisfaction Measurement System have all shown marked improvement since Quarter II of Fiscal Year 1994. In general, the attributes of customer satisfaction which make up the Residential Customer Satisfaction Measurement System have consistently improved at the same time unprecedented financial results have been achieved. The percent trends of the attributes of customer satisfaction are included in Library Reference H-116.

<sup>8/</sup> Excludes the asset Deferred Retirement Costs and the long-term liability Amounts Payable for Retirement Benefits. The current liability portion of Amounts Payable for Retirement Benefits has been included as a liability.

**Table 6**  
Customer Satisfaction Measurement System  
Combined Excellent / Very Good Percent Trend  
PQ II FY 1994 - PQ IV FY 1996

Period	Overall Performance	Mail Delivery at about the Same Time Each Day	Convenience of Window Service Hours	Reasonable Days to Deliver Forwarded Mail
PQ II FY 1994	53	52	47	40
PQ III FY 1994	54	53	48	42
PQ IV FY 1994	52	52	48	40
PQ I FY 1995	52	52	47	41
PQ II FY 1995	54	54	48	43
PQ III FY 1995	58	56	50	45
PQ IV FY 1995	59	56	51	46
PQ I FY 1996	64	58	54	47
PQ II FY 1996	67	59	53	48
PQ III FY 1996 <sup>9</sup>				
PQ IV FY 1996	70	56	55	58

First Class Mail service, as measured by the External First-Class measurement system (EXFC), has also shown consistent improvement over this time period. EXFC measures service performance from the time mail is entered into the system until it is received at the point of delivery. Table 7 shows the improvement in overnight, two day, and three day service commitments.

**Table 7**  
EXFC Performance  
PQ II FY 1994 - PQ IV FY 1996

Period	Overnight	Two Day	Three Day	Composite
PQ II FY 1994	78.80	66.72	65.44	72.32
PQ III FY 1994	82.75	72.37	76.84	78.52
PQ IV FY 1994	82.56	74.36	78.55	79.36
PQ I FY 1995	84.09	75.53	80.16	80.85
PQ II FY 1995	84.52	75.04	75.52	79.79
PQ III FY 1995	86.82	79.07	82.19	83.58
PQ IV FY 1995	87.23	80.10	82.72	84.21
PQ I FY 1996	87.76	79.49	82.24	84.22
PQ II FY 1996	87.31	75.54	70.93	79.98
PQ III FY 1996	90.41	80.04	80.25	85.58
PQ IV FY 1996	91.21	80.25	82.82	86.09

In addition to the costs that are already reflected in the Fiscal Year 1996 results,

<sup>9</sup> Data is not available for PQ III due to transition period to new contractor.

1 additional cost increases, more fully described later in my testimony and in Library  
2 Reference H-12, are anticipated to have a near term adverse impact on the Postal  
3 Service's financial condition. These include: (1) increased labor costs specified in  
4 current negotiated and arbitrated labor contracts; (2) increased costs associated with  
5 major program initiatives designed to continue service improvements, improve  
6 responsiveness to customers, maintain and improve our infrastructure, and reduce  
7 costs in the future; (3) increases in health benefits; and, (4) increases due to general  
8 inflation in the cost of goods and services. Higher costs generally also have an  
9 adverse impact on the amount of cash available for debt reduction or investment, which  
10 results in higher interest expense or declining investment income.

11 In my testimony that follows, I project the expected results for the Test Year and  
12 discuss the need for a provision for contingencies. The deficiency which results in the  
13 Test Year, if the proposed rates are not implemented, will be approximately \$2.4 billion.  
14 In my opinion, the Postal Service should not allow a deficiency of this magnitude to  
15 occur. Instead, the Postal Service should opt for a moderate increase in rates which is  
16 below the rate of general inflation in the economy, and a continuation of equity  
17 restoration and strengthening of financial position. Without the proposed rate increase,  
18 the Postal Service cannot meet the Board of Governors' policy on equity restoration,  
19 nor can it fund expenditures critical to the future viability of the Postal Service.  
20 Because of the cash requirements in the Test Year, current annual statutory borrowing  
21 limits would not be sufficient to fund all expenditures without borrowing for operations.  
22 High levels of borrowing would also add significantly to interest expense.

23 Operating at a loss, deferring equity restoration, and borrowing for operations  
24 are not the best financial policies. In light of the increasing additional costs which I  
25 discuss below, and my financial projections for the Test Year, I conclude that the most  
26 responsible course of action is to increase Postal Service revenues through a moderate  
27 general increase in rates.

28

1     **III.     TEST YEAR REVENUE REQUIREMENT**

2             The revenue requirement stated here for the Test Year has been developed by  
3     estimating changes from a Base Year in which costs and revenues are known. There  
4     are three periods involved in development of the revenue requirement: The Base Year,  
5     (Fiscal Year 1996), the Interim Year (Fiscal Year 1997) and the Test Year (Fiscal Year  
6     1998).

7             **A.     Summary of Test Year Cost Estimating Procedures**

8                 **1.     Base Year**

9                     The Base Year employed by me and by postal cost witnesses in  
10     this case is Fiscal Year 1996. Revenues, expenses, net income and balance sheet  
11     items developed throughout my testimony are consistent with those in the audited and  
12     published financial statements for that year.

13                 **2.     Fiscal Year 1997 and the Test Year**

14                     Two estimated fiscal years, i.e., Fiscal Year 1997 and the Test  
15     Year, will be treated separately in my testimony, not in the aggregate. Cost estimating  
16     procedures have been applied to each of these years as a necessary and direct step in  
17     the development of Test Year costs.

18                 **3.     Sources of change**

19                     Sources of change are classified as cost level, mail volume effect,  
20     non-volume workload effect, additional workday effect, cost reductions, other programs,  
21     workyear mix adjustments, final adjustments, and, for FY 1997 only, a mail mix  
22     adjustment. These sources of change were individually computed for purposes of  
23     explaining total cost differences between the Base Year, Fiscal Year 1997 and the Test  
24     Year in order to establish the basis for the revenue requirement. My testimony explains  
25     the derivation of sources of change factors with the exception of mail volume, final  
26     adjustments, and the mail mix adjustment. Sources of change factors are utilized by  
27     the Rollforward witness to run the Rollforward Model. My Exhibit 9B contains  
28     Rollforward Model change reports that summarize each of the sources of change for FY  
29     1997 and the Test Year which result from the factors developed by me and other Postal

1 Service witnesses. The total Test Year revenue requirement is determined by adding  
2 final adjustments,<sup>10</sup> the contingency, and the amount included to recover prior years'  
3 losses, to the amount reflected on the after rates rollforward model test year change  
4 report which has been adjusted for the workyear mix.<sup>11</sup>

5 a. Cost level

6 Estimating the increase in the cost of current year resources  
7 produces cost level changes for the subsequent year. Year-to-year price changes  
8 primarily consist of increases in the unit cost of personnel compensation and benefits  
9 and the cost of the previous year's level non-personnel resources. As detailed in my  
10 Exhibit 9Q, cost level changes in salaries are estimated to average 1.8% in FY 1997  
11 and 2.0% in the test year. Cost level changes in benefits are estimated to average  
12 2.3% in FY 1997 and 3.3% in the test year. The derivation of cost level factors is  
13 explained in detail in Chapters VIII and IX of Library Reference H-12.

14 b. Mail volume effect

15 Mail volume effect is cost changes due to increases or decreases  
16 in mail volume and special services volume. Cost variability due to the mail volume  
17 effect is detailed in the testimony and workpapers of witness Patelunas.

18 c. Non-volume workload effect

19 These are cost changes that result from variation in measurable  
20 workload characteristics other than mail volume. For example, city carrier street costs  
21 vary with the number of possible deliveries. The most significant of these in terms of  
22 financial impact are the number of possible city deliveries, the number of rural boxes  
23 and route miles, and the amount of facilities square footage. Non-volume workload  
24 factors are summarized in Table 8. The computation of non-volume workload factors is  
25 explained in Chapter IVd of Library Reference H-12. The application of these factors to

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<sup>10</sup> Final adjustments are calculated by other USPS witnesses and summarized and sourced in Patelunas Exhibit USPS-15I.

<sup>11</sup> Exhibit 9B page 7.

Postal Service costs is explained in the testimony and workpapers of witness Patelunas.

**Table 8**  
Non-Volume Workload Factors  
% Change from Previous Year

	FY 1997	Test Year
No. of Post Offices <sup>12</sup>	(.3)%	(.3)%
Possible City Deliveries	.8%	.8%
Rural Route Miles	2.2%	2.2%
Rural Boxes & Route Miles <sup>13</sup>	3.0%	3.0%
Contract Stations	3.5%	3.3%
Cag L Post Offices	(4.8)%	(5.0)%
Facilities Sq. Footage (Leased)	5.4%	1.2%
Facilities Square Footage (Interior)	(.9)%	2.0%

d. Additional workday effect

Some costs vary according to the number and composition of days in each Government Fiscal Year. For example, costs are higher on weekdays (except holidays) than Saturdays, and lowest on Sundays and Holidays. The derivation of the additional workday factor is detailed in Chapter VII of Library Reference H-12 and the application of these factors to Postal Service costs is explained in the testimony and workpapers of witness Patelunas.

The number of days in each of the relevant years is shown in Table 9.

**Table 9**  
Analysis of Work Days by Fiscal Year

	FY 1996	FY 1997	Test Year
Weekdays	251.0	251.0	251.0
Saturdays	52	52	52
Sundays	53	52	52
Holidays	10	10	10
Workday Equivalents	296.7	296.6	296.6
Total Days	366.0	365.0	365.0

<sup>12</sup> Weighted by Postmaster salaries by class.

<sup>13</sup> Weighted average.

e. Cost reductions

Numerous management-initiated cost reduction programs are currently in progress or planned which will result in significant cost savings. Headquarters' financial and operating managers, with the assistance of Area, District, and Plant personnel, develop and implement plans and monitor performance of specific projects and activities aimed at reducing operating expenses. Most of the cost reduction savings impacting FY 1997 and the test year derive from automation and other equipment. Table 10 summarizes the impact of cost reduction programs in Fiscal Year 1997 and the Test Year by cost segment. A detailed listing of the major personnel cost related cost reduction programs and the calculation of the workyear and dollar cost savings is included in Library Reference H-12, Chapter Va. A listing of the major non-personnel cost related cost reduction programs is included in Chapter Vg of Library Reference H-12. A narrative description of these programs and the basis for the resource savings is contained in Library reference H-10.

**Table 10**  
Cost Reductions  
(\$ 000)

Segment	FY 1997	Test Year
2. Supervisors and Technical Personnel	513	
3. Clerks and Mail Handlers, CAG A-J	450,568	420,782
6. City Delivery Carriers	201,542	342,341
11. Custodial and Maintenance Services		7,922
14. Purchased Transportation of Mail	92,365	134,694
16. Supplies and Services		25,297
Total	744,988	931,036

f. Other Programs

This category includes changes in costs associated with management-initiated actions other than cost reductions that change the status quo (e.g., improve service or satisfy administrative or legal requirements). Some programs generally satisfy a one-time need and are not intended to continue indefinitely, while others will add additional costs that continue indefinitely. The resource costs associated with cost reduction programs are included under other programs. This

category also includes changes in expenses not directly linked to operations, such as interest, depreciation and corporatewide personnel costs such as annuitant costs and workers' compensation. The impact of accounting and reporting changes and other miscellaneous adjustments that cannot be easily separated into other categories are also reflected in this column. Table 11 summarizes the impact of Other Programs on Fiscal Year 1997 and the Test Year by cost segment. Summaries of the major Headquarters Administered other programs and the calculation of depreciation and nationally accrued personnel related costs are included in Library Reference H-12, Chapters IV-VI. Library Reference H-10 provides a narrative description of each amount included under the other program column and the basis for the estimated cost.

**Table 11**  
Other Programs  
(\$ 000)

Segment	FY 1997	Test Year
2. Supervisors and Technical Personnel	34,414	42,292
3. Clerks and Mail Handlers, CAG A-J	339,750	384,686
6.&7 City Delivery Carriers	11,808	18,465
10. Rural Carriers		
11. Custodial and Maintenance Services	19,903	41,313
12. Motor Vehicle Service	3,226	16,179
13. Miscellaneous Local Operations		1,456
14. Purchased Transportation of Mail	208,807	251,847
15. Building Occupancy	58,237	89,785
16. Supplies and Services	307,599	831,108
17. Research and Development	-1,255	2,990
18. Headquarters and Area Admin.	-180,390	410,659
19. Equip. Maint. & Mgt. Tng. Support	-213	1,628
20. Depreciation, Write-offs, Losses, etc.	304,612	449,471
Total	1,101,407	2,541,879

g. Workyear Mix Adjustments

The dollar impact of changes in the composition of workyears expected to occur during Fiscal Year 1997 and Fiscal Year 1998 was calculated. The net impact of changes in the workyear mix will result in a smaller amount for salaries and benefits than would have resulted if the workyear mix remained the same as it was

1 in Fiscal Year 1996 (i.e., the amount of personnel cost calculated by the roll-forward  
2 model before this adjustment). The total reduction calculated for FY 1997 is \$28.7  
3 million. For the test year the reduction is \$60.5 million before rates and \$64.8 million  
4 after rates. The adjusted workyear mix as a percentage of straight time workyears is  
5 shown in Table 12.

6 Overtime is currently running higher than planned in the FY 1997  
7 operating budget. The operating budget reflects a slight decline from the FY 1996  
8 level. The number of clerk transitional employees (TEs) not working in Remote  
9 Encoding Centers allowed under the labor contract currently in place declines in both  
10 Fiscal Year 1997 and the Test Year. After November 1997, all clerk TEs must be off  
11 the rolls except in remote encoding centers. The labor contract allows 70% of the  
12 hours worked in remote encoding sites to be worked by TEs. The number of clerk and  
13 city carrier casuals is assumed to remain at the same level as FY 1996 through the  
14 Test Year which is within the limits set by the labor contract. The limit on mail handler  
15 casuals declined from 13% to 10% of career employees in April 1996 as specified by  
16 the labor contract. Savings due to the lower wages of new hires will continue through  
17 the test year. New hire savings are offset by the large step increases granted to  
18 extended step employees hired earlier.

19 The net impact of the changes in workyear mix is reflected as an  
20 adjustment to the dollar estimates generated by the rollforward model for clerks, city  
21 delivery carriers and mail handlers. The workyear mix adjustment is explained in  
22 greater detail in Chapter X of Library Reference H-12.

23

**Table 12**  
**Workyear Mix Expressed As a**  
**Percentage of Straight Time Workyears**

	FY 1996 Actual	FY 1997 Estimate	Test Year BR Est.	Test Year AR Est.
<b>Clerks A-J</b>				
Career-Base	86.6%	86.8%	88.4%	88.4%
Career-Holiday	.7%	.7%	.8%	.8%
Casual	5.0%	5.0%	5.1%	5.1%
Transitional	7.7%	7.5%	5.7%	5.7%
Subtotal St. Time	100.00%	100.00%	100.00%	100.00%
Overtime	7.6%	8.3%	8.3%	8.3%
<b>City Carriers</b>				
Career-Base	97.0%	97.0%	97.0%	97.0%
Career-Holiday	.3%	.3%	.3%	.3%
Casual	1.4%	1.4%	1.4%	1.4%
Transitional	1.3%	1.3%	1.3%	1.3%
Subtotal St. Time	100.00%	100.00%	100.00%	100.00%
Overtime	10.3%	10.4%	10.4%	10.4%
<b>Mail Handlers</b>				
Career-Base	88.9%	89.7%	89.7%	89.7%
Career-Holiday	1.3%	1.3%	1.3%	1.3%
Casual	9.8%	9.0%	9.0%	9.0%
Transitional	N/A	N/A	N/A	N/A
Subtotal St. Time	100.00%	100.00%	100.00%	100.00%
Overtime	10.9%	11.1%	11.1%	11.1%

h. Mail Mix Adjustment

FY 1996 costs reflect the pre-classification reform environment which has been rolled forward into FY 1997. In order to reflect the costs of the post-classification reform environment and the impact of other mail mix changes that also occurred in FY 1997, an adjustment to cost segments 2 and 3 mail processing cost was made. The derivation of this adjustment is explained in Library Reference H-126.

i. Final Adjustments

Final adjustments represent the impact on costs of changes in mail volume levels and mix that result from changes in existing services or the introduction of new services. Final adjustments are calculated by the appropriate pricing witness

1 and are summarized in the testimony and workpapers of witness Patelunas (USPS-T-  
2 15).

3

4 B. Specific Estimating Elements

5 In order to predict costs in a prospective year in a complete manner, all  
6 known and certain cost changes must be acknowledged. In addition, estimates based  
7 on reasonable assumptions (for costs which will certainly change but for which rates of  
8 change are not precisely known) must be made. Examples of known and certain cost  
9 changes are depreciation on existing plant and equipment, interest expense on debt  
10 already outstanding, and the effect of the major labor agreements now in place which  
11 expire on November 20, 1998 and November 20, 1999. Additional estimating  
12 procedures cover other salary and benefit changes, and general price increases.

13 1. Labor Contract

14 Increases effective through the end of the Test Year are estimated  
15 based on the labor contracts currently in effect. Major contracts with the APWU, NALC,  
16 and the Mail Handlers expire on November 20, 1998. The Rural Carrier contract  
17 expires on November 20, 1999. The derivation of an FY 1998 test year revenue  
18 requirement required that the financial impact of wage changes scheduled to take  
19 effect under the current labor contracts be estimated. The annual and effective base  
20 wage impacts driving personnel cost level increases are summarized in my Exhibit 90.  
21 Additional details on the derivation of personnel unit cost changes, which include pay  
22 increases, lump sum payments, and cost of living allowances, can be found in Chapter  
23 VIII of Library Reference H-12. The wage and benefit costs estimated in developing  
24 the revenue requirement are not intended to imply that these cost are reflective of  
25 changes in wages and benefits which might be negotiated in the future

26 2. Other Salary and Benefit Changes

27 Bargaining unit employees receive periodic longevity (step)  
28 increases that affect their average compensation. Similarly, performance-based  
29 increases, incurred primarily as lump sum payouts, affect the average compensation of

non-bargaining employees. Estimated effects of these actions are included in appropriate cost level computations and are detailed in Chapter VIII of Library Reference H-12. The estimated step amounts for selected categories of employees are shown in Table 13 below.

**Table 13**  
Step Increase Unit Costs Summary

	FY 1997	Test Year
Clerks CAG A-J, Barg.	\$303.26	\$356.14
City Carriers, Barg.	\$353.54	\$421.96
Mail Handlers, Barg.	\$621.18	\$776.54

Federal Employee Health Benefit premiums decreased by an average of 2.3 percent in January 1996 and subsequently increased by 0.7 percent in January 1997. The Office of Personnel Management estimates an additional increase of 5.0 percent in January 1998. As a result of an interest arbitration decision, premium contributions by the Postal Service were gradually reduced from 75% to 71% of the average "big six" plans in the Federal Employees Health Benefit Program. The Postal Service's contribution began to decline in 1994, and has continued to decline through the final adjustment effective in 1997 when the Postal Service will pay 71% of the total premium. The impact of the final employer-to-employee cost shift provided for under the current labor contracts is reflected in the actual health benefit rates effective in January 1997. These data were used to calculate FY 1997 and FY 1998 health benefit unit costs. Cost level computations based on these assumptions are detailed in Chapter VIII of Library Reference H-12.

### 3. General Price Increases

The Postal Service is a significant purchaser of supplies for operations and maintenance, and services such as transportation. Most cost level changes for these items are based upon projections contained in the DRI/McGraw Hill<sup>14</sup> USSIM/Trendlong of February 1997, and CISSIM/Control Quarter II 1997. CPI-W

<sup>14/</sup> DRI/McGraw Hill is a leading economic forecasting service.

estimates from DRI served as the basis for computation of cost of living adjustments (COLA) for Fiscal Year 1997 and the Test Year under the existing agreements affecting bargaining unit employees.

Major indices used in this case are summarized in the Table 14. A more detailed list of the indices used, along with the specific factors for Fiscal Year 1997 and the Test Year, can be found in Chapter IX Library Reference H-12.

**Table 14**  
Selected DRI Forecast Factors  
(Percent Change From Previous Year)

	FY 1996	FY 1997	Test Year
CPI-W <sup>15</sup>	2.77	2.91	2.61
CPI-U <sup>16</sup>	2.79	2.91	2.70
Supplies & materials	1.41	0.62	0.19

### C. Revenue Requirement

The Test Year revenue requirement is presented in the same cost segment format employed in the testimony of witness Patelunas. The total revenue requirement is the sum of accrued costs for nineteen (19) cost segments, plus final adjustments calculated outside the rollforward model, a provision for contingencies, and an amount for recovery of prior years' losses. Test Year revenue requirements before and after rates are:

**Table 15**  
Test Year Revenue Requirement  
(\$ 000)

	Before Rates	After Rates
Total Cost Segments	60,766,222	60,690,121
Final Adjustments	24,537	(138,628)
Provision for Contingencies	607,908	605,515
Recovery of Prior Years' Losses	446,933	446,933
Total Revenue Required	61,845,600	61,603,941

<sup>15/</sup> CPI-W is the Consumer Price Index for all Urban Wage Earners & Clerical Workers

<sup>16/</sup> CPI-U is the Consumer Price Index for all Urban Consumers.

1. Accrued Costs

Costs for the nineteen (19) cost segments for the Base Year through the Test Year are:

**Table 16**  
Total Cost Segments<sup>17</sup>  
(\$ 000)

	Amount	% Change
FY 1996	54,976,597	
FY 1997	57,255,750	4.1
Test Year before rates	60,766,222	6.1
Test Year after rates	60,690,121	6.0

A summary analysis of cost changes is presented here for each cost segment. Included in the analyses are specific reasons for significant cost increases or decreases. A brief description of the costs in each segment is provided; for a more detailed description, please refer to Library Reference H-1, the Summary Description of USPS Development of Costs by Segments and Components.

a. Postmasters (Segment 1)

Costs of this segment for the Base Year through the Test Year are:

**Table 17**  
Postmasters Cost  
(\$ 000)

	Amount	% Change
FY 1996	1,664,525	
FY 1997	1,668,936	0.3
Test Year before rates	1,714,555	2.7
Test Year after rates	1,712,615	2.6

Costs of the segment are the personnel costs for the following employees:

Postmasters

District manager/postmasters of customer service districts

<sup>17</sup> Includes workyear mix and mail mix adjustments. Excludes final adjustments and contingency.

1                   Some Bulk Mail Center Managers

2                   Officers-in-charge

3                   Also included is the compensation and benefits for relief or  
 4 replacement of postmasters. As reflected in Table 18, Postmaster costs are mainly  
 5 impacted by cost level increases that result from estimated changes in salaries and  
 6 benefits unit costs. FY 97 costs are little changed due to the decrease in the amount of  
 7 the lump sum payment assumed to be made to non-bargaining employees in FY 1997  
 8 compared to FY 1996. More detailed cost level assumptions and calculations can be  
 9 found in Chapter VIII of Library Reference H-12.

10  
 11                   **Table 18**  
 12                   Significant Changes in Cost  
 13                   Postmasters  
 14                   (\$ 000)

	FY 1997	Test Year After Rates
Cost Level - Personnel Costs	1,148	41,451
Mail Volume Effect	8,809	7,519
Non-volume Workload - Change in Number of Postmasters due to fewer Post Offices	-4,975	-5,291

15  
 16                   b. Supervisors and Technical Personnel (Segment 2)

17                   Costs for this segment for the Base Year through the Test Year  
 18 are:

19  
 20                   **Table 19**  
 21                   Supervisors and Technical Personnel Cost  
 22                   (\$ 000)

	Amount	% Change
FY 1996	3,280,972	
FY 1997	3,355,519	2.3
Test Year before rates	3,514,726	4.7
Test Year after rates	3,517,945	4.8

23  
 24                   Costs of this segment include the compensation and benefits of  
 25 supervisors, professionals (non-bargaining, non-supervisory personnel), managers of

Postal installations other than post offices, and some Bulk Mail Center managers. As reflected in Table 20, Supervisor costs are mainly impacted by cost level increases which result from estimated changes in salaries and benefits unit costs, mail volume, non-volume workload, and other programs. FY 97 costs increase less than FY 98 mainly due to the decrease in the amount of the lump sum payment assumed to be made to non-bargaining employees in FY 1997 compared to FY 1996. More detailed cost level assumptions and calculations can be found in Chapter VIII of Library Reference H-12.

**Table 20**  
Significant Changes in Cost  
Supervisors and Technical Personnel  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level - Personnel Costs	3,890	73,745
Mail Volume Effect	41,792	43,573
Non-Volume Workload - Indirect Effects	2,646	2,816
Other Programs	34,414	42,292

c. Clerks and Mail Handlers, CAG A through J Offices (Segment 3)  
Costs for this segment for the Base Year through the Test Year  
are:

**Table 21**  
Clerks and Mail Handlers, CAG A through J Offices  
(\$ 000)

	Amount	% Change
FY 1996	16,456,099	
FY 1997	17,062,705	3.7
Test Year before rates	17,707,467	3.8
Test Year after rates	17,759,605	4.1

Costs of this segment include the personnel costs of clerks and mail handlers at CAG A through J offices, including Processing and Distribution Plants and Bulk Mail Centers. As reflected in Table 22, Clerk/Mail Handler costs are mainly

1 impacted by cost level increases which result from estimated changes in salaries and  
 2 benefits unit costs. Other significant increases result from mail volume workload  
 3 growth and other programs. Volume related workload growth is more than offset by  
 4 cost reductions in both FY 1997 and the test year. Cost reductions are mainly related  
 5 to automation and other equipment. Other program increases relate mainly to the  
 6 staffing of Remote Encoding Centers and non-operational programs. Cost reduction  
 7 and other programs are detailed in Chapter Va of LR H-12.

8  
 9 **Table 22**  
 10 Significant Changes in Cost  
 11 Clerks and Mail Handlers, CAG A through J Offices  
 12 (\$ 000)

	FY 1997	Test Year After Rates
Cost Level - Personnel Costs	495,455	405,612
Mail Volume Effect	308,458	359,378
Cost Reductions	-450,568	-420,782
Other Programs	339,750	384,686

13

14 d. Clerks - CAG K Offices (Segment 4)

15 Costs for this segment for the Base Year through the Test Year

16 are:

17 **Table 23**  
 18 Clerks, CAG K Offices Cost  
 19 (\$ 000)

	Amount	% Change
FY 1996	9,333	
FY 1997	9,723	4.2
Test Year before rates	10,053	3.4
Test Year after rates	10,073	3.6

20

21

22 Costs of this segment include the personnel costs for clerks  
 23 assigned to CAG K offices. As reflected in Table 24, CAG K Clerk costs are mainly  
 24 impacted by cost level increases which result from estimated changes in salaries and  
 25 benefits unit costs.

**Table 24**  
Significant Changes in Cost  
Clerks, CAG K Offices  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level - Personnel Costs	315	252

e. City Delivery Carriers (Segments 6&7)

Costs for this segment for the Base Year through the Test Year

are:

**Table 25**  
City Delivery Carriers Cost  
(\$ 000)

	Amount	% Change
FY 1996	11,461,475	
FY 1997	11,816,329	3.1
Test Year before rates	11,987,730	1.5
Test Year after rates	11,960,532	1.2

Costs of this segment include the personnel costs of city delivery carriers. As reflected in Table 26, City Carrier costs are mainly impacted by cost level increases which result from estimated changes in salaries and benefits unit costs. Volume and delivery workload increases are mostly offset by cost reductions in FY 1997 and more than offset in FY 1998. This results in a cost increase in FY 1998 of only 1.2%.

**Table 26**  
Significant Changes in Cost  
City Delivery Carriers  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level - Personnel Costs	351,454	294,759
Mail Volume Effect	173,968	131,804
Non-volume Workload Increases	43,505	45,000
Cost Reductions	-201,542	-342,341
Other Programs	11,808	18,465

f. **Vehicle Service Drivers (Segment 8)**

Costs for this segment for the Base Year through the Test Year  
are:

**Table 27**  
Vehicle Service Driver Costs  
(\$000)

	Amount	% Change
FY 1996	410,284	
FY 1997	433,459	5.6
Test Year before rates	452,791	4.5
Test Year after rates	448,972	3.6

Costs of this segment include the personnel costs of vehicle service drivers. As reflected in Table 28, Vehicle Service Driver costs are mainly impacted by cost level increases that result from estimated changes in salaries and benefits unit costs and by mail volume workload growth.

**Table 28**  
Significant Changes in Cost  
Vehicle Service Drivers  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level - Personnel Costs	11,132	9,075
Mail Volume Effect	12,116	6,438

g. **Special Delivery Messengers (Segment 9)**

Costs for this segment for the Base Year through the Test Year  
are:

**Table 29**  
Special Delivery Messenger Cost  
(\$ 000)

	Amount	% Change
FY 1996	105,635	
FY 1997	109,691	3.8
Test Year before rates	115,083	4.9
Test Year after rates	114,111	4.0

Costs of this segment include personnel costs for special delivery messengers. As reflected in Table 30, Special Delivery Messenger costs are mainly impacted by cost level increases that result from estimated changes in salaries and benefits unit costs and by mail volume workload growth.

**Table 30**  
Significant Changes in Cost  
Special Delivery Messengers  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level - Personnel Costs	3,040	2,435
Mail Volume Effect	1,039	1,985

h. Rural Carriers (Segment 10)

Costs for this segment for the Base Year through the Test Year are:

**Table 31**  
Rural Carrier Costs  
(\$ 000)

	Amount	% Change
FY 1996	3,377,062	
FY 1997	3,575,835	5.9
Test Year before rates	3,730,577	4.3
Test Year after rates	3,721,604	4.1

Costs for this segment include the personnel costs of rural carriers and the equipment maintenance allowance (EMA) they receive for their vehicles. As reflected in Table 32, Rural Carrier costs are mainly impacted by cost level increases, which result from estimated changes in salaries and benefits unit costs and estimated changes in the CPI-U for Private Transportation, and mail volume and delivery workload growth.

**Table 32**  
Significant Changes in Cost  
Rural Carriers  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level - Personnel Costs & EMA	86,856	45,429
Mail Volume Effect	61,959	47,405
Non-volume Workload Effects	50,804	52,935

- I. Custodial and Maintenance Services (Segment 11)
- Costs for this segment for the Base Year through the Test Year are:

**Table 33**  
Custodial and Maintenance Services Cost  
(\$ 000)

	Amount	% Change
FY 1996	2,113,576	
FY 1997	2,188,929	3.6
Test Year before rates	2,310,568	5.6
Test Year after rates	2,315,717	5.8

Costs of this segment include the personnel costs for custodial, operating equipment, and building and plant equipment maintenance. Also included are expenses for contract cleaning services. As reflected in Table 34, Custodial and Maintenance costs are mainly impacted by cost level increases which result from estimated changes in salaries and benefits unit costs and the DRI index for rent. Custodial and maintenance services costs are also significantly impacted by growth in mail volume, facilities floor space (non-volume workload), and other programs mostly related to the maintenance of automation and other equipment.

**Table 34**  
**Significant Changes in Cost**  
**Custodial and Maintenance Services**  
**(\$ 000)**

	FY 1997	Test Year After Rates
Cost Level Changes	55,288	49,011
Mail Volume Effect	11,929	19,526
Non-volume Workload Effects	-11,105	24,860
Cost Reductions		-7,922
Other Programs	19,903	41,313

j. **Motor Vehicle Service (Segment 12)**

Costs for this segment for the Base Year through the Test Year

are:

**Table 35**  
**Motor Vehicle Service Cost**  
**(\$ 000)**

	Amount	% Change
FY 1996	601,433	
FY 1997	619,314	3.0
Test Year before rates	648,559	4.7
Test Year after rates	647,994	4.6

Costs of this segment include the personnel costs of vehicle operating and maintenance personnel and their supervisors, vehicle operating supplies, and vehicle hire. As reflected in Table 36, Motor Vehicle Service costs are mainly impacted by cost level increases, and in the test year by other programs mainly related to the modification of Long Life Vehicles. Cost level increases result from estimated changes in salaries and benefits unit costs, and the forecasted DRI indices for supplies and materials and transportation services.

**Table 36**  
Significant Changes in Cost  
Motor Vehicle Service  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level Changes	9,484	7,562
Mail Volume Effect	2,295	1,816
Non-volume Workload Effects	3,046	3,123
Other Programs	3,226	16,179

k. Miscellaneous Local Operations (Segment 13)

Costs for this segment for the Base Year through the Test Year

are:

**Table 37**  
Miscellaneous Local Operations  
(\$ 000)

	Amount	% Change
FY 1996	273,420	
FY 1997	279,069	2.1
Test Year before rates	291,673	4.5
Test Year after rates	291,625	4.5

This segment includes the personnel costs for the Mail Equipment Shops, and Facilities and Purchasing Service Centers. Also included are the cost of contract stations, rental allowance for CAG L postmasters, carfare, tolls and ferriage, field operations employee awards, and other miscellaneous expenses. As reflected in Table 38, Miscellaneous Local Operations are mainly impacted by cost level increases, non-volume workload, and other programs. Cost level increases result from estimated changes in salaries and benefits unit costs for the Mail Equipment Shops, Facilities Service Offices and Purchasing Service Centers, and general inflation on contract stations, carfare, tolls and ferriage, field operations employee awards, and other miscellaneous expenses. Non-volume workload changes relate to the impact of changes in the number of CAG L post offices and contract stations. Other programs are mainly related to changes in workyears and freight on supplies related to HQ administered programs.

**Table 38**  
**Significant Changes in Cost**  
**Miscellaneous Local Operations**  
**(\$ 000)**

	FY 1997	Test Year After Rates
Cost Level Changes	8,101	8,402
Non-volume Workload Effects	2,442	2,519
Other Programs	-5,091	1,456

I. Contractual Transportation of Mail (Segment 14)

Costs of this segment for the Base Year through the Test Year are:

**Table 39**  
**Contractual Transportation of Mail**  
**(\$ 000)**

	Amount	% Change
FY 1996	3,757,719	
FY 1997	4,112,686	9.4
Test Year before rates	4,364,702	6.1
Test Year after rates	4,326,522	5.2

This segment includes the cost of non-Postal Service contractual resources used to transport domestic mail between Postal Service facilities within the United States of America. Also included are the costs of transporting international mail between the United States and foreign countries, and the impact of fluctuations in international currency conversion exchange rates. As reflected in Table 40, Contractual Transportation costs are mainly impacted by cost level changes, mail volume workload, cost reductions, and other programs. Cost level changes result from the level of inflation forecasted by DRI. Cost reductions relate to the diversion of mail from air to highway, less dedicated Christmas service, and savings related to Priority Mail Redesign. Other programs relate mainly to the opening of hub and spoke highway operations, the implementation of mail reclassification, Priority Mail Redesign, and the Integrated Material Handling System.

**Table 40**  
Significant Changes in Cost  
Contractual Transportation of Mail  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level Changes	156,720	-16,503
Mail Volume Effect	82,032	113,186
Cost Reductions	-92,365	-134,694
Other Programs	208,807	251,847

m. Building Occupancy (Segment 15)

Costs of this segment for the Base Year through the Test Year are:

**Table 41**  
Building Occupancy Cost  
(\$ 000)

	Amount	% Change
FY 1996	1,299,665	
FY 1997	1,412,235	8.7
Test Year before rates	1,540,685	9.1
Test Year after rates	1,540,685	9.1

Costs of this segment include the non-capital related non-personnel costs of occupying and maintaining Postal Service owned and rented facilities. Such costs include rent, heating fuel, building repairs and alterations, and utilities such as gas, electricity, water, and voice telephone communications. As reflected in Table 42, Building Occupancy costs are mainly impacted by cost level increases, non-volume workload, and other programs. Cost level increases result from estimated changes in general inflation as forecasted by DRI. Non-volume workload results from changes in rented facilities floor space. Other programs relate to changes in Field and HQ Administered Programs. Programs with material changes that impact building occupancy include environmental programs, the start up of new facilities, Corporate Call Management, and Associate Office Infrastructure. Major non-personnel cost related programs are included in Chapters V and VI of Library Reference H12. A narrative description of these programs and the basis for the resource requirements is contained in Library Reference H10.

**Table 42**  
Significant Changes in Cost  
Building Occupancy  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level Changes	26,714	22,452
Non-volume Workload Effects	27,857	16,213
Other Programs	58,237	89,785

n. Supplies and Services (Segment 16)

Costs for this segment for the Base Year through the Test Year  
are:

**Table 43**  
Supplies and Services Cost  
(\$ 000)

	Amount	% Change
FY 1996	2,396,862	
FY 1997	2,707,083	12.9
Test Year before rates	3,529,646	30.4
Test Year after rates	3,531,395	30.5

Costs of this segment include the personnel cost of employees at the Label Printing Units and Material Distribution Centers. Also included are most of the supplies and contractual services utilized by the Postal Service, including printing and reproduction and postage stock. Supplies and services included in segments 14 and 18 are identified and are discussed therein. As reflected in Table 44, Supplies and Services costs are mainly impacted by cost level increases, mail volume workload, cost reductions and other programs. Cost level increases result from estimated changes in salaries and benefits unit costs for the Label Printing Units and Material Distribution Centers and general inflation on supplies and contractual services based on the DRI forecast for supplies and materials and paper and paper products. Cost reductions result from the opening of Mail Transportation Equipment Support Centers. Other programs relate to changes in Field and HQ Administered Programs. Programs with material changes that impact Supplies and Services include Point of Service, Tactical

Sales Force, Augmented Sales Force, Corporate Call Management, Associate Office Infrastructure, Stamp Manufacturing, Mail Transportation Equipment Support Center, Quality Voice Indicators, Expedited Mail Supplies, Year 2000 Software, Priority Mail Redesign, Delivery Confirmation, Advertising, Field Infrastructure, and Air Reservation System. Major non-personnel cost related programs are included in Chapters V and VI of Library Reference H-12. A narrative description of these programs and the basis for the resource requirements is contained in Library Reference H-10.

**Table 44**  
Significant Changes in Cost  
Supplies and Services  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level Changes	-3,682	10,297
Mail Volume Effect	6,402	8,204
Cost Reductions		-25,297
Other Programs	307,599	831,108

o. Research and Development (Segment 17)

Costs for this segment for the Base Year through the Test Year

are:

**Table 45**  
Research and Development Cost  
(\$ 000)

	Amount	% Change
FY 1996	55,466	
FY 1997	54,211	-2.3
Test Year before rates	57,201	5.5
Test Year after rates	57,201	5.5

Costs of this segment include contracts for new and existing technology development and applications engineering. Personnel and related costs and other indirect costs are included in other cost segments. As reflected in Table 46, Research and Development costs are impacted by other programs. A narrative description of these programs and the basis for the resource requirements is contained

in Library Reference H-10.

**Table 46**  
Significant Changes in Cost  
Research and Development  
(\$ 000)

	FY 1997	Test Year After Rates
Other Programs	-1,255	2,990

p. HQ & Area Administration & Corporatewide Personnel Costs  
(Segment 18)

Costs for this segment for the Base Year through the Test Year

are:

**Table 47**  
HQ & Area Administration & Corporatewide Personnel Costs  
(\$ 000)

	Amount	% Change
FY 1996	4,338,547	
FY 1997	4,166,318	-4.0
Test Year before rates	4,595,701	10.3
Test Year after rates	4,595,701	10.3

The costs of this segment include personnel costs for Headquarters and Headquarters related field service units, the money order function, Area Administration, and Law Enforcement. Also included are the corporatewide personnel-related costs of annual leave repricing, Civil Service Retirement Unfunded Liability Principal, Workers' Compensation, Annuity Protection Program, Unemployment Compensation, Retiree Health Benefits, and CSRS Annuitant COLA principal expense. Remaining costs are supplies and services related to Headquarters activities and miscellaneous support costs. As reflected in Table 48, HQ & Area Administration & Corporatewide Personnel Costs are mainly impacted by cost level increases, and other programs. Amounts included as other programs are mainly the year to year change in corporatewide personnel costs. With the exception of workers' compensation costs, the derivations of corporatewide personnel costs are explained in Chapter VI of Library

1 Reference H-12. The calculation of Workers' Compensation expense is explained in  
 2 the testimony and workpapers of witness Macdonald (USPS-T-10). Other Programs  
 3 also includes additional Headquarters and field service unit personnel resources in the  
 4 test year for the Inspector General, International Service Centers, Mail Transportation  
 5 Equipment Support Centers, Tactical Sales Force, and Corporate Call Management.  
 6 Cost level increases result from estimated changes in salaries and benefits unit costs  
 7 for Headquarters and Headquarters related field service units, the money order  
 8 function, Area Administration, and Law Enforcement, and general inflation on supplies  
 9 and contractual services and other miscellaneous items related to Headquarters  
 10 activities based on the DRI forecast for supplies and materials and the consumer price  
 11 index.

12  
 13 **Table 48**  
 14 Significant Changes in Cost  
 15 HQ & Area Administration & Corporatewide Personnel Costs  
 16 (\$ 000)

	FY 1997	Test Year After Rates
Cost Level	8,162	18,724
Other Programs (all other not itemized below)	(132,560)	70,496
Unemployment Compensation	(2,533)	4,000
Repricing Annual Leave	(5,826)	15,947
CSRS Unfunded Liability - Principal	(67,325)	92,174
Retiree Health Benefits	55,840	52,036
Annuitant COLA - Principal	55,068	47,918
Workers' Compensation	(143,232)	139,888
OWCP Health Benefits	102,966	300
Annuity Protection Program	(42,788)	(12,100)

q. Equipment Maintenance & Management Training Support  
(Segment 19)

Costs of this segment for the Base Year through the Test Year are:

**Table 49**  
Equipment Maintenance & Management Training Support  
(\$ 000)

	Amount	% Change
FY 1996	35,654	
FY 1997	36,405	2.1
Test Year before rates	38,973	7.1
Test Year after rates	38,973	7.1

Included in this segment are the personnel costs for the Maintenance Technical Support Center and contractual services in support of equipment maintenance and management training. As reflected in Table 50, Equipment Maintenance & Management Training Support costs are mainly impacted by cost level increases, and other programs. Cost level increases result from estimated changes in salaries and benefits unit costs for the Maintenance Technical Support Center and general inflation on contractual services based on the DRI forecast for the consumer price index. Other program changes relate to changes in Headquarters Administered Programs and personnel resources at the Maintenance Technical Support Center.

**Table 50**  
Significant Changes in Cost  
Equipment Maintenance & Management Training Support  
(\$ 000)

	FY 1997	Test Year After Rates
Cost Level	964	940
Other Programs	(213)	1,628

r. Depreciation, Write-Offs, Claims, and Interest (Segment 20)

Costs of this segment for the Base Year through the Test Year are:

**Table 51**  
**Depreciation, Write-Offs, Claims, and Interest**  
 (\$ 000)

	Amount	% Change
FY 1996	3,338,870	
FY 1997	3,647,303	9.2
Test Year before rates	4,155,532	13.9
Test Year after rates	4,098,851	12.4

In addition to depreciation on equipment and buildings, this segment includes the following costs:

Domestic and foreign mail indemnities

Insurance and tort claims

Uncollectible receivables and other write-offs

Interest expense

As reflected in Table 52, Depreciation, Write-Offs, Claims, and Interest costs are mainly impacted by cost level increases, and other programs. Cost level increases result from estimated changes in general inflation on indemnities and claims and losses based on the DRI forecast for the consumer price index. Other programs consist mainly of estimated changes in depreciation, interest on debt, and interest on retirement liabilities. Detailed explanations of how these costs were estimated can be found in Chapters V and VI of Library Reference H-12.

**Table 52**  
**Significant Changes in Depreciation, Write-Offs, Claims, and Interest Cost**  
 (\$ 000)

	FY 1997	Test Year After Rates
Cost Level	3,243	3,009
Depreciation Expense	205,362	386,548
Disposition of Property	54,043	29,793
Interest on Debt	-88,017	26,192
Interest on Retirement Liabilities	133,488	6,845

## 2. Provision for contingencies

Consistent with the statutory requirement, a provision for

1 contingencies has been included in the Test Year. The amounts included are \$607.9  
2 million in the Test Year before rates and \$605.5 million in the Test Year after rates.  
3 These amounts are equal to one percent of the total segment expense including final  
4 adjustments.

5                   This is less than the two percent included in the last omnibus rate  
6 case and significantly less than the three and one-half percent included in the previous  
7 several cases. The one percent included in this case represents the Postal Service's  
8 desire to keep rate increases as low as possible and below the level of growth in  
9 general inflation. In the abstract, such a low contingency might not be judged  
10 reasonable as protection against unforeseen events and forecasting errors, given the  
11 magnitude of the Postal Service's operations and expenses. In the context of current  
12 circumstances, however, including recent financial success, the current favorable  
13 economic climate, and management's concern about the effect of the contingency on  
14 rate levels, I believe that one percent will provide a reasonable provision for  
15 contingencies in the test year in this case. This conclusion does not represent a  
16 permanent change in management's judgment concerning the level of coverage  
17 generally necessary to protect against unforeseen events and forecasting errors. In  
18 different circumstances in the future, it may very well be necessary to return to the  
19 higher levels of contingency historically deemed prudent to provide the protection  
20 intended by the provision for contingencies.

21                   In deference to the Commission's desire to evaluate forecast errors  
22 and their sources, I have included historical variance analyses similar to those included  
23 in past filings. Pages 3 and 4 of my Exhibit 9J reflect the results of applying the two  
24 sets of historical weighted average cost and revenue variances calculated on pages 1  
25 and 2 of USPS Exhibit 9J, to Docket R97-1 Test Year after rates cost and revenue  
26 estimates. This produces hypothetical Test Year variances ranging from -0.2  
27 percent, or \$-150 million to 3.5 percent, or \$2.1 billion.

28                   I believe historical variance analyses should not be the basis for  
29 determining the need for a contingency or its size. No matter what results a historical

1 variance analysis produces, it is not appropriate to use historical data to determine the  
2 size of the contingency in lieu of management's judgment about the future.

3                   These calculations are included for informational purposes only.

4 To conclude from any historical variance analysis that a certain level of unforeseen  
5 events will occur in the Test Year would be both irresponsible and illogical. No one can  
6 predict the future, but the evidence clearly suggests that management's past judgment  
7 regarding the size of the contingency required has been good.

8                   I am convinced that variance analysis cannot be relied upon in a  
9 vacuum as the basis for determining an appropriate contingency level. Variance  
10 analysis can only show us what happened in the past, and should not be relied  
11 upon exclusively to determine the prudent amount of cushion against unforeseen  
12 events in the Test Year. Regardless of what history shows, management must be  
13 allowed to assume its responsibility to determine the amount of contingency  
14 most appropriate for achieving its goals.

15                   It is also important to realize that the variance analyses reflected in  
16 pages 3 and 4 of my Exhibit 9J attempt to show hypothetically how future costs and  
17 revenues would behave if the individual segment variances experienced in the past  
18 were to be precisely repeated in the Test Year.<sup>18</sup> Since this does not allow for  
19 management's judgment regarding the future and the influence of management's  
20 subsequent actions, these types of analyses can only serve as information to be  
21 considered by management in setting Postal Service policy. In consideration of the  
22 Postal Services' goals and the risks involved, a contingency of one percent has been  
23 used for the purpose of estimating this revenue requirement.

24

### 25                   3.       Recovery of Prior Years' Losses

26                   The revenue requirement provides for the recovery of losses  
27 incurred prior to the Test Year, in accordance with the break-even requirement of the

---

<sup>18</sup> General ledger account classifications were realigned in FY 1995. Material shifts were made among segments 16, 18, and 20. Weighted average historical percentage variances which are impacted by FY 1995 data were therefore based on the variances for these three segments in total.

1 Postal Reorganization Act and previous Postal Rate Commission Recommended  
2 Decisions. The Test Year revenue requirement includes \$446.9 million for the purpose  
3 of recovering prior years' losses. This amount has been computed by summing the net  
4 operating income (loss) for all periods from the inception of the Postal Service to the  
5 beginning of the Test Year, deducting the funds received under Public Law No. 94-  
6 421, and amortizing the total amount over nine years. Computation of the amount  
7 included in the revenue requirement for recovery of prior years' losses is shown  
8 in Table 53.

9                   The nine-year amortization period is consistent with the  
10 Commission's Recommended Decisions in Docket Nos. R80-1, R84-1, R87-1, R90-1,  
11 and R94-1. In management's judgment, it is a reasonable period: It is neither so short  
12 as to unduly increase the revenue requirement nor so long as to unduly delay recovery  
13 of losses.

14                   Despite recent progress in restoring equity, the Postal Service's  
15 equity position remains substantially negative. Historically, the Postal Service has  
16 incurred net losses and consequently has experienced a decline in equity over each  
17 rate cycle since Postal Reorganization. The period following the Docket No. R80-1 rate  
18 change from 1981-1984, and, so far, the current rate cycle period, are exceptional in  
19 that cumulative net incomes have been generated. Postal Service equity declined from  
20 \$1.7 billion, when it began operations on July 1, 1971, to a negative \$6.0 billion at the  
21 end of FY 1994. The Postal Service has begun to reverse this trend. Since  
22 implementation of the rates recommended in Docket No. R94-1, on January 1, 1995, a  
23 substantial amount of equity has already been restored through the end of Fiscal Year  
24 1996 and the prospects appear very good that some additional amount of equity can be  
25 restored over the period lasting until the next general rate change. As shown in my  
26 Exhibit 9L, which depicts historical net incomes, losses, and equity, a net income of  
27 \$1.8 billion was realized in FY 1995, followed by a net income of \$1.6 billion in Fiscal  
28 Year 1996, and an estimated net income of \$636 million on Fiscal Year 1997. This will  
29 improve equity to a negative \$2.0 billion by the end of FY 1997.

1                   Notwithstanding this progress, rising cost levels will tend to  
2     undermine the Postal Service's equity position in Fiscal Year 1998. In this regard, the  
3     Board of Governors of the Postal Service has affirmed the Postal Service's commitment  
4     to restoring and maintaining equity over time. In Resolution No. 95-9, adopted on July  
5     10, 1995, the Board issued a policy statement outlining a goal of restoring equity  
6     between general rate increases cumulatively in relation to the amount included for  
7     recovery of prior years' losses in the most recent rate case.<sup>19</sup> In connection with that  
8     goal, the resolution further stipulates that, whenever it is projected that restoration of  
9     equity as specified might not be met, the Board and the Postal Service will take action  
10    to reduce costs and/or increase revenues. A report on equity restoration prepared by  
11    Price Waterhouse LLP for the Board of Governors provides significant advice as  
12    background to the Board's policy Resolution.<sup>20</sup> The Report recommended that "the  
13    Board of Governors adopt a Policy Statement affirming a commitment to the goals of  
14    breaking even over time and taking actions to improve the Postal Service's equity  
15    position."<sup>21</sup>

16                   A Fiscal Year 1998 before rates test year with a projected net loss  
17    of \$1.4 billion indicates the need for additional net revenue. As reflected in my Exhibit  
18    9N, the Postal Service projects it will fall short of the Board of Governors' equity  
19    restoration goal if rates are not increased during Fiscal Year 1998.

20                   Although in some past rate cycles equity was restored, the Postal  
21    Service's current equity position is still negative. If there had been no provision  
22    for recovery of prior years' losses, however, the erosion of equity would have been  
23    even more severe. Without the provision for recovery of prior years' losses, the  
24    Postal Service would have no mechanism to ultimately meet the statutory requirement  
25    to break even.

26                   I believe that the recovery of prior years' losses is essential to the

---

<sup>19/</sup> Docket No. MC96-3, Library Reference SSR-112

<sup>20/</sup> Id.

<sup>21/</sup> Id.

ultimate, long-term improvement and maintenance of the Postal Service's financial condition. My judgment in this matter is further supported by the report on equity restoration prepared by Price Waterhouse LLP for the Board of Governors referred to above. The provision for recovery of prior years' losses proposed in this case is essential to continuing the Postal Service's progress in restoring equity and meeting the goals set by management and the Board of Governors.

**Table 53**  
Computation of Prior Years' Loss Recovery  
(\$ 000)

Deficit from Operations since commencement on July 1, 1971 through September 30, 1996	5,657,952
Less: Estimated net income in FY 1997	635,559
Less: Funds from Public Law No. 94-421	1,000,000
Total Recovery Required	4,022,393
Annual Increment (1/9)	446,933

#### IV. REVENUES BEFORE AND AFTER RATES

The three sources of postal revenues are operating revenue, appropriations, and interest income. Table 54 provides total revenues, actual and estimated through the Test Year:

**Table 54**  
Total Revenues  
(\$ 000)

FY 1996	56,543,739
FY 1997	57,891,310
Test Year before rates	59,403,483
Test Year after rates	61,645,890

##### A. Mail and Special Services Revenues<sup>22</sup>

The mail classes, together with special and other services provided to the public, yield the largest portion of total operating revenues. The derivation of mail and special services revenue is explained in the testimony and workpapers of each of the individual pricing witnesses and summarized in the Testimony of witness O'Hara (USPS-T-30).

Revenues for mail and special services through the Test Year are shown in the following table:

**Table 55**  
Mail and Special Services Revenue  
(\$ 000)

FY 1996	56,308,997
FY 1997	57,707,664
Test Year before rates	59,302,629
Test Year after rates	61,524,021

<sup>22/</sup> Volumes by class of mail and the attendant revenues for FY's 1996, 1997, and the Test Year before and after rates are shown in my Exhibits 9C and 9D. The development of volume estimates is included in the testimonies and workpapers of witnesses Tolley, Thress, and Musgrave (USPS-T-6, 7, & 8). After rates volume adjustments that result from market research or special studies are explained in the testimony of the appropriate pricing witness and are summarized in the Testimony of witness O'Hara (USPS T-30).

1           B.     Appropriations<sup>23</sup>

2           Prior to Fiscal Year 1983, the Postal Service received annual  
3     appropriations for public service costs. Since Fiscal Year 1982, appropriation revenue  
4     has been for revenue forgone only. Revenue forgone results from providing free mail  
5     for the blind and for overseas voters and charging lower rates for those mail categories  
6     which Congress has determined should be subsidized through tax dollars. During  
7     Fiscal Years 1991-1993, the amounts appropriated were not sufficient to fund the  
8     services provided by the Postal Service. The Revenue Forgone Reform Act of 1993,  
9     authorized the appropriation of \$1.218 billion in 42 annual \$29 million payments  
10    through Fiscal Year 2035, to reimburse the Postal Service for earned but unpaid  
11    revenue forgone for Fiscal Year's 1991-1993, and for the estimated cost of revenue  
12    forgone during the period Fiscal Year 1994-1998. During this period, the subsidy is  
13    being gradually phased out for all previously subsidized categories of mail except free  
14    mail for the blind and visually handicapped and absentee overseas voters, which will  
15    remain fully subsidized. Reduced rates will gradually be increased through Fiscal Year  
16    1998 until half of the amount necessary to provide full funding is provided by the rates  
17    charged to users. The remaining shortfall not funded by the appropriation and the  
18    postage charged for reduced rate mail categories will be passed on to all mail users  
19    through higher rates that result from the ratemaking process. Should any amount not  
20    be appropriated, the Postal Service can adjust the rates of the subsidized mail  
21    categories enough to offset the shortfall.

22           The appropriation revenue included in this filing consists of three  
23    components. The first represents the estimated cost of providing free mail for the blind  
24    and visually handicapped and overseas voting. As reflected in my Exhibit 9E this  
25    amounts to \$55.296 million for the test year before rates and increases to \$55.520  
26    million on an after rates basis. The second component is a \$1.978 million adjustment  
27    relating to the period Fiscal Year 1992-1995 to reconcile the amounts of appropriations

---

<sup>23</sup> My Exhibit 9E shows the components of appropriation revenue for the relevant years.

1 received to the amounts which would have been authorized if based on the final  
 2 audited mail volume. The third component represents the present value of future  
 3 reimbursements under the Revenue Forgone Act of 1993 that applies to each year.  
 4 Also reflected in my Exhibit 9E, this amount is \$10 million for the test year. The  
 5 revenue accrued each year represents the amount earned in that year, which is  
 6 different from the \$29 million cash payment received each year. Over the 42 year  
 7 period the cash payments are equal to the total appropriation revenue and imputed  
 8 interest accrued. The amount of interest imputed at 7% is reflected under interest  
 9 income. Additional details regarding the calculation of these amounts can be found in  
 10 Chapters XIb and VIb of LR H-12.

11 The following table shows revenue forgone appropriation revenue through  
 12 the Test Year:

13  
 14 **Table 56**  
 15 Appropriation Revenue  
 16 (\$ 000)

FY 1996	93,080
FY 1997	83,433
Test Year before rates	67,274
Test Year after rates	67,498

17

18 C. Interest Income

19 Interest income has two components: investment income, and imputed  
 20 interest.

21 Investment income earned by the Postal Service in any period depends  
 22 upon prevailing short-term interest rates and the amount of cash available for  
 23 investment. Interest rate assumptions for investment income are based on projected  
 24 rates for the three-month Treasury Bill. Projected rates were derived from the implied  
 25 forward rates for the three-month Treasury Bill using the yield curve as of 5/22/1997.  
 26 As reflected in my Exhibit 9G, this methodology projects quarterly investment rates for  
 27 FY 1998 of: 5.8922%, 6.1611%, 6.3193%, and 6.4706%. These rates were applied to  
 28 the projected amount of cash available for investment based on the net cash flows from

expected receipts and disbursements. The lower level of investment income projected for the test year from FY 1996 actual and the amount projected for FY 1997 is indicative of the Postal Service's cash management strategy of minimizing its cash balance while at the same time ensuring liquidity.

Imputed interest results from the calculation at 7 percent interest of the present value of future payments related to the Revenue Forgone Act of 1993. The calculation of these amounts is discussed above under appropriations and explained in detail in Chapter VIb of Library Reference H-12.

The following table shows Interest income for Fiscal Year 1996 through the Test Year:

**Table 57**  
Interest Income <sup>24</sup>  
(\$ 000)

Period	Investment Income	Imputed Interest	Total Interest Income
FY 1996	114,561	27,100	141,661
FY 1997	73,313	26,900	100,213
Test Year before rates	6,980	26,600	33,580
Test Year after rates	27,771	26,600	54,371

<sup>24/</sup> Estimated cash flows for FY 1997 and the Test Year before and after rates, along with projected investment income, are shown in my Exhibits 9F and 9G.

1 V. TEST YEAR REVENUE DEFICIENCY

2 The Postal Service's total revenue deficiency in the Test Year at present rates  
 3 would be approximately \$2.442 billion. Changes in postal rates and fees proposed in  
 4 this filing will eliminate the deficiency as illustrated below:

5  
 6 **Table 58**  
 7 Test Year Revenue Deficiency <sup>25</sup>  
 8 (\$ 000)

Present Rates	Test Year
Total Revenue Requirement <sup>26</sup>	61,845,600
Less: Total Revenue <sup>27</sup>	59,403,483
Total Revenue Deficiency	2,442,117
<b>Proposed Rates</b>	
Increase in Revenue	2,242,407
Decrease in Revenue Requirement	241,659
Change in Revenue Deficiency	2,484,066
Revenue Surplus (Deficiency)	41,949

9  
 10  
 11

<sup>25/</sup> An analysis of changes in income and expenses comparing before and after rates is included in my Exhibit 9H.

<sup>26/</sup> From Table 15, the Test Year revenue requirement before and after rates reflects, total accrued cost segment expense, final adjustments, contingency and recovery of prior years' losses.

<sup>27/</sup> From Table 54, revenues for the Test Year at present rates.

- 1 The financial impact of present and proposed rates in the Test Year, as represented in  
 2 the equity section of the balance sheet, is demonstrated in Table 59.

3

4

5

6

7

**Table 59**  
 Analysis of Changes in Equity <sup>28</sup>  
 (\$ 000)

	FY 1997	Test Year	
		Before Rates	After Rates
Beginning Balance	(2,623,500)	(1,987,941)	(1,987,941)
Net income/(Loss)	635,559	(1,995,184)	488,882
Ending Balance	(1,987,941)	(3,983,125)	(1,499,059)

---

<sup>28/</sup> The contingency is included and the prior year loss recovery is excluded from test year costs when determining net income (loss) and equity.

**EXHIBITS**

STATEMENTS OF REVENUE AND EXPENSE FY 1996 - TEST YEAR AFTER RATES	USPS-9A
ROLLFORWARD SOURCE OF CHANGE SUMMARIES, FY 1996 THROUGH THE TEST YEAR AFTER RATES	USPS-9B
MAIL VOLUME, FY 1996 THROUGH THE TEST YEAR AFTER RATES	USPS-9C
MAIL AND SPECIAL SERVICES REVENUE, FY 1996 THROUGH THE TEST YEAR AFTER RATES	USPS-9D
APPROPRIATION REVENUE, FY 1996 THROUGH THE TEST YEAR	USPS-9E
CASH FLOW FORECAST, FY 1997 THROUGH THE TEST YEAR AFTER RATES	USPS-9F
INTEREST INCOME, FY 1997 THROUGH THE TEST YEAR AFTER RATES	USPS-9G
REVENUE REQUIREMENT, SUMMARY ANALYSIS OF INCOME AND EXPENSES	USPS-9H
COMPARATIVE STATEMENTS OF REVENUE AND EXPENSE, TEST YEAR VS. ACTUAL (DOCKET R94-1)	USPS-9I
COMPUTATION OF WEIGHTED AVERAGE PERCENTAGE REVENUE AND COST VARIANCES	USPS-9J
OMNIBUS BUDGET RECONCILIATION ACT (OBRA) COSTS	USPS-9K
SUMMARY OF NET INCOME (LOSS) & EQUITY	USPS-9L
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SUMMARY OF UNIT LABOR COSTS FOR MAJOR EMPLOYEE GROUPS	USPS-9O
SUMMARY OF CHANGES IN WORKYEARS BY SOURCE	USPS-9P
ANALYSIS OF CHANGES IN PERSONNEL COSTS	USPS-9Q

**STATEMENTS OF REVENUE AND EXPENSE**  
**(\$ IN MILLIONS)**

**USPS 9A**

LINE NUMBER		FY 1996 ACTUAL	FY 1997 ESTIMATE	TEST YEAR B/R	TEST YEAR A/R
	<b>REVENUES</b>				
1	OPERATING REVENUE	68,309.0	67,707.7	69,302.6	61,524.0
2	APPROPRIATIONS	93.1	83.4	67.3	67.6
3	INTEREST INCOME	141.7	100.2	33.6	54.4
4	<b>TOTAL REVENUES</b>	<b>68,543.7</b>	<b>67,891.3</b>	<b>69,403.5</b>	<b>61,645.9</b>
	<b>OPERATING EXPENSES</b>				
5	POSTMASTERS	1,664.5	1,668.9	1,714.6	1,712.6
6	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	3,281.0	3,355.6	3,514.7	3,517.9
7	CLERKS & MAILHANDERS	16,466.1	17,062.7	17,707.5	17,758.6
8	CLERKS, CAG K POST OFFICES	9.3	9.7	10.1	10.1
9	CITY DELIVERY CARRIERS	11,461.5	11,816.3	11,987.7	11,980.6
10	VEHICLE SERVICE DRIVERS	410.3	433.5	452.8	449.0
11	SPECIAL DELIVERY MESSENGERS	106.6	109.7	115.1	114.1
12	RURAL CARRIERS	3,377.1	3,675.8	3,730.8	3,721.8
13	CUSTODIAL & MAINTENANCE SERVICES	2,113.6	2,188.9	2,310.6	2,315.7
14	MOTOR VEHICLE SERVICES	601.4	619.3	648.6	648.0
15	MISCELLANEOUS LOCAL OPERATIONS	273.4	278.1	291.7	291.6
16	CONTRACTURAL TRANSPORTATION OF MAIL	3,757.7	4,112.7	4,364.7	4,328.5
17	BUILDING OCCUPANCY	1,298.7	1,412.2	1,540.7	1,540.7
18	RESEARCH & DEVELOPMENT	55.5	54.2	57.2	57.2
19	EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	35.7	36.4	39.0	39.0
20	SUPPLIES & SERVICES	2,396.9	2,707.1	3,529.6	3,531.4
21	HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	4,338.5	4,188.3	4,595.7	4,595.7
22	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	3,338.9	3,847.3	4,155.5	4,098.9
23	SUBTOTAL	10,074.3	10,520.7	12,280.9	12,225.9
24	FINAL ADJUSTMENTS			24.5	(139.6)
25	<b>TOTAL ACCRUED COSTS</b>	<b>64,978.6</b>	<b>67,255.7</b>	<b>69,790.8</b>	<b>61,551.5</b>
	NET INCOME (LOSS)	1,567.2	835.6	(1,387.3)	1,094.4
26	CONTINGENCY			607.9	605.6
	NET INCOME (LOSS) WITH CONTINGENCY			(1,995.2)	488.9
27	RECOVERY OF PRIOR YEAR LOSSES			446.9	446.9
28	<b>TOTAL REVENUE REQUIREMENT</b>			<b>61,845.6</b>	<b>61,603.9</b>
29	NET SURPLUS (DEFICIENCY)			(2,442.1)	41.9

NOTE: NUMBERS MAY NOT ADD DUE TO ROUNDING

USPS 10-4730  
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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 97 (PREADJ PREMIX)  
SUMMARY TABLE  
(\$ 000)

	FY96MOD	COST	MAIL	NONVOLUME	ADDITIONAL		OTHER	FY97
	COSTS	LEVEL	VOLUME	WORKLOAD	WORKDAY	COST	PROGRAMS	PREADJ
			EFFECT	EFFECT	EFFECT	REDUCTIONS		PREMIX
C/S-1	0251 1664525	1148	8809	-4975	-571			1668938
C/S-2	0252 3280972	3890	41792	2646	-625	-513	34414	3362576
C/S-3	0253 16456099	495455	308458	420	-1979	-450568	339750	17147635
C/S-4	0254 9333	315	77		-2			9723
C/S-6	0256 3710132	113764	98280		-171	-201542	3714	3724177
C/S-7	0257 7751343	237690	75688	43505	-2476		8094	8113844
C/S-8	0258 410284	11132	12116		-73			433459
C/S-9	0259 105635	3040	1039		-23			109691
C/S-10	0260 3377062	86856	61959	50804	-846			3575835
C/S-11	0261 2113576	55288	11929	-11105	-662		19903	2188929
C/S-12	0262 601433	9484	2295	3046	-170		3226	619314
C/S-13	0263 273420	8101	222	2442	-25		-5091	279089
C/S-14	0264 3757719	156720	82032		-227	-92365	208807	4112686
C/S-15	0265 1299665	26714		27857	-238		58237	1412235
C/S-16	0266 2396862	-3682	6402		-98		307599	2707083
C/S-17	0267 55466						-1255	54211
C/S-18	0268 4338547	8162			-1		-180390	4166318
C/S-19	0269 35654	964					-213	36405
C/S-20	0270 3338870	3243	578				304612	3647303
TOTAL	0271 54976597	1218284	711676	114640	-8187	-744988	1101407	57369429

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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 97 (VOLADJ PREMIX)

SUMMARY TABLE

(\$ 000)

	FY97RCR PREADJ PREMIX	COST LEVEL	MAIL VOLUME EFFECT	NONVOLUME WORKLOAD EFFECT	ADDITIONAL WORKDAY EFFECT	RECLASS ADJUSTM	OTHER PROGRAMS	FY97RCC VOLADJ PREMIX
C/S-1	0251	1668936						1668936
C/S-2	0252	3362576				-7057		3355519
C/S-3	0253	17147635				-77925		17089710
C/S-4	0254	9723						9723
C/S-6	0256	3724177						3724177
C/S-7	0257	8113844						8113844
C/S-8	0258	433459						433459
C/S-9	0259	109691						109691
C/S-10	0260	3575835						3575835
C/S-11	0261	2188929						2188929
C/S-12	0262	619314						619314
C/S-13	0263	279069						279069
C/S-14	0264	4112686						4112686
C/S-15	0265	1412235						1412235
C/S-16	0266	2707083						2707083
C/S-17	0267	54211						54211
C/S-18	0268	4166318						4166318
C/S-19	0269	36405						36405
C/S-20	0270	3647303						3647303
TOTAL	0271	57369429				-84982		57284447

USPS 10-4730  
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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 97 (VOLADJ  
SUMMARY TABLE

(\$ 000)

	FY97 VOLADJ PREMIX	COST LEVEL	MAIL VOLUME EFFECT	NONVOLUME WORKLOAD EFFECT	ADDITIONAL WORKDAY EFFECT	OTHER EMPLOYEE PROGRAMS MIX ADJ.	FY97 VOLADJ MIXADJ
C/S-1	0251	1668936					1668936
C/S-2	0252	3355519					3355519
C/S-3	0253	17069710				-7005	17062705
C/S-4	0254	9723					9723
C/S-6	0256	3724177				-6826	3717351
C/S-7	0257	8113844				-14868	8065176
C/S-8	0258	433459					433459
C/S-9	0259	109691					109691
C/S-10	0260	3575835					3575835
C/S-11	0261	2188929					2188929
C/S-12	0262	619314					619314
C/S-13	0263	279069					279069
C/S-14	0264	4112686					4112686
C/S-15	0265	1412235					1412235
C/S-16	0266	2707083					2707083
C/S-17	0267	54211					54211
C/S-18	0268	4166318					4166318
C/S-19	0269	36405					36405
C/S-20	0270	3647303					3647303
TOTAL	0271	57284447				-28697	57255750

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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 98 CURRENT (PREMIX)  
SUMMARY TABLE  
(\$ 000)

	FY97RCC VOLADJ PREMIX	COST LEVEL	MAIL VOLUME EFFECT	NONVOLUME WORKLOAD EFFECT	ADDITIONAL WORKDAY EFFECT	COST REDUCTIONS	OTHER PROGRAMS	FY98 CURRENT PREMIX
C/S-1	0251	1888938	41451	8484	-5298			1714555
C/S-2	0262	3355519	73745	40354	2816		42292	3514728
C/S-3	0253	17069710	405612	290983	630	-413005	384688	17738616
C/S-4	0254	9723	252	78				10053
C/S-6	0256	3724177	92732	82859		-342341	5489	3573016
C/S-7	0257	8113844	202027	70244	45017		12976	8444108
C/S-8	0258	433459	8075	10257				452791
C/S-9	0259	109891	2435	2957				115083
C/S-10	0260	3575835	45429	56378	52935			3730577
C/S-11	0261	2188928	49011	14377	24860	-7922	41313	2310568
C/S-12	0262	819314	7582	2380	3124		16179	648559
C/S-13	0263	279069	8402	227	2519		1458	291673
C/S-14	0264	4112688	-16503	145585		-128913	251847	4364702
C/S-15	0265	1412235	22452		16213		89785	1540885
C/S-16	0266	2707083	10297	6455		-25297	831108	3529646
C/S-17	0267	54211					2990	57201
C/S-18	0268	4166318	18724				410659	4595701
C/S-19	0269	36405	840				1628	38973
C/S-20	0270	3847303	3009	-251			505471	4155532
TOTAL	0271	57284447	976652	742447	142818	-917478	2597879	60826765

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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 98 CURRENT  
SUMMARY TABLE  
(\$ 000)

	FY98 CURRENT PREMIX	COST LEVEL	MAIL VOLUME EFFECT	NONVOLUME WORKLOAD EFFECT	ADDITIONAL WORKDAY EFFECT	OTHER EMPLOYEE PROGRAMS MIX ADJ.	FY98 CURRENT MIXADJ
C/S-1	0251	1714555					1714555
C/S-2	0252	3514726					3514726
C/S-3	0253	17738816					17707467
C/S-4	0254	10053				-31149	10053
C/S-6	0256	3573018				-8736	3564280
C/S-7	0257	8444108				-20658	8423450
C/S-8	0258	452791					452791
C/S-9	0259	115083					115083
C/S-10	0260	3730577					3730577
C/S-11	0261	2310568					2310568
C/S-12	0262	648559					648559
C/S-13	0263	291873					291873
C/S-14	0264	4384702					4384702
C/S-15	0265	1540685					1540685
C/S-16	0266	3529646					3529646
C/S-17	0267	57201					57201
C/S-18	0268	4595701					4595701
C/S-19	0269	38973					38973
C/S-20	0270	4155532					4155532
TOTAL	0271	60826765				-80543	60766222

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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 98 PROPOSED (PREMIX)  
SUMMARY TABLE

(\$ 000)

	FY97RCC	COST	MAIL	NONVOLUME	ADDITIONAL	COST	OTHER	FY98
	VOLADJ	LEVEL	VOLUME	WORKLOAD	WORKDAY	REDUCTIONS	PROGRAMS	PROPOSED
	PREMIX		EFFECT	EFFECT	EFFECT			PREMIX
C/S-1	0251	1668936	41451	7519	-5291			1712615
C/S-2	0252	3355519	73745	43573	2816		42292	3517945
C/S-3	0253	17069710	405612	359378	629	-420782	384686	17799233
C/S-4	0254	9723	252	98				10073
C/S-6	0256	3724177	92732	86517		-342341	5497	3566582
C/S-7	0257	8113844	202027	45287	45000		12966	8419126
C/S-8	0258	433459	9075	6438				448972
C/S-9	0259	109691	2435	1985				114111
C/S-10	0260	3575835	45429	47405	52935			3721604
C/S-11	0261	2188929	49011	19526	24860	-7922	41313	2315717
C/S-12	0262	619314	7562	1816	3123		16179	647994
C/S-13	0263	279069	8402	179	2519		1456	291625
C/S-14	0264	4112686	-16503	113186		-134694	251847	4326522
C/S-15	0265	1412235	22452		16213		89785	1540685
C/S-16	0266	2707083	10297	8204		-25297	831108	3531395
C/S-17	0267	54211					2990	57201
C/S-18	0268	4166318	18724				410659	4595701
C/S-19	0269	36405	940				1628	38973
C/S-20	0270	3647303	3009	-932			449471	4098851
TOTAL	0271	57284447	976652	740179	142804	-931036	2541879	60754925

USPS 10-4730  
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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY98 PROPOSED  
SUMMARY TABLE

(\$ 000)

		FY98	COST	MAIL	NONVOLUME	ADDITIONAL	OTHER	FY98
		PROPOSED	LEVEL	VOLUME	WORKLOAD	WORKDAY	EMPLOYEE	PROPOSED
		PREMIX		EFFECT	EFFECT	EFFECT	MIX ADJ.	MIXADJ
C/S-1	0251	1712615						1712615
C/S-2	0252	3517945						3517945
C/S-3	0253	17799233					-39628	17759605
C/S-4	0254	10073						10073
C/S-6	0256	3566582					-7491	3559091
C/S-7	0257	8419126					-17685	8401441
C/S-8	0258	448972						448972
C/S-9	0259	114111						114111
C/S-10	0260	3721604						3721604
C/S-11	0261	2315717						2315717
C/S-12	0262	647994						647994
C/S-13	0263	291625						291625
C/S-14	0264	4326522						4326522
C/S-15	0265	1540685						1540685
C/S-16	0266	3531395						3531395
C/S-17	0267	57201						57201
C/S-18	0268	4595701						4595701
C/S-19	0269	38973						38973
C/S-20	0270	4098851						4098851
TOTAL	0271	60754925					-64804	60690121

**Mail Volume FY 1996 - Test Year  
(Millions)**

**USPS 9C**

<b>Line No.</b>	<b>Class</b>	<b>1996 Actual</b>	<b>1997 Estimate</b>	<b>Test Year Before Rates</b>	<b>Test Year After Rates</b>
1	First Class	98,216	99,346	101,594	101,074
2	Priority	937	1,059	1,124	1,152
3	Express Mail	58	61	64	63
4	Mailgrams	4	6	5	5
5	Periodicals	10,126	10,326	10,322	10,258
6	Standard Mail (A)	71,686	76,531	80,204	79,436
7	Standard Mail (B)	949	988	1,040	1,039
8	U.S.Postal Service	360	339	298	298
9	Free for the Blind	50	52	56	56
10	International	1,053	963	1,025	1,007
11	Total Mail Volume	183,439 1/	189,671	195,733	194,387

1/ FY 1996 RPW Report revised 4/18/97

**Mail and Special Services Revenue**  
**Fiscal Year 1996 - Test Year**  
(Dollars in Millions)

**USPS 9D**

Line No.	Class	1996 Actual	1997 Estimate	Test Year Before Rates	Test Year After Rates
1	First Class	33,117	33,190	33,728	34,704
2	Priority	3,321	3,754	3,983	4,353
3	Express Mail	737	779	824	841
4	Mailgrams	2	6	5	5
5	Periodicals	2,014	2,048	2,035	2,126
6	Standard Mail (A)	12,175	12,816	13,500	13,879
7	Standard Mail (B)	1,524	1,576	1,633	1,712
8	U.S.Postal Service	0	0	0	0
9	Free for the Blind	0	0	0	0
10	International	1,649	1,542	1,626	1,644
11	Total Mail Revenue	54,538 1/	55,710	57,334	59,263
12	Special Services	1,554 1/	1,783	1,753	2,046
13	Other Income	452	399	316	337
14	Total Operating Revenue	56,544 2/	57,891	59,403	61,646

1/ FY 1996 RPW Report revised 4/18/97

2/ 1996 Annual Report of the USPS

**APPROPRIATION REVENUE**  
**FY 1996 -- TEST YEAR**  
( \$ in millions)

	FY 1996 Actual	FY 1997 Estimate	Test Year - Estimates	
			Before Rates	After Rates
Public Service Costs	0	0	0	0
Revenue Forgone on Free and Reduced-rate Mail:				
Free for the Blind and Overseas Voters 1/	56,080	61,433	55,296	55,520
Reconciliation Adjustment 1/	0	0	1,978	1,978
Second, Third & Fourth Class 2/	37,000	22,000	10,000	10,000
Total Revenue Forgone	93,080	83,433	67,274	67,498
Total Appropriation Revenue	93,080	83,433	67,274	67,498

1/ Estimated values reflect amounts requested in FY 1998 President's Budget.

2/ Reflects the discounted present value of the estimated phased appropriation level for the individual respective years.

Imputed interest resulting from the \$29 million annual revenue forgone appropriation is included with interest income.

## U. S. POSTAL SERVICE

## Cash Flow Forecast

Fiscal Year 1997

(millions of dollars)

	10/1/96 - 12/06/96	12/07/96 - 2/28/97	3/01/97 - 5/23/97	5/24/97 - 09/30/97	Total Year
<b>BEGINNING BALANCE</b>					
Cash 1/	(550)	(159)	(278)	(351)	(550)
Investments 1/	860	866	1,213	2,239	860
Total	310	707	935	1,888	310
<b>CASH RECEIPTS</b>					
Postal Revenues 2/	11,046	13,540	13,556	19,870	58,012
Gov't Appropriations 3/	57	21	27	21	126
Borrowing 4/	1,404	250	0	3,710	5,364
Total Receipts	12,507	13,811	13,583	23,601	63,502
<b>CASH DISBURSEMENTS</b>					
Operations 2/	9,169	12,426	11,691	22,536	55,822
Capital Investments 5/	604	669	839	1,671	3,783
Debt Repayment 5/	2,904	250	0	508	3,662
POD Liability 3/	36	0	0	0	36
Total Disbursements	12,713	13,345	12,530	24,715	63,303
<b>Net Change in Money Orders</b>	603	(238)	(100)	(265)	0
<b>ENDING BALANCE</b>					
Cash	(159)	(278)	(351)	(351)	(351)
Investments	866	1,213	2,239	860	860
Total	707	935	1,888	509	509

## SOURCES:

- 1/ Audited FY 1996 financial statements.
- 2/ Accrual revenues/expenses adjusted to cash basis.
- 3/ Chapter XI-b of L.R. H-12 plus POD liability of \$35.5 millions.
- 4/ Chapter VI-b of L.R. H-12.
- 5/ Chapter VI-e of L.R. H-12.

## U. S. POSTAL SERVICE

## Cash Flow Forecast

## Test Year - Before Rates

(millions of dollars)

	10/01/97 - 12/05/97	12/06/97 - 2/27/98	2/28/98 - 5/22/98	5/23/98 - 9/30/98	Total Year
<b>BEGINNING BALANCE</b>					
Cash	(351)	0	0	0	(351)
Investments	860	4	13	21	860
Total	509	4	13	21	509
<b>CASH RECEIPTS</b>					
Postal Revenues 1/	11,812	13,980	13,827	19,931	59,550
Gov't Appropriations 2/	56	22	21	22	121
Borrowing 3/	0	0	0	5,731	5,731
Total Receipts	11,868	14,002	13,848	25,684	65,402
<b>CASH DISBURSEMENTS</b>					
Operations 1/	9,643	12,819	12,908	23,535	58,905
Capital Investments 4/	955	886	943	1,449	4,233
Debt Repayment 3/	1,750	300	0	681	2,731
POD Liability 2/	35	0	0	0	35
Total Disbursements	12,383	14,005	13,851	25,665	65,904
<b>Net Change in Money Orders</b>	10	12	11	18	51
<b>ENDING BALANCE</b>					
Cash	0	0	0	0	0
Investments	4	13	21	58	58
Total	4	13	21	58	58

## SOURCES:

- 1/ Accrual revenues/expenses adjusted to cash basis.
- 2/ Chapter XI-b of L.R. H-12 plus POD liability of \$34.9 millions.
- 3/ Chapter VI-b of L.R. H-12.
- 4/ Chapter VI-e of L.R. H-12.

## U. S. POSTAL SERVICE

## Cash Flow Forecast

## Test Year - After Rates

(millions of dollars)

	10/01/97 - 12/05/97	12/06/97 - 2/27/98	2/28/98 - 5/22/98	5/23/98 - 9/30/98	Total Year
<b><u>BEGINNING BALANCE</u></b>					
Cash	(351)	0	0	0	(351)
Investments	860	312	182	389	860
Total	509	312	182	389	509
<b><u>CASH RECEIPTS</u></b>					
Postal Revenues	12,267	14,523	14,361	20,692	61,843
Gov't Appropriations	56	22	22	21	121
Borrowing	0	0	0	5,244	5,244
Total Receipts	12,323	14,545	14,383	25,957	67,208
<b><u>CASH DISBURSEMENTS</u></b>					
Operations	9,730	12,801	12,744	23,724	58,999
Capital Investments	955	886	943	1,449	4,233
Debt Repayment	1,810	1,000	500	681	3,991
POD Liability	35	0	0	0	35
Total Disbursements	12,530	14,687	14,187	25,854	67,258
<b><u>Net Change in Money Orders</u></b>	10	12	11	17	50
<b><u>ENDING BALANCE</u></b>					
Cash	0	0	0	(351)	(351)
Investments	312	182	389	860	860
Total	312	182	389	509	509

## SOURCES:

- 1/ Accrual revenues/expenses adjusted to cash basis.
- 2/ Chapter XI-b of L.R. H-12 plus POD liability of \$34.9 millions.
- 3/ Chapter VI-b of L.R. H-12.
- 4/ Chapter VI-e of L.R. H-12.

**U. S. POSTAL SERVICE**  
**INVESTMENT INCOME**  
**FISCAL YEARS 1997 - TEST YEAR**  
 ( \$ in millions )

	Number of Days	Average Investment Balance	Rate of Return (%)	Estimated Investment Income
<b>FY 1997</b>				
10/01/96 - 12/06/96	67	476	5.24	4.58
12/07/97 - 02/28/97	84	710	6.37	10.40
03/01/97 - 05/23/97	84	1,661	6.45	24.66
05/24/97 - 09/30/97	130	1,503	6.21	<u>33.24</u>
Sub-total				72.88
Interest Income - Minority Banks CD's				0.43
Imputed Interest - Revenue Forgone				<u>26.90</u>
Total Investment Income				<u>100.21</u>
<b>FY 1998 - Before Rates</b>				
10/01/97 - 12/05/97	66	361	5.90	3.85
12/06/97 - 02/27/98	84	71	6.16	1.01
02/28/98 - 05/22/98	84	23	6.34	0.34
05/23/98 - 09/30/98	131	58	6.47	<u>1.35</u>
Sub-total				6.55
Interest Income - Minority Banks CD's				0.43
Imputed Interest - Revenue Forgone				<u>26.60</u>
Total Investment Income				<u>33.58</u>
<b>FY 1998 - After Rates</b>				
10/01/97 - 12/05/97	66	555	5.89	5.91
12/06/97 - 02/27/98	84	616	6.17	8.75
02/28/98 - 05/22/98	84	500	6.32	7.27
05/23/98 - 09/30/98	131	233	6.47	<u>5.41</u>
Sub-total				27.34
Interest Income - Minority Banks CD's				0.43
Imputed Interest - Revenue Forgone				<u>26.60</u>
Total Investment Income				<u>54.37</u>

The amount of investment income earned in any period depends on prevailing short-term rates and the amount of cash available for investment. Projected rates were derived from the implied rates for the three-month Treasury Bill using the yield curve as of 5/22/97. These rates were applied to projected cash available for investment based on forecasted receipts and disbursements.

REVENUE REQUIREMENT SUMMARY  
ANALYSIS OF INCOME AND EXPENSES  
(\$ 000)

<u>Line No.</u>	<u>Prefiling (Before Rates)</u>	<u>Test Year Estimate</u>
1	Revenue	
2	Mail and Special Services	59,302,629
3	Appropriations	67,274
4	Interest Income	33,580
5	Total	<u>59,403,483</u>
6	Total Revenue Requirement	<u>61,845,600</u>
7	Net Surplus (Deficiency)	<u>(2,442,117)</u>
<u>With Proposed Rates</u>		
8	Revenues and Operating Receipts:	
9	Mail and Special Services	61,524,021
10	Appropriations	67,498
11	Interest Income	54,371
12	Total	<u>61,645,890</u>
13	Total Revenue Requirement	<u>61,603,941</u>
14	Net Surplus (Deficiency)	<u>41,949</u>
<u>Change from Prefiling to Proposed Rates</u>		
15	Changes in Revenue:	
16	Revenue increase from proposed rates (with volume at before rate levels)	2,339,014
17	Increase in special services revenue	292,571
18	Increase in interest income	20,791
19	Subtotal	<u>2,652,376</u>
20	Revenue loss from decrease in volume	<u>(410,193)</u>
21	Subtotal	<u>2,242,183</u>
22	Increased revenue from revenue forgone appropriations	224
23	Increase in revenue	<u>2,242,407</u>
Changes in Costs:		
23	Decrease in costs from lower mail volume	(2,268)
24	Decrease in final adjustments	(163,165)
25	Decrease in interest on debt	(56,000)
26	Decrease due to increase in workyear mix adjustment	(4,261)
27	Decrease in provision for contingencies	(2,393)
28	All other changes	<u>(13,572)</u>
29	Decrease in costs	<u>(241,659)</u>
30	Net change in revenues and costs	<u>2,484,066</u>
31	Net Surplus (Deficiency)	<u>41,949</u>

**COMPARATIVE STATEMENTS OF REVENUE AND EXPENSE  
FOR DOCKET R94-1 TEST YEAR FROM OCTOBER 1, 1994, TO SEPTEMBER 30, 1995  
(\$ MILLIONS)**

A.	REVENUE AND OPERATING RECEIPTS		R94-1	ACTUAL /2	ACTUAL OVER OR (UNDER)
			TEST YEAR FILING 1/		
	1	OPERATING REVENUE	54,388	54,176	(212)
	2	APPROPRIATIONS	108	117	9
	3	INTEREST INCOME	73	216	143
		<b>TOTAL REVENUES &amp; OPERATING RECEIPTS</b>	<b>54,569</b>	<b>54,509</b>	<b>(60)</b>
B.	REVENUE REQUIREMENT				
	1	POSTMASTERS	1,545	1,632	88
	2	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	2,759	3,171	412
	3	CLERKS & MAILHANDERS	15,778	18,054	278
	4	CLERKS, CAG K POST OFFICES	10	11	0
	6&7	CITY DELIVERY CARRIERS	11,273	11,462	190
	8	VEHICLE SERVICE DRIVERS	372	400	28
	9	SPECIAL DELIVERY MESSENGERS	111	110	(1)
	10	RURAL CARRIERS	3,142	3,217	75
	11	CUSTODIAL & MAINTENANCE SERVICES	2,116	2,058	(58)
	12	MOTOR VEHICLE SERVICES	497	550	53
	13	MISCELLANEOUS LOCAL OPERATIONS	222	263	41
	14	CONTRACTURAL TRANSPORTATION OF MAIL	3,504	3,510	5
	15	BUILDING OCCUPANCY	1,284	1,163	(121)
	17	RESEARCH & DEVELOPMENT	67	52	(15)
	19	EQUIPMENT MAINT & MANAGEMENT TRAINING SUPPORT	14	31	16
	16	SUPPLIES & SERVICES	1,788	2,043	
	18	HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	6,594	3,730	
	20	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	1,509	3,283	
		SUBTOTAL - 16, 18, 20 3/	9,891	9,056	(834)
		TOTAL ACCRUED COSTS	52,582	52,739	157
	21	CONTINGENCY	1,052	-	(1,052)
		TOTAL COSTS	53,634	52,739	(895)
		RECOVERY OF PRIOR YEAR LOSSES	936	-	-
C.	TOTAL REVENUE REQUIREMENT				
			54,570	-	-
		<b>NET INCOME (LOSS)</b>	<b>935</b>	<b>1,770</b>	<b>835</b>

1/ Testimony of John H. Ward, Docket No. R94-1, USPS 8A

2/ From Exhibit 9J, Page 1 of 4.

3/ Account reclassifications made in FY 95 had a material effect on segments 16, 18, and 20. Individual FY 95 percentage variances for these segments are not meaningful. The FY 95 variances are therefore calculated in total for these segments only.

COMPUTATION OF WEIGHTED AVERAGE PERCENTAGE  
REVENUE AND COST VARIANCES  
(\$ IN MILLIONS)

COST SEGMENT	REVENUES	FY 1994			R94-1(FY 1995) TEST YEAR			WEIGHTED AVERAGE VARIANCE
		ESTIMATED	ACTUAL	PERCENT OVER OR (UNDER)	ESTIMATED	ACTUAL	PERCENT OVER OR (UNDER)	
	OPERATING REVENUE	48,983.1	48,252.0	0.5	54,388.2	54,178.2	(0.4)	0.1
	APPROPRIATIONS	132.0	131.4	(0.5)	108.4	117.3	8.2	3.4
	INTEREST INCOME	188.2	193.4	15.0	72.8	215.9	196.6	89.8
	TOTAL REVENUES & OPER RECEIPTS	49,283.3	48,576.8	0.6	54,569.4	54,509.4	(0.1)	0.2
	OPERATING EXPENSES							
1	POSTMASTERS	1,488.8	1,560.4	4.8	1,544.8	1,632.4	5.7	5.3
2	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	2,859.7	2,964.9	11.8	2,758.9	3,170.0	14.9	13.2
3	CLERKS & MAILHANDERS	18,388.1	16,561.1	1.1	18,776.7	18,083.6	1.8	1.4
4	CLERKS, CAG K POST OFFICES	9.8	9.8	(0.0)	10.2	10.6	4.3	1.9
6 & 7	CITY DELIVERY CARRIERS	10,902.9	11,043.4	1.3	11,272.5	11,482.8	1.7	1.5
8	VEHICLE SERVICE DRIVERS	381.7	378.3	4.0	372.1	400.4	7.6	5.8
9	SPECIAL DELIVERY MESSENGERS	109.2	106.5	(2.4)	110.9	110.0	(0.8)	(1.6)
10	RURAL CARRIERS	2,994.0	3,042.3	1.6	3,141.8	3,216.8	2.4	2.0
11	CUSTODIAL & MAINTENANCE SERVICES	1,902.8	1,935.7	1.7	2,116.4	2,058.1	(2.8)	(0.6)
12	MOTOR VEHICLE SERVICES	488.8	498.2	3.8	498.6	549.9	10.7	7.2
13	MISCELLANEOUS LOCAL OPERATIONS	214.8	220.9	2.9	221.9	282.8	18.3	10.8
14	CONTRACTURAL TRANSPORTATION OF MAIL	3,353.6	3,384.8	0.0	3,504.4	3,509.8	0.2	0.1
15	BUILDING OCCUPANCY	1,180.2	1,108.9	(8.2)	1,284.2	1,182.8	(9.6)	(7.9)
17	RESEARCH & DEVELOPMENT	84.4	50.6	(21.4)	88.9	51.9	(22.4)	(21.9)
19	EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	13.7	25.4	85.6	14.5	30.9	113.7	100.1
18	SUPPLIES & SERVICES 1/	1,895.4	1,567.0	(8.2)	1,787.9	2,043.2		
18	HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS 1/	8,438.7	8,885.7	(12.0)	8,582.7	3,728.6		
20	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST 1/	1,371.2	1,410.4	2.9	1,508.8	3,283.2		
	SUBTOTAL - 18, 19, 20 1/	9,502.3	9,833.1	(9.1)	9,890.5	9,056.0	(8.4)	(8.8)
	FINAL ADJUSTMENTS							
	TOTAL ACCRUED COSTS	50,827.0	50,480.4	(0.3)	52,562.4	52,739.1	0.3	0.0
	CONTINGENCY				1,051.6			
	RECOVERY OF PRIOR YEAR LOSSES				936.2			
	TOTAL REVENUE REQUIREMENT	50,827.0	50,480.4	(0.3)	54,570.2	52,739.1	(3.4)	(1.9)

NOTE: COLUMN TOTALS MAY NOT ADD DUE TO ROUNDING.  
VARIANCE COMPARISON: ACTUAL OVER OR UNDER | ESTIMATE

SOURCES: FY 94 Actual taken from FY 94 Annual Report of the Postmaster General & FY 94 Cost and Revenue Analysis.  
FY 95 Actual taken from MC 95-3 LR SSR-10. Estimate taken from R94-1 USPS-T-8.

1/: Account reclassifications made in FY 95 had a material effect on segments 16, 18, and 20. Individual FY 95 percentage variances for these segments are not meaningful. The FY 95 and two year weighted average percentage variances are calculated in total for these three segments only.

## HISTORICAL WEIGHTED AVERAGE PERCENTAGE REVENUE AND COST VARIANCES FOR TEST YEARS

(\$ Millions)

	R84-1 1/			R87-1 1/			R90-1 2/			R94-1 3/			Four Year Totals		
	Estimated	Actual	% Over (Under)	Estimated	Actual	% Over (Under)	Estimated	Actual	% Over (Under)	Estimated	Actual	% Over (Under)	Estimated	Actual	% Over (Under)
Total Revenues	29,315.3	29,015.6	(1.0)	38,826.5	38,919.6	0.2	48,101.9	47,105.0	(2.1)	54,569.4	54,509.4	(0.1)	170,813.2	169,549.6	(0.7)
Cost Segment															
1	1,103.1	1,012.5	(8.2)	1,298.7	1,240.4	(4.5)	1,455.4	1,431.2	(1.7)	1,544.8	1,632.4	5.7	5,402.0	5,318.5	(1.6)
2	1,932.3	1,893.8	3.2	2,858.2	2,787.5	(2.5)	3,272.3	3,238.7	(1.0)	2,758.9	3,170.6	14.9	10,821.8	11,190.6	3.4
3	8,958.6	9,842.8	9.9	11,899.7	12,614.7	6.0	14,071.3	14,148.0	0.5	15,775.7	16,053.6	1.8	50,705.3	52,659.2	3.9
4	28.3	29.0	2.5	30.4	19.6	(35.4)	22.8	10.3	(54.7)	10.2	10.6	4.3	81.5	69.5	(24.0)
6 & 7	6,253.4	6,526.9	4.4	8,463.8	8,505.1	0.5	10,099.9	9,994.8	(1.0)	11,272.5	11,462.5	1.7	36,086.5	36,489.3	1.1
8	188.9	204.3	8.2	283.8	273.2	(3.7)	326.1	324.7	(0.4)	372.1	400.4	7.6	1,171.0	1,202.6	2.7
9	85.1	87.7	3.1	107.7	104.0	(3.4)	119.3	105.7	(11.4)	110.9	110.0	(0.8)	423.0	407.4	(3.7)
10	1,537.6	1,549.9	0.8	1,938.5	2,083.5	7.5	2,390.3	2,614.3	9.4	3,141.8	3,216.8	2.4	9,008.2	9,484.5	5.1
11	1,053.3	1,080.1	0.6	1,528.9	1,393.7	(8.8)	1,844.9	1,734.6	(6.0)	2,116.4	2,058.1	(2.8)	6,543.4	6,248.5	(4.5)
12	390.8	390.5	(0.1)	484.7	455.8	(5.9)	513.7	489.6	(4.6)	498.6	549.9	10.7	1,885.8	1,885.9	(1.1)
13	106.3	111.3	4.7	145.1	205.6	41.7	232.0	214.4	(7.6)	221.9	262.6	18.3	705.3	793.9	12.6
14	2,008.0	2,041.5	1.7	2,403.4	2,471.3	2.8	2,879.5	2,995.2	4.1	3,504.4	3,509.8	0.2	10,785.3	11,018.8	2.1
15	736.3	774.3	5.2	847.1	893.4	5.5	1,058.0	1,051.2	(0.5)	1,284.2	1,182.8	(9.5)	3,923.6	3,881.7	(1.1)
17	31.0	13.7	(55.8)	19.2	63.6	231.3	98.5	152.5	54.8	66.9	51.8	(22.4)	215.6	281.7	30.6
19	13.8	15.3	11.1	16.8	17.9	6.5	20.3	21.9	8.2	14.5	30.9	113.7	65.3	86.0	31.7
16 4/	697.6	796.9	14.2	808.2	931.6	15.3	1,277.4	1,195.5	(6.4)	1,787.9	2,043.2		4,571.2	4,967.3	
18 4/	2,508.4	2,407.4	(4.0)	3,663.9	4,014.2	9.6	5,360.4	6,724.0	25.4	6,593.7	3,729.6		18,126.5	16,875.3	
20 4/	435.8	409.1	(6.1)	548.5	783.6	42.9	1,233.1	1,214.0	(1.5)	1,508.8	3,283.2		3,726.3	5,689.9	
Subtotal 4/	3,641.8	3,613.4	(0.8)	5,020.7	6,729.5	14.1	7,870.9	9,133.5	16.0	9,890.5	8,058.0	(8.4)	26,423.9	27,532.5	4.2
Final Adjustments							(64.2)	0.0	N/A	0.0	0.0	0.0	(64.2)	0.0	N/A
Total Accrued Costs	28,066.6	29,267.1	4.3	37,346.5	38,858.9	4.0	46,205.8	47,641.4	3.1	52,582.4	52,739.1	0.3	164,203.3	168,506.5	2.6

1/ From Exhibit USPS-15R, Direct Testimony of Charles J. Holder, Docket No. R90-1.

2/ Estimates from Exhibit USPS-15A, Direct Testimony of Charles J. Holder, Docket No. R90-1.  
Actual from FY 92 Cost Revenue Analysis

3/ From Exhibit USPS-9J, Page 1 of 2

4/ Account reclassifications made in FY 95 had a material effect on segments 16, 18, and 20. Individual FY 95 percentage variances for these segments are not meaningful. The FY 95 and four year weighted average percentage variances are calculated in total for these three segments only.

**APPLICATION OF HISTORICAL WEIGHTED AVERAGE  
PERCENTAGE COST VARIANCES TO TEST YEAR ESTIMATES  
(\$ THOUSANDS)**

	<b>COST SEGMENT</b>	<b>TEST YEAR ESTIMATE</b>	<b>WEIGHTED 1/ AVG. % VAR.</b>	<b>IMPLIED TEST YEAR VARIANCE</b>
5	1	1,712,615	5.2588	90,063
	2	3,517,945	13.2300	465,425
6	3	17,759,605	1.4435	256,357
	4	10,073	1.9079	192
7	6 & 7	11,960,532	1.4905	178,268
	8	448,972	5.8495	26,263
8	9	114,111	(1.6061)	(1,833)
	10	3,721,604	2.0101	74,809
9	11	2,315,717	(0.6313)	(14,619)
	12	647,994	7.2356	46,887
10	13	291,625	10.7540	31,361
	14	4,326,522	0.0974	4,216
11	15	1,540,685	(7.8968)	(121,665)
	17	57,201	(21.9191)	(12,533)
12	19	38,973	100.0746	39,002
	16 2/	3,531,395	-	-
13	18 2/	4,595,701	-	-
	20 2/	4,098,851	-	-
	Subtotal 2/	12,225,947	(8.7850)	(1,074,052)
	Final Adjustments	(138,628)	0.0194 5/	(27)
15	<b>TOTAL COST</b>	<b>60,551,493</b>		<b>(11,890) 3/</b>
16	<b>REVENUES</b>	<b>61,645,890</b>	<b>0.2248</b>	<b>138,553 4/</b>
	<b>TOTAL FAVORABLE VARIANCE</b>			<b>(150,444)</b>

**TOTAL AS PERCENTAGE OF TOTAL  
PROJECTED TEST YEAR COSTS**

**-0.2%**

1/ COMPUTATION OF WEIGHTED AVERAGE PERCENTAGE COST AND REVENUE VARIANCES IS  
SHOWN IN EXHIBIT USPS-9J PAGE 1 OF 2.

2/ ACCOUNT RECLASSIFICATIONS MADE IN FY 95 HAD A MATERIAL EFFECT ON SEGMENTS 16, 18,  
AND 20. INDIVIDUAL FY 95 PERCENTAGE VARIANCES FOR THESE SEGMENTS ARE NOT  
MEANINGFUL. WEIGHTED AVERAGE PERCENTAGE VARIANCES ARE APPLIED IN TOTAL FOR  
THESE 3 SEGMENTS ONLY.

3/ ACTUAL EXPENSE LOWER THAN ESTIMATED

4/ ACTUAL REVENUE HIGHER THAN ESTIMATED

5/ OVERALL COST VARIANCE APPLIED TO FINAL ADJUSTMENTS

**APPLICATION OF HISTORICAL WEIGHTED AVERAGE  
PERCENTAGE COST VARIANCES TO TEST YEAR ESTIMATES  
(\$ THOUSANDS)**

	<b>COST SEGMENT</b>	<b>TEST YEAR ESTIMATE</b>	<b>WEIGHTED 1/ AVG. % VAR.</b>	<b>IMPLIED TEST YEAR VARIANCE</b>
5	1	1,712,615	(1.5834)	(27,117)
	2	3,517,945	3.4075	119,875
6	3	17,759,605	3.8534	684,342
	4	10,073	(24.0347)	(2,421)
7	6 & 7	11,960,532	1.1162	133,509
	8	448,972	2.7027	12,135
8	9	114,111	(3.6818)	(4,201)
	10	3,721,604	5.0654	188,513
9	11	2,315,717	(4.5383)	(105,094)
	12	647,994	(1.0583)	(6,858)
10	13	291,625	12.5561	36,617
	14	4,326,522	2.0708	89,594
11	15	1,540,685	(1.0672)	(16,442)
	17	57,201	30.6342	17,523
12	19	38,973	31.7457	12,372
	16 2/	3,531,395	-	-
13	18 2/	4,595,701	-	-
	20 2/	4,098,851	-	-
	Subtotal 2/	12,225,947	4.1954	512,923
	Final Adjustments	(138,628)	2.6206 5/	(3,633)
15	<b>TOTAL COST</b>	<b>60,551,493</b>		<b>1,641,638 3/</b>
16	<b>REVENUES</b>	<b>61,645,890</b>	<b>(0.7398)</b>	<b>(456,036) 4/</b>
	<b>TOTAL UNFAVORABLE VARIANCE</b>			<b>2,097,673</b>

**TOTAL AS PERCENTAGE OF TOTAL  
PROJECTED TEST YEAR COSTS**

**3.5%**

1/ COMPUTATION OF WEIGHTED AVERAGE PERCENTAGE COST AND REVENUE VARIANCES  
IS SHOWN IN EXHIBIT USPS-9J PAGE 2 OF 2.

2/ ACCOUNT RECLASSIFICATIONS MADE IN FY 95 HAD A MATERIAL EFFECT ON SEGMENTS 16, 18,  
AND 20. INDIVIDUAL FY 95 PERCENTAGE VARIANCES FOR THESE SEGMENTS ARE NOT  
MEANINGFUL. WEIGHTED AVERAGE PERCENTAGE VARIANCES ARE APPLIED IN TOTAL FOR  
THESE 3 SEGMENTS ONLY.

3/ ACTUAL EXPENSE HIGHER THAN ESTIMATED.

4/ ACTUAL REVENUES LOWER THAN ESTIMATED.

5/ OVERALL COST VARIANCE APPLIED TO FINAL ADJUSTMENTS

# OBRA Costs

## ACCRUAL BASIS

( \$ in billions )

FISCAL YEAR	OBRA 1985	OBRA 1987	OBRA 1989	OBRA 90		OBRA 1993	TOTALS	
				CURRENT	RETRO		ANNUAL	CUM.
1987	0.010	---	---	---	---	---	0.010	b/ 0.010
1988	0.053	0.510	---	---	---	---	0.563	b/ 0.573
1989	0.100	0.270	---	---	---	---	0.370	b/ 0.943
1990	0.166	---	0.074	---	---	---	0.240	b/ 1.183
1991	a/	a/	a/	0.749	1.901	---	2.650	b/ 3.833
1992	a/	a/	a/	0.871	0.081	---	0.952	b/ 4.785
1993	a/	a/	a/	1.061	0.070	0.857	1.988	b/ 6.772
1994	a/	a/	a/	1.139	0.054	0.043	1.236	b/ 8.009
1995	a/	a/	a/	1.212	0.034	0.045	1.291	b/ 9.300
1996	a/	a/	a/	1.247	---	0.047	1.294	b/ 10.594
1997	a/	a/	a/	1.380	---	0.032	1.412	c/
1998	a/	a/	a/	1.509	---	0.017	1.526	c/
Totals	0.329	0.780	0.074	9.167	2.140	1.041	13.532	

a/ Enactment of the OBRA 1990 superceded prior OBRA's, therefore all costs are now identified as OBRA 1990.

b/ Source: USPS 1996 Comprehensive Statement

c/ Source: Library Reference H-12

US Postal Service  
Summary of Net Income (Loss) & Equity  
FY 1971 - FY 1997  
Dollars in Millions

EXHIBIT  
USPS 9L

Fiscal Year	Net Income	Net Loss	Cumulative FY 72-96		Equity
1971					1,685.717
1972		(175.435)	(175.435)		1,548.306
1973		(12.964)	(188.399)		1,565.552
1974		(438.359)	(626.758)		1,146.782
1975		(988.758)	(1,615.516)		190.267
1976		(1,175.802)	(2,791.318)		(955.358)
TQ	15.170		(2,776.148)		(428.830)
1977		(687.849)	(3,463.997)		(587.534)
1978		(379.428)	(3,843.425)	R80-1	(945.222)
1979	469.836		(3,373.589)	Cumulative	(443.692)
1980		(306.392)	(3,679.981)	FY 81-84	(718.931)
1981		(587.739)	(4,267.720)	(588)	(1,306.700)
1982	801.576		(3,466.144)	214	(505.146)
1983	616.326		(2,849.818)	830	111.770
1984	117.352		(2,732.466)	948	310.739
1985		(251.480)	(2,983.946)		58.364
1986	304.608		(2,679.338)		361.868
1987		(222.686)	(2,902.024)		138.227
1988		(596.910)	(3,498.934)		(460.434)
1989	60.719		(3,438.215)		(401.629)
1990		(873.578)	(4,311.793)		(1,277.666)
1991		(1,468.614)	(5,780.407)		(2,746.936)
1992		(536.462)	(6,316.869)	R94-1	(3,283.116)
1993		(1,764.915)	(8,081.784)	Cumulative	(5,047.700)
1994		(913.600)	(8,995.384)	FY 95-97	(5,961.500)
1995	1,770.255		(7,225.129)	1,770	(4,191.045)
1996	1,567.177		(5,657.952)	3,337	(2,623.500)
1997 est.	635.559		(5,022.393)	3,973	(1,987.941)
Total 72-96	6,358.578	(11,380.971)	(5,022.393)		

Source: USPS Financial Statements

EXHIBIT  
USPS-9M

Summary of Changes in Accrued Costs by Source  
\$ in Millions

	Fiscal Year 1997			Test Year Before Rates			Test Year After Rates		
	Amount	Percent of		Amount	Percent of		Amount	Percent of	
		Prior Yr.	Total Chg.		Prior Yr.	Total Chg. 1/		Prior Yr.	Total Chg. 1/
Prior Yr. Cost	54,976.6			57,255.8			57,255.8		
Cost Level	1,218.3	2.2%	53.5%	976.7	1.7%	27.6%	976.7	1.7%	29.6%
Mail Volume Effect	711.7	1.3%	31.2%	742.4	1.3%	21.0%	740.2	1.3%	22.5%
Non-Volume Workload	114.6	0.2%	5.0%	142.8	0.2%	4.0%	142.8	0.2%	4.3%
Additional Workday	(8.2)	0.0%	-0.4%		0.0%	0.0%		0.0%	0.0%
Cost Reductions	(745.0)	-1.4%	-32.7%	(917.5)	-1.6%	-26.0%	(931.0)	-1.6%	-28.2%
Other Programs	1,101.4	2.0%	48.3%	2,597.9	4.5%	73.5%	2,541.9	4.4%	77.1%
Reclassification Adj.	(85.0)	-0.2%	-3.7%		0.0%	0.0%		0.0%	0.0%
Workyear Mix Adj. 2/	(28.7)	-0.1%	-1.3%	(31.8)	-0.1%	-0.9%	(36.1)	-0.1%	-1.1%
Final Adjustments		0.0%	0.0%	24.5	0.0%	0.7%	(138.6)	-0.2%	-4.2%
Total Chg. Before Contingency	2,279.2	4.1%	100.0%	3,535.0	6.2%	100.0%	3,295.7	5.8%	100.0%
Contingency				607.9	1.1%	17.2%	605.5	1.1%	18.4%
Total Chg. After Contingency	2,279.2	4.1%	100.0%	4,142.9	7.2%	117.2%	3,901.3	6.8%	118.4%

1/ Before Contingency

2/ The workyear mix adjustment is relative to FY 96. The change from FY 1997 is therefore calculated by subtracting the FY 97 adjustment from the FY 98 adjustment.

Net Income (Loss)  
 GAP From Equity Restoration Target  
 (\$millions)

1	2	3	4	5
Fiscal Year	Actual or Estimate	Needed to Meet BOG Target	Over/(Under) Actual/Estimate	Cumulative Amt. Over/(Under)
1994	(914)	(1,344)	430	430
1995	1,770	936	834	1,264
1996	1,567	936	631	1,895
1997	636	936	(300)	1,595
1998 1/	(1,387)	936	(2,323)	(428)
1998 2/	(1,995)	936	(2,931)	(1,336)

Column 2 - FY 94 - 96 are actual results reflected on Exhibit 9L. FY 97 & 98 are before rates estimates reflected on Exhibit 9A.

Column 3 - Reflects R94-1 Decision. FY 95 - 98 reflects annual average net income needed to meet target.

1/ Excludes contingency

2/ Includes contingency

**Summary of Unit Labor Costs for Major  
Employee Groups**

<b>Pay Increases</b>	<b>%</b>	<b>Effective Date</b>	<b>Annual Rate</b>	<b>Effective Amount</b>		
				<b>FY 1996</b>	<b>FY 1997</b>	<b>FY 1998</b>
Clerks	1.2	11/25/95	\$ 409.46	\$ 346.64	\$ 62.82	
City Carriers	1.2	11/25/95	\$ 403.24	\$ 341.37	\$ 61.87	
Mail Handlers	1.2	11/25/95	\$ 386.72	\$ 327.39	\$ 59.33	
Rural Carriers	1.3	11/25/95	\$ 430.66	\$ 364.59	\$ 66.07	
Non- Bargaining	2.0	3/2/96	\$ 920.53	\$ 532.14	\$ 388.39	
Non- Bargaining	2.3	1/4/97	\$ 1,089.50		\$ 802.95	\$ 286.55
Clerks	1.2	11/22/97	\$ 409.95			\$ 350.42
City Carriers	1.2	11/22/97	\$ 405.68			\$ 346.77
Mail Handlers	1.2	11/22/97	\$ 393.93			\$ 336.73
Rural Carriers	1.3	11/22/97	\$ 430.07			\$ 367.62
Non- Bargaining	2.0	1/3/98	\$ 952.78			\$ 704.80

**Lump Sums**

Clerks, Mail Handlers, City Carriers					\$ 400.00	
Rural Carriers				\$ 300.00	\$ 400.00	
Non- Bargaining				\$2,551.45	\$1,000.00	\$1,000.00

**COLA's**

Clerks, City Carriers,		3/16/96	\$ 104.00	\$ 56.13	\$ 47.87	
Mail Handlers, Rural		8/31/96	\$ 416.00	\$ 33.05	\$ 382.95	
Carriers		3/15/97	\$ 312.00		\$ 170.10	\$ 141.90
		8/30/97	\$ 333.00		\$ 28.28	\$ 304.72
		2/28/98	\$ 270.00			\$ 158.30
		8/29/98	\$ 375.00			\$ 32.88

Source - Chapter VIII of Library Reference H-12.

CHANGES IN WORKYEARS BY SOURCE

Before Rates Sources of Change	FY 1997		
	Amount	Percent of	
		Prior Year	Total Change
Prior Year Workyears	887,546		
Mail Volume Effect	13,815	1.6%	167.6%
Non-Volume Effect	1,801	0.2%	21.9%
Additional Workday	(160)	0.0%	-1.9%
Cost Reduction Programs	(14,725)	-1.7%	-178.7%
Other Programs	9,406	1.1%	114.1%
Other Changes	(1,895)	-0.2%	-23.0%
Total Change	8,241	0.9%	100.0%

	FY 1998	
	Percent of	
	Prior Year	Total Change
Amount		
895,787		
12,791	1.4%	130.7%
2,803	0.3%	26.6%
-	0.0%	0.0%
(16,715)	-1.9%	-170.8%
11,110	1.2%	113.5%
-	0.0%	0.0%
9,788	1.1%	100.0%

After Rates Sources of Change	FY 1997		
	Amount	Percent of	
		Prior Year	Total Change
Prior Year Workyears	887,546		
Mail Volume Effect	13,815	1.6%	167.6%
Non-Volume Effect	1,801	0.2%	21.9%
Additional Workday	(160)	0.0%	-1.9%
Cost Reduction Programs	(14,725)	-1.7%	-178.7%
Other Programs	9,406	1.1%	114.1%
Other Changes	(1,895)	-0.2%	-23.0%
Total Change	8,241	0.9%	100.0%

	FY 1998	
	Percent of	
	Prior Year	Total Change
Amount		
895,787		
13,424	1.5%	137.1%
2,447	0.3%	25.0%
-	0.0%	0.0%
(16,889)	-1.9%	-172.5%
11,110	1.2%	113.5%
-	0.0%	0.0%
10,092	1.1%	103.1%

Source: Chapter Xf of Library Reference H-12.

**COST SEGMENT SUMMARY  
SUMMARY OF WORKYEARS AND CHANGES**

EXHIBIT USPS-9P  
Page 2 of 2

**Before Rates**

Cost Segment	FY 1996	Projected Change from	%	FY 1997	Projected Change from	%
	Workyears	FY 1996 to FY 1997	Chg	Workyears	FY 1997 to Test Year	Chg
1 Postmasters	31,572	62	0.2%	31,634	77	0.2%
2 Supervisors	55,759	1,199	2.2%	56,958	1,419	2.5%
3 Clerks & Mail Handlers	386,212	2,692	0.7%	388,904	5,859	1.5%
4 Clerks - CAG K	235	2	0.8%	237	2	0.8%
6 & 7 City Delivery Carriers	260,868	554	0.2%	261,422	(2,492)	-1.0%
8 Vehicle Drivers	9,002	257	2.9%	9,259	215	2.3%
9 Special Delivery Carriers	2,457	23	0.9%	2,480	65	2.6%
10 Rural Carriers	78,147	2,609	3.3%	80,756	2,504	3.1%
11 Custodial & Maintenance	44,185	355	0.8%	44,540	1,412	3.2%
12 Motor Vehicle Service	5,704	47	0.8%	5,751	49	0.9%
13 Miscellaneous	859	(9)	-1.0%	850	-	0.0%
16 Supplies & Services	379	(19)	-5.0%	360	-	0.0%
18 Administration & Area Operations	12,121	472	3.9%	12,593	677	5.4%
19 Maintenance & Technical Support	46	(4)	-8.7%	42	-	0.0%
<b>Total Workyears</b>	<b>887,546</b>	<b>8,241</b>	<b>0.9%</b>	<b>895,787</b>	<b>9,788</b>	<b>1.1%</b>

**After Rates**

Cost Segment	FY 1996	Projected Change from	%	FY 1997	Projected Change from	%
	Workyears	FY 1996 to FY 1997	Chg	Workyears	FY 1997 to Test Year	Chg
1 Postmasters	31,572	62	0.2%	31,634	41	0.1%
2 Supervisors	55,759	1,199	2.2%	56,958	1,473	2.6%
3 Clerks & Mail Handlers	386,212	2,692	0.7%	388,904	7,208	1.9%
4 Clerks - CAG K	235	2	0.8%	237	2	1.0%
6 & 7 City Delivery Carriers	260,868	554	0.2%	261,422	(3,169)	-1.2%
8 Vehicle Drivers	9,002	257	2.9%	9,259	135	1.5%
9 Special Delivery Carriers	2,457	23	0.9%	2,480	44	1.8%
10 Rural Carriers	78,147	2,609	3.3%	80,756	2,284	2.8%
11 Custodial & Maintenance	44,185	355	0.8%	44,540	1,352	3.0%
12 Motor Vehicle Service	5,704	47	0.8%	5,751	44	0.8%
13 Miscellaneous	859	(9)	-1.0%	850	-	0.0%
16 Supplies & Services	379	(19)	-5.0%	360	-	0.0%
18 Administration & Area Operations	12,121	472	3.9%	12,593	677	5.4%
19 Maintenance & Technical Support	46	(4)	-8.7%	42	-	0.0%
<b>Total Workyears</b>	<b>887,546</b>	<b>8,241</b>	<b>0.9%</b>	<b>895,787</b>	<b>10,092</b>	<b>1.1%</b>

## ANALYSIS OF CHANGES IN PERSONNEL COST LEVELS

FY 1997

(\$ 000)

EXHIBIT USPS-9Q

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THIS WORKBOOK IS LINKED WORKBOOKS PRFF\_97.XLS, WKYRS\_97.XLS, UNCST\_97.XLS AND SEG96.XLS

## SALARIES

COST SEGMENT	FY 1996 ACTUAL	COST LEVEL CHANGES-SALARIES										TOTAL CST LEVEL	% INCR.
		CARRYOVER COSTS			NEW COSTS			NET LUMP SUM	STEP/ MERIT	ROLLUP PREMIUM	OTHER		
		PAY	COLA	TOTAL	PAY	COLA	TOTAL						
1 Postmasters	1,402,183	12,173	-	12,173	25,166	-	25,166	(46,583)	-	1,805	-	(7,440)	-0.5%
2 Supervisors and Technical Personnel	2,717,030	20,759	-	20,759	42,916	-	42,916	(79,439)	-	3,078	-	(12,687)	-0.5%
3 Clerks and Mail Handlers, CAG A-J	13,517,888	41,262	133,846	175,108	(5,513)	61,635	56,121	-	20,831	49,032	-	301,092	2.2%
4 Clerks, CAG K Post Offices	7,267	14	94	108	4	43	48	-	4	25	-	185	2.5%
6&7 City Delivery Carriers	9,203,294	14,343	100,175	114,518	1,131	46,129	47,260	-	23,367	29,691	-	214,836	2.3%
8 Vehicle Service Drivers	328,506	616	3,379	3,994	(36)	1,556	1,520	-	158	875	-	6,547	2.0%
9 Special Delivery Messengers	86,660	172	918	1,091	2	423	425	-	43	241	-	1,799	2.1%
10 Rural Carriers	2,536,993	3,384	22,066	25,450	17,894	10,161	28,055	6,151	(1,196)	1,839	-	60,298	2.4%
11 Custodial & Maintenance Services	1,656,020	3,644	16,198	19,842	2,707	7,459	10,166	(4,823)	755	4,342	-	30,282	1.8%
12 Motor Vehicle Service	218,664	545	2,030	2,575	493	935	1,428	(905)	95	556	-	3,748	1.7%
13 Miscellaneous Local Operations	51,100	290	52	342	585	24	608	(1,082)	2	55	-	(74)	-0.1%
14 Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
15 Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
16 Supplies and Services	15,239	57	93	150	99	43	142	(166)	4	32	-	162	1.1%
17 Research & Development	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
18 Headquarters and Area Administration	704,895	3,715	1,122	4,836	7,395	517	7,911	(13,607)	52	820	-	14	0.0%
19 Equip. Maintenance & Mgt Tng Spt	3,053	18	-	18	37	-	37	(88)	-	3	-	(11)	-0.4%
20 Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Total Change in Salaries	32,448,791	100,991	279,972	380,963	92,879	128,924	221,803	(140,524)	44,115	92,393	-	598,751	1.8%

## BENEFITS

COST SEGMENT	FY 1996 ACTUAL	COST LEVEL CHANGES-BENEFITS										
		CARRYOVER COSTS			NEW COSTS				ROLLUPS		TOTAL CST LEVEL	% INCR
		HEALTH	RET/COLA	LI/COLA	HEALTH	UNIF ALL	RET/COLA	LI/COLA	LI,RET,TSP	SS,MED		
1 Postmasters	242,683	(536)	1,725	126	490	-	-	-	3,497	2,290	7,592	3.1%
2 Supervisor and Technical Personnel	496,361	(914)	2,942	215	836	-	-	-	5,963	4,044	13,086	2.6%
3 Clerks and Mail Handlers, CAG A-J	2,929,669	(4,616)	7,097	432	5,737	-	9,684	546	27,796	22,850	69,525	2.4%
4 Clerks, CAG K Post Offices	2,007	(4)	6	0	3	-	-	-	19	14	39	1.9%
6&7 City Delivery Carriers	2,255,916	(3,926)	6,343	386	3,590	(670)	-	-	22,096	16,889	44,708	2.0%
8 Vehicle Service Drivers	81,711	(134)	217	13	123	-	-	-	682	540	1,440	1.8%
9 Special Delivery Messengers	18,964	(36)	59	4	33	-	-	-	185	146	390	2.1%
10 Rural Carriers	535,379	(1,586)	-	-	1,442	-	3,433	183	3,838	5,728	13,038	2.4%
11 Custodial & Maintenance Services	391,545	(699)	1,218	76	639	-	-	-	3,631	2,711	7,577	1.9%
12 Motor Vehicle Service	51,269	(91)	164	10	83	-	-	-	478	352	996	1.9%
13 Miscellaneous Local Operations	8,548	(15)	43	3	13	-	-	-	92	61	198	2.3%
14 Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	0.0%
15 Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	0.0%
16 Supplies and Services	3,696	(6)	12	1	5	-	-	-	31	24	67	1.8%
17 Research & Development	-	-	-	-	-	-	-	-	-	-	-	0.0%
18 Headquarters and Area Administration	142,701	(201)	576	41	184	-	-	-	1,248	837	2,685	1.9%
19 Equip Maintenance & Mgt Tng Spt	438	(1)	3	0	1	-	-	-	5	3	11	2.5%
20 Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	0.0%
Total Change in Benefits	7,160,889	(12,765)	20,405	1,309	13,181	(670)	13,117	729	69,560	56,487	161,353	2.3%

Source: Chapter VIII of Library Reference H-12

## ANALYSIS OF CHANGES IN PERSONNEL COST LEVELS

FY 1998

(\$ 000)

EXHIBIT USPS-9Q

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## SALARIES

COST SEGMENT	FY 1997 ESTIMATE	COST LEVEL CHANGES-SALARIES										TOTAL CST LEVEL	% INCR.
		CARRYOVER COSTS			NEW COSTS			NET LUMP SUM	STEP/ MERIT	ROLLUP PREMIUM	OTHER		
		PAY	COLA	TOTAL	PAY	COLA	TOTAL						
1 Postmasters	1,397,477	8,999	-	8,999	22,133	-	22,133	(986)	-	1,505	-	31,651	2.3%
2 Supervisors and Technical Personnel	2,762,498	15,645	-	15,645	38,480	-	38,480	(1,714)	-	2,616	-	55,027	2.0%
3 Clerks and Mail Handlers, CAG A-J	14,018,154	-	139,721	139,721	118,762	59,809	178,571	(131,082)	43,085	70,994	-	301,289	2.1%
4 Clerks, CAG K Post Offices	7,599	-	98	98	80	42	122	(92)	16	37	-	181	2.4%
6&7 City Delivery Carriers	9,512,048	-	103,137	103,137	81,782	44,548	126,330	(96,530)	39,150	43,212	-	215,299	2.3%
8 Vehicle Service Drivers	347,216	-	3,603	3,603	2,807	1,542	4,349	(3,388)	589	1,319	-	6,472	1.9%
9 Special Delivery Messengers	89,996	-	961	961	766	411	1,177	(903)	157	355	-	1,746	1.9%
10 Rural Carriers	2,684,013	7,855	23,638	31,293	19,458	10,119	29,576	(33,746)	(5,638)	1,145	-	22,630	0.8%
11 Custodial & Maintenance Services	1,714,896	946	16,912	17,859	15,390	7,240	22,629	(16,006)	2,763	6,333	-	33,578	2.0%
12 Motor Vehicle Service	225,770	176	2,121	2,297	2,069	908	2,977	(2,014)	347	804	-	4,410	2.0%
13 Miscellaneous Local Operations	50,361	205	55	260	546	24	570	(74)	9	54	-	819	1.6%
14 Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
15 Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
16 Supplies and Services	14,694	30	92	123	155	39	194	(90)	15	40	-	282	1.9%
17 Research & Development	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
18 Headquarters and Area Administration	733,900	2,718	1,218	3,936	7,664	521	8,186	(1,443)	199	898	-	11,776	1.6%
19 Equip Maintenance & Mgt Tng Spt	2,778	12	-	12	30	-	30	(1)	-	2	-	42	1.5%
20 Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Total Change in Salaries	33,561,400	36,387	291,557	327,944	310,121	125,203	435,324	(288,071)	80,692	129,314	-	685,202	2.0%

## BENEFITS

COST SEGMENT	FY 1997 ACTUAL	COST LEVEL CHANGES-BENEFITS										TOTAL CST LEVEL	% INCR
		CARRYOVER COSTS			NEW COSTS				ROLLUPS				
		HEALTH	RET/COLA	LI/COLA	HEALTH	UNIF ALL	RET/COLA	LI/COLA	LI,RET,TSP	SS,MED			
1 Postmasters	250,766	175	-	-	3,775	-	-	-	2,915	2,096	8,962	3.6%	
2 Supervisor and Technical Personnel	520,403	305	-	-	6,563	-	-	-	5,069	4,131	16,067	3.1%	
3 Clerks and Mail Handlers, CAG A-J	3,042,421	2,062	-	-	37,340	-	-	-	41,460	23,059	103,920	3.4%	
4 Clerks, CAG K Post Offices	2,087	1	-	-	26	-	-	-	28	14	70	3.3%	
6&7 City Delivery Carriers	2,323,566	1,284	-	-	27,641	-	-	-	32,250	17,254	78,428	3.4%	
8 Vehicle Service Drivers	86,170	45	-	-	970	-	-	-	1,038	548	2,601	3.0%	
9 Special Delivery Messengers	19,691	12	-	-	259	-	-	-	277	145	692	3.5%	
10 Rural Carriers	566,728	532	-	-	6,395	-	-	-	5,306	3,571	15,803	2.8%	
11 Custodial & Maintenance Services	405,890	230	-	-	4,949	-	-	-	5,179	2,697	13,055	3.2%	
12 Motor Vehicle Service	53,055	30	-	-	645	-	-	-	668	349	1,692	3.2%	
13 Miscellaneous Local Operations	8,632	5	-	-	101	-	-	-	82	56	243	2.8%	
14 Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	0.0%	
15 Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	0.0%	
16 Supplies and Services	3,590	2	-	-	38	-	-	-	36	22	97	2.7%	
17 Research & Development	-	-	-	-	-	-	-	-	-	-	-	0.0%	
18 Headquarters and Area Administration	151,366	63	-	-	1,366	-	-	-	1,152	694	3,275	2.2%	
19 Equip Maintenance & Mgt Tng Spt	410	0	-	-	5	-	-	-	4	3	12	2.9%	
20 Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	0.0%	
Total Change in Benefits	7,434,774	4,746	-	-	90,070	-	-	-	95,464	54,637	244,917	3.3%	

Source: Chapter VIII of Library Reference H-12.