

USPS-T-6

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES  
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

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

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## LIST OF ASSOCIATED LIBRARY REFERENCES

The following library references are associated, in whole or in part, with my testimony. Where a library reference is associated in part with my testimony, those portions so associated are indicated.

USPS-LR-K-49	Explanation of Cost Reductions, Other Programs, and Corporatewide Activities (Sections 1B, 2B, and 3)
USPS-LR-K-50	Rollforward Expense Factors
USPS-LR-K-51	Workers' Compensation Expense

Direct Testimony  
of  
William P. Tayman, Jr.  
AUTOBIOGRAPHICAL SKETCH

1           My name is William P. Tayman, Jr. I am the manager of Corporate  
2 Financial Planning for the United States Postal Service. As manager of  
3 Corporate Financial Planning, I am a direct report to the Chief Financial Officer  
4 responsible for a variety of financial analysis, planning and forecasting matters  
5 and for revenue and volume reporting and cost attribution. Prior to this  
6 assignment which began in 2002, I was manager of Budget & Financial Analysis,  
7 a position I held since September 1995. In this position I was responsible for the  
8 development and administration of national operating budgets. Other positions I  
9 have held include manager, Strategic & International Finance and manager,  
10 Revenue, Volume and Cost Analysis.

11           I began my career with the Postal Service in 1975. From 1975 through  
12 1978, I held positions at the Postal Service Training & Development Institute and  
13 in the Accounting Division at Postal Headquarters. During the period from 1978  
14 through 1980, I was employed by the Pension Benefit Guaranty Corporation  
15 (PBGC) where I was the Deputy Controller. In 1980, I returned to the Postal  
16 Service Headquarters as general manager and then office director of Accounting.  
17 In this position, I served as chief accountant of the Postal Service. In 1991, I  
18 attended the Sloan Fellows Program at Stanford University where I received a  
19 master's degree in management.

20           My bachelor's degree is in business and public administration from the  
21 University of Maryland. After graduation from the University of Maryland, before  
22 coming to the Postal Service, I was employed at Hoye, Graves, Bailey & Co., a  
23 regional Certified Public Accounting firm. I am a licensed Certified Public  
24 Accountant.

1            I sponsored testimony in the Docket Nos. R87-1 and R90-1 concerning  
2 the estimation of workers' compensation and retirement costs. In Docket Nos.  
3 R97-1, R2000-1 and R2001-1, I sponsored the Postal Service's revenue  
4 requirement testimony.

1 I. PURPOSE AND SCOPE OF TESTIMONY AND GUIDE TO  
2 SUPPORTING DOCUMENTATION  
3

4 My testimony presents the Postal Service's revenue requirement for the  
5 Test Year (TY).<sup>1</sup> This testimony was prepared in conformance with the  
6 Commission's Rules of Practice and Procedure to support the Postal Service's  
7 revenue requirement for the Test Year. The attached exhibits and the material  
8 included in Library References K-49 (Sections 1B, 2B, and 3), K-50, and K-51  
9 supplement my testimony.

10 Exhibits A through O are at the end of my testimony. The exhibits  
11 summarize revenues and volumes, provide an overview of revenue requirement  
12 expenses, summarize key labor assumptions, and illustrate the changes in  
13 expenses occurring between years. Library Reference K-49, "Explanation of  
14 Cost Reductions, Other Programs, and Corporatewide Activities," supplies the  
15 narrative descriptions and fundamental estimating elements of the cost reduction  
16 program savings, other programs expense, and corporatewide activities expense  
17 built into the revenue requirement. I am sponsoring sections 1B, 2B, and 3 of  
18 Library Reference K-49 while Sections 1A and 2A of LR-K-49 is being sponsored  
19 by witness McCrery (USPS-T-29). Library Reference K-50, "Rollforward  
20 Expense Factors," supplies the detailed calculations underlying the revenue  
21 requirement. Library Reference K-51, "Workers' Compensation Expense,"  
22 supports the projection of Workers' Compensation liability and expense.

23 My testimony is organized into six chapters as described below.

24 Chapter I explains the purpose, organization, and scope of my testimony.  
25 Chapter II, entitled "Roadmap," contains a description of the inputs to the  
26 revenue requirement, describes the usage of revenue requirement information by  
27 other witnesses, and identifies methodology changes to the revenue requirement  
28 estimating process since Docket No. R2001-1. Chapter III entitled "Summary of  
29 Financial and Operating Results and Current Financial Condition,"

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<sup>1</sup> The various fiscal or other periods discussed in this testimony include the following:  
The Test Year (FY 2006) - October 1, 2005 to September 30, 2006  
FY 2005 - October 1, 2004 to September 30, 2005  
The Base Year (FY 2004) - October 1, 2003 to September 30, 2004

1 describes: (1) the financial and operating results over the last ten years; (2) the  
2 impact of the *2002 Transformation Plan* cost reduction efforts and the Postal Civil  
3 Service Retirement System Funding Reform Act of 2003 (Public Law 108-18) on  
4 the financial condition of the Postal Service over recent years; and (3) the current  
5 financial condition of the Postal Service.

6 Chapter IV, entitled "Test Year Revenue Requirement," (1) describes the  
7 specific sources of the changes in Postal Service costs included in the revenue  
8 requirement, (2) identifies the assumptions used to project cost increases, and  
9 (3) defines the change in the revenue requirement by cost segment.

10 Chapter V, entitled "Revenues Before and After Rates," describes the  
11 level of revenue anticipated during the Test Year on a before-rates and after-  
12 rates basis. This chapter unifies the analyses of our revenue estimates by  
13 combining a discussion of the revenue anticipated from mail and special services  
14 with a discussion of anticipated revenues from appropriations and investment  
15 income.

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

## 1 II. ROADMAP

2

3 Witnesses providing input to the Revenue Requirement are identified in  
4 Table 1, below.

5

6

7

**Table 1**  
Witnesses Providing Input for the Revenue Requirement

<b>Using Witness</b>	<b>Witness Number</b>	<b>Data/Information Provided</b>
Waterbury	USPS-T-10	Rollforward output reports
Meehan	USPS-T-9	Reallocated Trial Balance account reallocations to cost component
Smith	USPS-T-13	Final adjustment piggyback factors
Moser	USPS-T-23	Final adjustments
Robinson	USPS-T-27	Revenue and volume
McCrery	USPS-T-29	Cost reduction program workhour savings and program costs included in USPS Library Reference K-49, Exhibit A,B, E, and F.
Kay	USPS-T-18	Non-volume workload weighting

8

9

10 Witnesses utilizing the Revenue Requirement output information are  
11 identified in Table 2, on the next page.

12 There are no material methodological differences between the Postal  
13 Service revenue requirement estimation process and that used for the PRC  
14 version of the revenue requirement. The differences between the two revenue  
15 requirements result from the application of volume workload factors used in the  
rollforward model and the final adjustments.

**Table 2**  
Witnesses Utilizing Revenue Requirement Data

<b>Using Witness</b>	<b>Witness Number</b>	<b>Data/Information Provided</b>
Waterbury	USPS-T-10	<ul style="list-style-type: none"> <li>▪ Rollforward model factors</li> <li>▪ Workyear mix</li> <li>▪ Program cost savings</li> </ul>
Robinson	USPS-T-27	<ul style="list-style-type: none"> <li>▪ Interest income</li> <li>▪ Investment income</li> <li>▪ Other income</li> <li>▪ Appropriation revenue</li> <li>▪ Escrow</li> <li>▪ Total revenue requirement</li> </ul>
Smith	USPS-T-13	<ul style="list-style-type: none"> <li>▪ Depreciation expense</li> <li>▪ Productive hourly wage rates</li> <li>▪ Cost reduction program savings and costs</li> <li>▪ Non-volume workload space factors</li> <li>▪ Global Insight rental cost index</li> </ul>
Mayes	USPS-T-25	<ul style="list-style-type: none"> <li>▪ Productive hourly wage rates</li> </ul>
Abdirahman	USPS-T-21	
Miller	USPS-T-19	
Miller	USPS-T-20	
Moser	USPS-T-23	
Cutting	USPS-T-26	
Wesner	USPS-T-24	
Van-Ty-Smith	USPS-T-11	

1 III. SUMMARY OF FINANCIAL AND OPERATING RESULTS AND  
2 CURRENT FINANCIAL CONDITION  
3

4 In this chapter I discuss the Postal Service's financial results and changes  
5 in the financial condition since FY (FY) 1995, with a focus on the financial results  
6 since the implementation of Docket No. R2001-1. This section also includes  
7 projected financial results for the two years underlying this case, FYs 2005 and  
8 2006. Unless otherwise noted, the historical data used in this analysis are drawn  
9 from the Audited Financial Statements of the United States Postal Service for  
10 Fiscal Years 1995 through 2004.

11 The Postal Service's financial condition has followed an uneven path over  
12 the last ten years. It experienced noteworthy financial success in the early part  
13 of this period; suffered losses driven by external events in the mid part of the  
14 period; and, ended the period with financial success driven by Public Law 108-  
15 18. However, this same legislation imposes on the Postal Service, new and  
16 continuing financial obligations on the Postal Service, which, if not addressed, will  
17 threaten its the Postal Services financial health in FY 2006 and beyond. As  
18 stated in the testimony of Postmaster General Jack Potter, (USPS T-1), were it  
19 not for the escrow funding requirement imposed by Public Law 108-18 beginning  
20 in FY 2006, there would be no need to request an increase in postal rates at this  
21 time.

22 Table 3 shows the Postal Service's financial performance, equity position,  
23 and debt balances over the last ten years. In the first part of the ten year period,  
24 from FY 1995 through FY 1999, the Postal Service experienced low, but  
25 increasing cost inflation, combined with solid volume growth in both First-Class  
26 Mail and Standard Mail, resulting in significant net incomes. Net income began  
27 to decline sharply in FY 1998 due to inflationary pressure on compensation  
28 costs, particularly benefits costs, leading to a small net loss in FY 2000.

29 In 2001, there were several extraordinary events beyond the Postal  
30 Service's control, for example the anthrax attack, September 11, 2001, and, a  
31 recession. In addition, a shift in modes of communication emphasizing the  
32 Internet and other electronic alternatives to the mail accelerated. Also, in FY  
33 2001, First-Class Mail volume growth stagnated, and in FY 2002 began to  
34 decline. This combination of trends resulted in net losses in those years.

1 Then, productivity growth, driven by the *2002 Transformation Plan* efforts,  
 2 and the enactment on April 23, 2003 of the Postal Civil Service Retirement  
 3 System Funding Reform Act of 2003 (Public Law 108-18), which significantly  
 4 reduced the Civil Service Retirement System (CSRS) component of  
 5 compensation costs, resulted in net incomes for FYs 2003 and 2004.

6 **Table 3**  
 7 Postal Service Net Income/(Loss), Equity, and Debt  
 8 (See Exhibit USPS-6I)  
 9 (\$ Millions)

Period	Net Income/(Loss)	Equity	Debt
FY 1995	1,770	(4,191)	7,265
FY 1996	1,567	(2,624)	5,906
FY 1997	1,264	(1,360)	5,861
FY 1998	550	(810)	6,413
FY 1999	363	(447)	6,913
FY 2000	(199)	(646)	9,313
FY 2001	(1,680)	(2,326)	11,315
FY 2002	(676)	(3,002)	11,115
FY 2003	3,868	866	7,274
FY 2004	3,065	3,931	1,800
Cumulative Net Income (Loss)	9,892		

10  
 11 Since FY 1995, the Postal Service has generated \$9,892 million of  
 12 cumulative net income, fully restoring equity. Of this net income, \$6,933 million  
 13 resulted from operations in FYs 2003 and 2004. The net income over the last  
 14 two years produced greater than anticipated cash flow from operations, and  
 15 combined with reduced capital outlays, provided the financial resources to  
 16 reduce debt from \$11,115 million at the end of FY 2002 to \$1,800 million at the  
 17 end of FY 2004. The improvement in financial condition resulted, in part, from  
 18 the four general rate increases (Docket Numbers R94-1, R97-1, R2000-1, and  
 19 R2001-1) implemented during the ten-year period. Since implementation of  
 20 R2001-1 rates, savings from the *2002 Transformation Plan* and the reduction of  
 21 payments into the Civil Service Retirement System resulting from Public Law  
 22 108-18 have been major contributors to the improvement in the Postal Service's  
 23 financial condition. But the majority of the FY 2003-2004 net income is a direct  
 24 result of the Public Law 108-18, and the beneficial bottom-line financial impact of  
 25 Public Law 108-18 will cease in FY 2006 with the introduction of the escrow  
 26 provisions.

## 1 A. Revenue and Volume Trends

2 Table 4 presents the year-to-year and cumulative percentage increases in  
3 total revenue and expenses for the ten-year period ending with FY 2004.

4 **Table 4**  
5 Comparison of Annual Percent Change in  
6 Revenue and Expense for the Ten Years  
7 FY 1995 - FY 2004  
8 (\$ Millions)

Period	Revenue <sup>2</sup>	% Chg.	Expense <sup>3</sup>	% Chg.
FY 1995	54,509	9.9	52,739	4.5
FY 1996	56,544	3.7	54,977	4.2
FY 1997	58,331	3.2	57,066	3.8
FY 1998	60,117	3.1	59,567	4.4
FY 1999	62,755	4.4	62,392	4.7
FY 2000	64,581	2.9	64,780	3.8
FY 2001	65,869	2.0	67,549	4.3
FY 2002	66,688	1.2	67,364	(0.3)
FY 2003	68,764	3.1	64,896	(3.7)
FY 2004	69,029	0.4	65,964	1.6
<b>Ten-Year Increase FY 2004 vs. FY 1995</b>				
	14,520	3.4%	13,225	2.7%
<b>Five-Year Increase FY 2004 vs. FY 2000</b>				
	6,274	1.9%	3,572	1.1%

9  
10 Annual revenues maintained a positive, but slowing growth trend,  
11 increasing by a total of \$14.520 billion for a 3.4 percent annual growth rate over  
12 the ten-year period and \$6,274 million for a 1.9 percent annual growth rate over  
13 the last five years. Revenue growth during the first five years of this period  
14 resulted mainly from increased volume while revenue growth during the last five  
15 years of the period resulted mainly from rate increases.

16 Four of the lowest annual growth rates occurred over the last five years,  
17 and the projected before rates revenue growth is expected to continue this  
18 pattern. As illustrated in Table 5, First-Class Mail volume peaked in FY 2001, and  
19 declined through FY 2004. This decline resulted primarily from electronic  
20 diversion in combination with an economic slowdown. Despite recent  
21 strengthened economic growth and after a small projected increase in FY 2005,  
22 First-Class Mail volume is expected to decline again in FY 2006.

<sup>2</sup> Includes interest income and appropriations.

<sup>3</sup> Includes interest expense and all extraordinary, unusual, and non-recurring expenses.

**Table 5**  
Summary of First-Class and Standard Mail Volume  
FY 1995-2006

Period	Total Mail Volume	First-Class		Standard Mail	
		Volume	% Total	Volume	% Total
FY 1995	180,734	96,296	53.3%	71,112	39.3%
FY 1996	183,440	98,216	53.5%	71,686	39.1%
FY 1997	190,888	99,660	52.2%	77,254	40.5%
FY 1998	197,943	100,434	50.7%	82,508	41.7%
FY 1999	201,644	101,937	50.6%	85,662	42.5%
FY 2000	207,882	103,526	49.8%	90,057	43.3%
FY 2001	207,463	103,656	50.0%	89,938	43.4%
FY 2002	202,822	102,379	50.5%	87,231	43.0%
FY 2003	202,185	99,059	49.0%	90,492	44.8%
FY 2004	206,106	97,926	47.5%	95,564	46.4%
FY 2005, Estimated	212,962	98,606	46.3%	101,545	47.7%
FY 2006, Before Rates	215,413	96,869	45.0%	105,806	49.1%

1

2           In FY 2004, the Standard Mail volume approached the level of First-Class

3 Mail volume, and it is projected to exceed First-Class volume in FY 2005.

4 Continued Standard Mail volume growth is projected through FY 2006 before

5 rates as a result of the positive economic outlook and continuing strength of this

6 medium in direct marketing channels. But growth in contribution from Standard

7 Mail volume on a piece for piece basis does not offset the contribution lost as a

8 result of the decline in First-Class Mail volumes. The net effect of lost

9 contribution places upward pressure on postal prices.

10           During the last five years the Postal Service has also experienced

11 significant declines in Priority and Express Mail volumes. Periodical volumes

12 have also declined each of the past five years, although at a slower rate.

13 Package Services volume has been relatively constant. In terms of impact on

14 the Postal Service's financial performance the decline in Priority Mail volumes

15 has been most significant.

16

17 **B. Expense Trends**

18

19           As illustrated in Table 4, total expenses have increased \$13.225

20 billion, resulting in an average 2.7 percent annual growth rate from FY 1995 to

21 FY 2004. Expense growth has slowed to an average 1.1 percent annual growth

22 rate over the last five years due primarily to: (1) reductions in retirement expense

23 for part of FY 2003 and for all of FY 2004 resulting from Public Law 108-18; and

24 (2) cost reductions in operating expenses resulting from the implementation of

1 the *2002 Transformation Plan*. These two factors have mitigated continuing  
2 increases in the costs of operating the Postal Service, primarily those related to  
3 compensation and benefits and the expansion and maintenance of the delivery  
4 network. Despite the Postal Service's commitment to continued cost reductions  
5 reflected in the revenue requirement for this case, the favorable financial effect of  
6 Public Law 108-18 will cease with the introduction of the escrow provisions in FY  
7 2006.

8 The following sections more fully describe the effects of Public Law  
9 108-18 and the *Transformation Plan* on the finances of the Postal Service.

10 1. Public Law 108-18 "Savings" and Escrow Requirement

11 Public Law 108-18 changed the way the Postal Service funds Civil  
12 Service Retirement System (CSRS) obligations and altered the related schedules  
13 for our payments to the Civil Service Retirement and Disability Fund (CSRDF).  
14 The law recognized that postal ratepayers would ultimately over-fund the Postal  
15 CSRS pension obligations by \$105 billion if the then-current funding mechanisms  
16 continued in place. Public Law 108-18 remedied the overfunding by:

17 a. Transferring approximately \$27 billion in CSRS obligations,  
18 retroactive to 1971, related to current and former employees'  
19 military service from the United States Treasury to Postal Service  
20 ratepayers. Over 90 percent of these CSRS obligations were  
21 earned by Post Office Department employees before the creation of  
22 the Postal Service on July 1, 1971, and relate to military service  
23 performed in World War II, the Korean War, and in the Vietnam  
24 War. Public Law 108-18 required the Postal Service to submit a  
25 proposal by September 30, 2003, detailing whether and to what  
26 extent the Department of the Treasury or the Postal Service should  
27 be responsible for the funding of benefits attributable to the military  
28 service of current and former employees of the Postal Service. The  
29 Postal Service proposal is included at Appendix A.

30 b. Adjusting the apportionment of obligations for employee service  
31 prior to Postal Reorganization to increase the obligations assigned  
32 to the Postal Service. (This change affected the overall valuation of

1 the Postal Service obligations to the CSRDF, but is not included in  
2 the \$105 billion over-funding cited above.)

- 3 c. Establishing a normal cost<sup>4</sup> contribution rate based on dynamic  
4 assumptions.<sup>5</sup> Dynamic normal cost based contributions fully fund  
5 the CSRS pension benefit obligation allocable to the current year of  
6 service. This provision increased the employer normal cost  
7 contribution for CSRS participants from 7.0 percent (based on static  
8 assumptions<sup>6</sup>) to 17.4 percent (based on dynamic assumptions) of  
9 current CSRS employee base wages. In May 2003, the Postal  
10 Service was required to begin funding obligations to the CSRDF  
11 based on dynamic assumptions, thus eliminating the annual  
12 payments for unfunded liabilities for wage increases and annuitants'  
13 cost of living adjustments.
- 14 d. Establishing a supplemental liability that represents the estimated  
15 excess of the actuarial present value of the Postal Service CSRS  
16 obligations over the fund balance and future normal cost payments,  
17 including earnings on those payments. Using dynamic normal cost  
18 contributions, the existence of any supplemental liability is related  
19 to past service costs. In 2004 the Postal Service was required to  
20 begin funding the \$3.5 billion supplemental liability that existed at  
21 the end of FY 2003. Public Law 108-18 requires the Postal Service  
22 to amortize the supplemental liability in a manner that will liquidate  
23 the liability by September 30, 2043. The annual amortization  
24 payments are \$240 million.

---

<sup>4</sup> Normal cost is the contribution rate as a percentage of base wages required to fund pension benefits earned for the current year of service.

<sup>5</sup> Dynamic assumptions include interest earnings on pension fund assets, wage inflation and benefit inflation.

<sup>6</sup> Static assumptions only include only interest earnings on pension fund assets. No assumptions are included for either future wage or benefit inflation.

1 Reductions in CSRDF contributions under Public Law 108-18 are  
 2 defined as “savings”. “Savings” are determined as the annual difference  
 3 between what the Postal Service would have paid annually into the CSRDF prior  
 4 to Public Law 108-18 less the amount paid after application of the new funding  
 5 provisions of the law. Therefore, the “savings” are the projected annual Postal  
 6 Service overfunding of CSRS pension obligations. The net annual effects of  
 7 Public Law 108-18 through FY 2015 are the “savings” summarized in Table 6.  
 8 The annual escrow amount is expected to increase through 2024, when the  
 9 annual amount peaks at \$7,007 million. The full schedule of escrow amounts  
 10 obtained from the Office of Personnel Management (OPM) is included at Library  
 11 Reference K-50, Chapter VI, i.

12 **Table 6**  
 13 Summary of CSRS “Savings” and Escrow Funding Requirements  
 14 (See Exhibit USPS-6O)  
 15 (\$ Millions)

Period	“Savings” Amount
FY 2003	3,481
FY 2004	2,766
FY 2005	2,976
FY 2006	3,081
FY 2007	3,316
FY 2008	3,607
FY 2009	3,781
FY 2010	4,069
FY 2011	4,392
FY 2012	4,589
FY 2013	4,950
FY 2014	5,309
FY 2015	5,362

16  
 17 The fact that “savings” in FY 2003 were greater than in FY 2004  
 18 reflects that for the first half of FY 2003 the Postal Service’s contribution for  
 19 CSRS employees was 7.0 percent of wages, as opposed to the 17.4 percent  
 20 contribution subsequently paid and that payments on the supplemental liability  
 21 began in 2004.

22 “Savings” in FY 2003 and FY 2004 were used to reduce postal  
 23 debt. “Savings” for FY 2005 are being used to hold postage rates unchanged  
 24 and to reduce postal debt. Any “savings” after FY 2005 by law are to be  
 25 considered operating expenses of the Postal Service and, until otherwise  
 26 provided for by law, are to be held in escrow and may not be obligated or

1 expended. To date, Congress has provided no legislative direction concerning  
2 the use of escrowed funds.

3           The escrow is a legislated expense, over which management has  
4 no control, and provides no economic benefit to the Postal Service. The amount  
5 of the escrow expense is arbitrarily determined in the sense that it represents the  
6 difference between the funding requirement relating to a legitimate estimate of  
7 Postal Service's CSRS obligations and an estimate of these obligations that was  
8 determined to be substantially in error.

9           2.    *Transformation Plan Cost Savings*

10           The *2002 Transformation Plan* focuses management attention on  
11 improving productivity and efficiency in all areas of postal operations. FY 2004  
12 marked the fifth consecutive year of productivity gains. These gains are  
13 estimated to be equivalent to over \$6.1 billion in cost savings. An example of the  
14 impact of the transformation process is the reduction of career complement  
15 through attrition from 797,795 at the beginning of FY 2000 to 707,485 at the end  
16 of FY 2004. Management has committed to continue the transformation process  
17 through the Test Year. This will result in estimated additional cost reductions of  
18 \$1,276 million for FY 2005 and \$1,333 million in FY 2006, totaling \$3,885 million  
19 over the two-year period.

20           Control of personnel costs is one of postal management's  
21 greatest challenges. Because personnel expenses account for about three-  
22 fourths of total Postal Service expenses, they generally are the major driver of  
23 overall financial performance. Table 7 displays compensation and benefits  
24 expenses and the annual changes in compensation and benefits expense for the  
25 period 1995-2004.

1  
2  
3  
4

**Table 7**  
 Compensation and Benefits Cost  
 1995-2004  
 (\$ Millions)

Period	Total Operating Expense	Compensation and Benefits	Compensation and Benefits Growth Percentage
FY 1995	50,730	41,931	5.9%
FY 1996	53,113	42,676	1.8%
FY 1997	55,131	44,093	3.3%
FY 1998	57,786	45,596	3.4%
FY 1999	60,642	47,333	3.8%
FY 2000	62,992	49,532	4.6%
FY 2001	65,640	51,351	3.7%
FY 2002	65,234	51,557	0.4%
FY 2003	63,902	50,428	-2.2%
FY 2004	65,851	52,134	3.4%

5

6

Postal Service workyear usage varies with changes in workload due to changing volumes, mail mix, delivery network growth and management programs to control costs (see Exhibit 6L). As illustrated in Table 8, after moderate increases in the FY 1996 to FY 1999, workyears have consistently declined due to volume change, mail mix changes (as illustrated in Table 5, Summary of First-Class and Standard Mail Volume ), and efficiency gains.

12

Examining the change in personnel cost by workyear removes the impact of workload changes and the effect of cost reduction programs.

14

Personnel cost per workyear exhibited moderate increases from 1996 through 1999, and these favorable personnel cost growth rates enabled the Postal Service to achieve net incomes during those years. In FY 2000, personnel cost per workyear began to accelerate and served as a major contributor to the net losses experienced in those years and the need to increase rates reflected in Docket Nos. R2000-1 and R2001-1.

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**Table 8**  
Postal Service Net Income and Compensation and Benefits Expense Growth  
FYs 1995-2004  
(\$ Millions)

Period	Compensation and Benefits <sup>7</sup> (Millions)	Workyears <sup>8</sup>	Percent Change in Workyears	Percent Change in Total Mail Volume	Compensation and Benefits Per Workyear	Percent Change Cost per Workyear	Net Income (Millions)
FY 1995	41,931	870,160			48,188	4.3%	1,770
FY 1996	42,676	887,546	2.0%	1.5%	48,083	-0.2%	1,567
FY 1997	44,093	898,384	1.2%	4.1%	49,080	2.1%	1,264
FY 1998	45,596	909,578	1.2%	3.7%	50,129	2.1%	550
FY 1999	47,333	919,214	1.1%	1.9%	51,493	2.7%	363
FY 2000	49,532	917,223	-0.2%	3.1%	54,002	4.9%	(199)
FY 2001	51,351	899,351	-1.9%	-0.2%	57,098	5.7%	(1,680)
FY 2002	51,557	860,309	-4.3%	-2.2%	59,928	5.0%	(676)
FY 2003	50,428	832,312	-3.3%	-0.3%	60,588	1.1%	3,868
FY 2004	52,134	820,157	-1.5%	1.9%	63,566	4.9%	3,065

5

6

In most of the last five years, the personnel cost per workyear increases at a rate exceeding that of general inflation, when measured against the CPI-W. The exception to this was in FY 2003 when the reduction in pension funding requirements attributable to Public Law 108-18 resulted in a one-time reduction in benefits costs.

11

The overall increase in compensation and benefits is due largely to increases in benefit costs. Table 9 separates compensation and benefits expense by workyear into the two major components and provides the CPI-W for comparative purposes. Of significance is that compensation expense per workyear demonstrates a moderate level of change over the years, averaging slightly higher than the CPI-W. Starting in FY 1998 and continuing through 2004, with the exception of FY 2003 that includes the initial effect of Public Law 108-18, benefits cost growth has substantially exceeded both compensation cost growth and CPI-W growth. The benefits cost increases result from large increases in health benefit premium expense as well as increases in workers' compensation costs and retirement contributions.

21

<sup>7</sup> Includes personnel related Servicewide Costs. Excludes Travel and Relocation.

<sup>8</sup> FY 1995 from USPS Operating Statistics. FY 1997 from LR-H-12. FY 1998 from Exhibit USPS-9P, Docket No. R2000-1. FY 1999 from LR-I-127. FY 2000 from Annual Report of the Postmaster General, FY 2000. FY 2001 from LR-K-50.

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**Table 9**  
Compensation and Benefits Cost by Workyear  
1995-2004  
(\$)

Period	Compensation and Benefits Per Workyear	Compensation per Workyear	% Chg	Benefits* per Workyear	% Chg	CPI-W
FY 1995	48,188	36,955		11,232		2.8%
FY 1996	48,083	36,692	-0.7%	11,391	1.4%	2.8%
FY 1997	49,080	37,807	3.0%	11,274	-1.0%	2.7%
FY 1998	50,129	38,154	0.9%	11,975	6.2%	1.4%
FY 1999	51,493	39,040	2.3%	12,453	4.0%	1.9%
FY 2000	54,002	40,318	3.3%	13,684	9.9%	3.3%
FY 2001	57,098	42,229	4.7%	14,868	8.7%	3.2%
FY 2002	59,928	42,865	1.5%	17,064	14.8%	1.2%
FY 2003	60,588	44,627	4.1%	15,960	-6.5%	2.3%
FY 2004	63,566	46,181	2.0%	17,384	8.9%	2.2%

\*Excludes interest on deferred retirement.

### 5 C. Outstanding Debt

6 Table 10 displays the Postal Service's outstanding debt from 1995 to FY  
7 2004, and debt levels projected through the Test Year Before Rates. In absolute  
8 terms and as a percentage of the statutory debt limit, the Postal Service's debt  
9 declined substantially in line with the Public Law 108-18 guidance that "savings"  
10 resulting from the law be used in FYs 2003 and 2004 for debt reduction

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**Table 10**  
Outstanding Debt  
Debt as a Percentage of Statutory Ceiling  
FY 1995 - FY 2006  
(\$ Millions)

Period	Total Debt	Debt Limit	Percent Of Statutory Limit
FY 1995	7,265	15,000	48.4%
FY 1996	5,906	15,000	39.4%
FY 1997	5,861	15,000	39.1%
FY 1998	6,413	15,000	42.8%
FY 1999	6,913	15,000	46.1%
FY 2000	9,313	15,000	62.1%
FY 2001	11,315	15,000	75.4%
FY 2002	11,115	15,000	86.1%
FY 2003	7,274	15,000	48.5%
FY 2004	1,800	15,000	12.0%
FY 2005	1,000	15,000	6.7%
FY 2006 Before Rates	1,999	15,000	13.3%

16

1 In FY 2003 and 2004 the Postal Service reduced debt by amounts  
2 exceeding the amounts suggested by Public Law 108-18. In FY 2005, Public  
3 Law 108-18 indicates that the "savings" should be used to hold postage rates  
4 unchanged and to reduce postal debt. The Postal Service plans to continue debt  
5 reduction in FY 2005, and is holding rates constant. In FY 2006, if rates were not  
6 to change, the Postal Service expects that it would need to borrow money to fund  
7 the escrow provision.

8

#### 9 D. Basis for the Rate Request

10 As indicated in the testimony of Postmaster General John E. Potter,  
11 USPS-T-1, this rate request is precipitated by a unique and unusual set of  
12 circumstances. By the end of FY 2005, the "savings" realized under Public Law  
13 108-18 will have been fully absorbed by the escalating costs of postal operations.  
14 Factors contributing to the rise in costs are increasing personnel compensation  
15 costs, driven largely by benefits inflation, energy costs, and the continuing need  
16 to serve an ever-larger delivery and retail network. But in the absence of the  
17 additional escrow expense required by Public Law 108-18, the Postal Service's  
18 success in improving productivity would have allowed it to operate without a  
19 general rate increase in FY 2006.

20 Absorption of the FY 2006 loss resulting from the escrow  
21 requirement would be possible only by increasing debt. However, we believe this  
22 is inconsistent with the underlying intent of Public Law 108-18 that required the  
23 Postal Service to reduce debt with the "savings" in 2003, 2004 and 2005.  
24 Additionally, the escrow requirement imposes a new annual expense on the  
25 Postal Service. As shown in Table 6, the escrow amount increases each year.  
26 Accordingly, it is essential that the escrow be incorporated in postal rates and  
27 fees in order to meet the annual funding requirements. If borrowing were used to  
28 fund the escrow, we would likely exceed the annual borrowing limit of \$3 billion in  
29 FY 2007.

30 Also, incurring debt to finance current operations transfers the  
31 funding of current year expenses to future years. Subsequent repayment of  
32 borrowed funds, particularly during a time when First-Class Mail volumes are  
33 expected to continue to be stagnant or declining, would place an unreasonable

1 claim on future revenues and place an unfair burden on future ratepayers. Given  
2 that an additional rate increase likely will be necessary in the near future to cover  
3 normal increases in costs that have occurred since the last rate increase in FY  
4 2002, deferral of the increase to cover the escrow requirement will result in a  
5 larger subsequent overall percentage increase, potentially in the double digits.  
6 Therefore, as discussed by Postmaster General Potter (USPS-T-1), the Postal  
7 Service has decided that the prudent and responsible approach to funding the  
8 escrow requirement and to managing the finances of the Postal Service is to  
9 request a moderate general rate increase at this time to fund the escrow  
10 requirement, and mitigate the amount of the subsequent rate increase.

11

#### 12 E. Prior Years' Losses and Contingency

13 Since Docket No. R76-1, the Postal Service and the Commission have  
14 included in the revenue requirement a provision to recover part of the Postal  
15 Service's accumulated historical deficit. As a result of the developments  
16 described above, however, in this instance, the Postal Service has fully  
17 recovered its past losses. Accordingly, the Postal Service has not incorporated a  
18 provision for prior years' losses in the revenue requirement.

19 The Postal Service has also not incorporated a separately-determined  
20 provision for contingencies. While this represents a significant departure from  
21 past practice in proposing rate increases, it is justified in the current unique  
22 circumstances of this filing.

23 The Postal Reorganization Act (39 U.S.C. § 3621) requires that proposed  
24 rates and fees generate revenues sufficient to equal, as nearly as practicable,  
25 total estimated costs. These costs are defined as including a "reasonable  
26 provision for contingencies." As the Postal Service has testified many times  
27 before, this requirement represents Congress's intent that the Postal Service  
28 must be afforded significant protection through its rates against unforeseen and  
29 unforeseeable events that could imperil its financial condition and operational  
30 performance. The Postal Service has long considered this element of its  
31 revenue requirement to be, not only a requirement, but a critical ingredient  
32 among the tools and capabilities it needs to ensure fulfillment of the policies,  
33 goals, and responsibilities embodied in the Act.

1 As noted above, however, the limited revenue objective created by Public  
2 Law 108-18 forms the principal basis for the Postal Service's proposals in this  
3 case. Congress specifically dictated that the escrow obligation is an operating  
4 expense, even though, as explained above, it shares few, if any, characteristics  
5 with any other expense. Under its current definition, the escrow represents a  
6 true tax or burden on the system. Furthermore, the escrow has been imposed in  
7 circumstances that would not otherwise have led the Postal Service to propose  
8 rate changes pursuant to section 3621. Additionally, current economic  
9 conditions, near break-even financial projections, low debt, and the possibility of  
10 legislative action to eliminate the escrow were considered. Therefore, the Postal  
11 Service has filed this case with a contingency provision of zero.

12 Notwithstanding this posture, if the Postal Service had filed a traditional  
13 case, it would have been justified in including a provision for contingencies.  
14 Unforeseen expenses represent an inevitable potential in postal operations. The  
15 statutory framework, furthermore, would support that decision, since a  
16 reasonable contingency provision is a statutory requirement. In this unique  
17 instance, the escrow requirement stands alone as the reason for the proposed  
18 increases. Without an escrow requirement, a general rate increase would not be  
19 needed. Most importantly, it would amplify the increases needed to meet the  
20 escrow obligation and take the Postal Service's request beyond the boundaries  
21 of the Postal Service's limited objective, undermining the moderate, equitable  
22 solution that forms the crux of the Postal Service's approach. In this regard, if  
23 the escrow requirement were to be eliminated, the Postal Service would withdraw  
24 this request for rate increases.

25 Thus the Postal Service has determined that the limited objective in this  
26 instance outweighs the need for a traditional contingency provision in this rate  
27 case. In reaching this conclusion, the Postal Service follows its past practice of  
28 practically interpreting the statutory contingency requirement within the context of  
29 overall policy.

### 30 31 F. Conclusion

32 In my testimony that follows, I project the expected results for the  
33 Test Year. In Table 11, I estimate that FY 2005 operations will result in net

1 income of \$1,644 million, which will improve our equity position and allow further,  
 2 limited debt reduction. But with the introduction of the Public Law 108-18 escrow  
 3 requirement in FY 2006, and no rate increases, we would return to a net loss  
 4 position for rate setting purposes.

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**Table 11**  
 Postal Service Net Loss and Equity  
 Including Projections  
 (\$ Millions)

Period	Net Income/(Loss)	Equity	Debt
FY 2005, Estimated	1,644	5,575	1,000
FY 2006, Before Rates	(3,042)	2,533	1,999

9  
 10

In my opinion, the Postal Service should not allow the positive  
 11 effects of the debt reduction provisions of Public Law 108-18 to be reversed.  
 12 While the escrow requirement remains in effect, the Postal Service must accept  
 13 its responsibility under current law to generate sufficient revenues to fund the  
 14 escrow. In light of the Public Law 108-18 escrow requirement, the cost growth  
 15 discussed below, my financial projections for the Test Year, and Mr. Potter's  
 16 discussion of these issues in his testimony (USPS-T-1), I conclude that the only  
 17 prudent course of action is to increase Postal Service revenues through a  
 18 general increase in rates.

1 IV. TEST YEAR REVENUE REQUIREMENT

2 The revenue requirement is developed by estimating changes from a  
3 Base Year in which costs and revenues are known. There are three periods  
4 involved in development of the revenue requirement: the Base Year (FY 2004),  
5 the Interim Year (FY 2005), and the Test Year (FY 2006).

6

7 A. Summary of Test Year Cost Estimating Procedures

8

9 1. Base Year

10 The Base Year employed by me and by postal cost  
11 witnesses in this case is FY 2004. Revenues, expenses, net income and  
12 balance sheet items developed throughout my testimony are consistent with  
13 those in the audited and published financial statements for that year.

14

15 2. FY 2005 and the Test Year

16 Two estimated years, FY 2005 and the Test Year, will be  
17 treated separately in my testimony. Cost estimating procedures are applied to  
18 each of these years as necessary and direct steps in the development of Test  
19 Year costs.

20

21 3. Sources of Change

22 Sources of change are categorized as cost level, mail  
23 volume effect, non-volume workload effect, additional workday effect, cost  
24 reductions, other programs, corporatewide activities, servicewide costs, workyear  
25 mix adjustments and final adjustments (See Exhibit 6J). The escrow expense is  
26 included in a servicewide costs category in cost segment 18. The "other  
27 programs" category in previous cases included what has in this case been  
28 separated into "other programs," "corporatewide activities," and "servicewide  
29 costs," in order to provide a finer explanation of the source of changes.

30 The sources of change were individually computed for purposes of  
31 explaining total cost differences between the Base Year, FY 2005, and the Test  
32 Year and establish the basis for the revenue requirement. My testimony explains  
33 the derivation of sources of change factors with the exception of mail volume and

1 final adjustments. The rollforward witness utilizes sources of change factors to  
2 run the rollforward model. My Exhibit 6B contains rollforward model change  
3 reports that summarize each of the sources of change for FY 2005 and the Test  
4 Year that result from the factors developed by me and other Postal Service  
5 witnesses. Since this revenue requirement does not include either a contingency  
6 or a provision for the recovery of prior years' losses, the total Test Year revenue  
7 requirement is determined by adding final adjustments to the amount reflected on  
8 the after rates rollforward model Test Year change report adjusted for the  
9 workyear mix.<sup>9</sup>

10 a. Cost level

11 Estimating the increase in the cost of current year resources  
12 produces cost level changes for the subsequent year. Year-to-year price  
13 changes primarily consist of increases in the unit cost of personnel compensation  
14 and benefits and the cost of the previous year's level of non-personnel  
15 resources. As detailed in my Exhibit 6M, cost level changes in salaries are  
16 estimated to average 3.3 percent in FY 2005 and 3.0 percent in the Test Year.  
17 Cost level changes in benefits are estimated to average 6.8 percent in FY 2005  
18 and 5.1 percent in the Test Year. The derivation of cost level factors is explained  
19 in detail in Chapters V and VII of Library Reference K-50.

20 b. Mail volume effect

21 Mail volume effect is cost change due to increases or  
22 decreases in mail volume and special services volume. Cost variability due to  
23 the mail volume effect is detailed in the testimony and workpapers of witness  
24 Waterbury (USPS-T-10).

25 c. Non-volume workload effect

26 Non-volume workload effect is cost change that results from  
27 variation in measurable workload characteristics other than mail volume. For  
28 example, city carrier street costs vary with the number of possible deliveries.  
29 Significant non-volume workload factors include the number of possible city  
30 deliveries, the numbers of rural boxes and route miles, and the amount of  
31 facilities square footage.

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<sup>9</sup> Exhibits 6A and 6B.

1 Base and additional delivery points are an important  
 2 expense driver for the postal system. Between the base year and the Test Year  
 3 the Postal Service will have added approximately 3.6 million new delivery points  
 4 to its network. Our pricing structure is not designed to fund network growth since  
 5 the Postal Service does not charge for existing or new delivery points. This is  
 6 very different from other services, such as electric, gas, water, and local telecom,  
 7 which virtually without exception have some sort of monthly access, hookup, or  
 8 system charge. When volume stagnates or declines, or there are adverse mix  
 9 shifts, where low contribution volumes replace high contribution volumes, this  
 10 limitation of our pricing structure places pressure on rates to rise faster than  
 11 inflation in resource costs. The Postal Service has suffered from volume  
 12 declines and adverse changes in mail mix in recent years.

13 Non-volume workload factors are summarized in Table 12.  
 14 The computation of non-volume workload factors is explained in Chapter Vd of  
 15 Library Reference K-50. The application of these factors to Postal Service costs  
 16 is explained in the testimony and workpapers of witness Waterbury (USPS-T-10).

17 **Table 12**  
 18 Non-Volume Workload Factors  
 19 % Change from Previous Year

	FY 2004	FY 2005	Test Year
No. of Post Offices <sup>10</sup>	-0.2%	-0.4%	-0.4%
Possible City Deliveries	0.5%	0.5%	0.5%
Rural Route Miles	1.3%	1.2%	1.2%
Rural Route Boxes <sup>11</sup>	3.6%	3.7%	3.6%
Rural Boxes & Route Miles <sup>12</sup>	2.7%	2.7%	2.7%
Contract Stations	4.0%	0.7%	5.3%
Cag L Post Offices	-2.2%	-5.1%	-5.3%
Facilities Sq. Footage (Leased)	-0.9%	0.3%	0.5%
Facilities Square Footage (Interior)	-0.3%	0.4%	0.7%

20  
 21 d. Additional workday effect

22 Some costs vary according to the number and composition  
 23 of days in each fiscal year. For example, costs are higher on weekdays (except  
 24 holidays) than Saturdays, and lowest on Sundays and holidays. The derivation  
 25 of the additional workday factor is detailed in Chapter Vm of Library Reference K-

<sup>10</sup> Weighted by Postmaster salaries by class.

<sup>11</sup> The method for determining rural boxes was changed in FY 2004. Comparable 2003 box counts upon which percentage change is based were estimated.

<sup>12</sup> Weighted average.

1 50 and the application of these factors to Postal Service costs is explained in the  
 2 testimony and workpapers of witness Waterbury (USPS-T-10). The number of  
 3 days in each of the relevant years is shown in Table 13.

4 **Table 13**  
 5 Analysis of Work Days by FY

	FY 2004	FY 2005	Test Year
Weekdays	252	251	250
Saturdays	52	52	53
Sundays	52	52	52
Holidays	10	10	10
Workday Equivalent	293.36	292.36	291.99
Total Days	366	365	365

6  
 7 e. Cost reductions

8 Numerous management-initiated cost reduction programs  
 9 related to automation, materials handling, other equipment programs, and  
 10 Breakthrough Productivity Initiatives (BPI) are currently in progress or planned,  
 11 and will result in significant cost savings. Headquarters' financial and operating  
 12 managers, with the assistance of Area, District, and Plant personnel, develop  
 13 and implement plans and monitor performance of these specific projects and  
 14 activities aimed at reducing operating expenses.

15 This category represents management's commitment to  
 16 savings between the base year and the Test Year. The total cost reductions are  
 17 \$1.276 billion in FY 2005 and \$1.333 billion in FY 2006. (LR K-49 Exhibits C and  
 18 D).<sup>13</sup>

19 Table 14 summarizes the impact of cost reduction programs  
 20 in the interim year and the Test Year by cost segment. A summary of the major  
 21 personnel cost related cost reduction programs and the calculation of the  
 22 workyear and dollar cost savings is included in Library Reference K-50, Chapter  
 23 Ve. Cost reductions by individual program are included in of Library Reference  
 24 K-49, along with a narrative description of these programs and the basis for the  
 25 resource savings.

26 Cost savings are projected for supervisory costs between  
 27 the Base Year and the Test Year, at approximately five percent of BPI savings

<sup>13</sup> The \$2.6 billion in net savings is the sum of Field Operating Programs (\$1.226), Breakthrough Productivity (\$1.358 billion) and Trend/Base Adjustment (\$0.026 billion).

and when considered feasible by the program managers for other cost reduction programs. Supervisory cost reductions for FYs 2005 and 2006 are related to BPI, the Remote Encoding Center Consolidation – Phase 4, and the Facilities Single Source Provider Program (FSSP).

**Table 14**  
Cost Reductions Cost Effects  
(\$ 000)

C/S	Segment	FY 2005	Test Year Before Rates
2	Supervisors & Technicians	(50,981)	(43,366)
3	Clerks and Mailhandlers	(722,834)	(932,610)
6&7	City Delivery Carriers	(268,197)	(241,981)
10	Rural Carriers	(1,415)	(2,195)
11	Custodial and Maintenance Services	(61,496)	(37,588)
12	Motor Vehicle Service	(10)	(466)
14	Transportation	(51,525)	(56,125)
15	Building Occupancy	(27,177)	(2,495)
16	Supplies and Services	(22,341)	(5,247)
18	Administrative and Area Operations	(64,604)	(10,845)
19	General Management Systems	(21)	(20)
20	Other Accrued Expenses	(5,750)	0
	Total All C/S	(1,276,350)	(1,332,938)

Between cost reductions programs and BPI, the Postal Service identifies the full range of realizable cost savings for technical personnel and supervisors. Additional cost savings cannot be captured predicated on theories of volume variability. As was recognized in Docket No. R2000-1, supervisory responsibilities relate to mailflows, networks and operations – not merely to employees. In addition, cost reduction programs frequently require additional supervisory time and attention in order to capture cost savings, to maintain service, and to ensure operating efficiencies. Because of these issues, the Postal Service specifically examines cost savings opportunities relating to Cost Segment 2, rather than making arbitrary assumptions that supervisor costs follow in lockstep with programs that affect craft staffing levels.

f. Other Programs

The Other Programs category has been redefined to include only changes in program related costs as defined in Library Reference K-49. Corporatewide activities and Servicewide costs, which are discussed separately below, were previously included in the Other Programs category.

The Other Program category now includes “programs” which have life cycles, as opposed to “activities”, which tend to be non-discretionary

1 and ongoing. Examples of the types of program costs included in this category  
 2 are the offsetting cost increases associated with cost reduction programs,  
 3 programs costs for certain field related efforts that are not cost reduction  
 4 programs such as the Bio-Hazard Detection System and the Ventilation and  
 5 Filtration System for Mail Processing Equipment, as well as other Headquarters'  
 6 programs.

7 Table 15 summarizes the impact of cost changes reflected  
 8 as Other Programs for the interim year and the Test Year by cost segment.  
 9 Program summaries are included in Library Reference K-50, Chapter V, and LR  
 10 K-49 provides a narrative description of each amount included under the Other  
 11 Program column and the basis for the estimated cost change.

12 **Table 15**  
 13 Other Programs Cost Effects  
 14 (\$ 000)

C/S	Segment	FY 2005	Test Year Before Rates
3	Clerks and Mailhandlers	67,810	73,605
8	Vehicle Service Drivers	72	0
10	Rural Carriers	29,188	2,745
11	Custodial and Maintenance Services	27,152	37,078
12	Motor Vehicle Service	1,020	0
13	Miscellaneous Local Operations	4,242	0
14	Transportation	51,054	422
15	Building Occupancy	4,555	10,139
16	Supplies and Services	(10,834)	113,612
17	Research and Development	(5,000)	0
18	Administrative and Area Operations	64,307	0
19	General Management Systems	12,518	0
20	Other Accrued Expenses	1,614	0
	Total All C/S	247,698	237,602

15 The expense growth reflected under Other Programs for FY  
 16 2005 and the Test Year are \$248 million, and \$237 million respectively, or an  
 17 incremental total of \$485 million.  
 18

19 g. Corporatewide Activities

20 Corporatewide Activities, summarized at Table 16, includes  
 21 the costs of Headquarters and field service unit initiatives and activities.  
 22 Corporatewide activities generally tend to be non-discretionary and ongoing as  
 23 opposed to programs which have a life cycle. Examples of costs included in  
 24 Corporatewide Activities are expedited mail supplies and services, advertising,  
 25 research and development activities, program operating costs such as the

1 Human Capital Enterprise and Human Resources Shared Services effort, and  
 2 other corporatewide activities such mail transport equipment purchases, field  
 3 environmental initiatives, debit/credit card fees, and stamp manufacturing.

4 **Table 16**  
 5 Corporatewide Activities Cost Effects  
 6 (\$ 000)

C/S	Cost Segment	FY 2005	Test Year Before Rates
11	Custodial and Maintenance Services	25	0
12	Motor Vehicle Service	(7)	0
13	Miscellaneous Local Operations	1,529	0
15	Building Occupancy	2,736	0
16	Supplies and Services	162,860	0
17	Research and Development	10,726	0
18	Administrative and Area Operations	(37,514)	34,929
19	General Management Systems	(354)	0
20	Other Accrued Expenses	6,512	0
	Total All C/S	146,513	34,929

7  
 8 FY 2005 Corporatewide Activities increase primarily as a  
 9 result of a planned increase in advertising, increased research and development  
 10 funding, the Human Resources shared services initiative, and increases in other  
 11 corporatewide supplies and services including purchased mail transport  
 12 equipment and debit/credit card fees. The Test Year increase in Corporatewide  
 13 Activities results primarily from increased costs related to the Human Capital  
 14 Enterprise and Human Resources Shared Services initiative.

15 h. Servicewide Costs

16 Servicewide costs, summarized at Table 17, include costs  
 17 which cannot be easily allocated to other segments. Such costs include  
 18 depreciation, interest, and service-wide personnel costs such as the non-cash  
 19 portion of Workers' Compensation costs, Unemployment Compensation,  
 20 Annuitant Health Benefits, and the Public Law 108-18 escrow cost introduced in  
 21 FY 2006.

**Table 17**  
 Servicewide Costs  
 (\$ 000)

C/S	Cost Segment	FY 2005	Test Year Before Rates
18	Administrative and Area Operations	187,389	3,561,668
20	Other Accrued Expenses	72,283	141,906
	Total All C/S	259,672	3,703,574

A summary of these costs is located in Library Reference K-50, Chapter Vj and I with detail workpapers included at Chapter VI.

i. Workyear Mix Adjustments

Workyear mix adjustments calculate the dollar impact of changes in the composition of workyears used in FYs 2005 and 2006. In this case, I have expanded the workyear mix adjustments to include the rural carriers, see Table 18.

Changes in the workyear mix are estimated to result in higher personnel costs for FYs 2005 through 2006. These amounts are relative to the personnel costs that would have resulted if the workyear mix was assumed to remain the same in each estimated year as it was in FY 2004 (i.e., the amount of personnel cost calculated by the rollforward model before this adjustment). The increased personnel costs result primarily from increased overtime for clerks, carriers and mailhandlers. Costs are also adversely affected in FY 2006 by a reduction in transitional employees located at facilities other than Remote Encoding Centers and from reductions in mailhandler casuals. The trends towards increasing use of overtime and use of fewer transitional employees and casuals is partially offset by a gradual increase in the use of non-career bargaining rural carriers. These trends are expected to continue resulting in net cost increases for FYs 2005 and the Test Year Before Rates of \$77.3 million and \$162.3 million, respectively, and a net cost increase for the Test Year After Rates of \$178.5 million.

The overtime ratio reflects overtime workyears as a percentage of straight time workyears. Overtime is based on the FY 2005 operating plan adapted to reflect the overtime usage trend through Quarter I, 2005. In Postal Quarter I (PQ I), 2005 there was a spike in mail volume that was accommodated using overtime hours rather than new staff. The effect was to

1 increase our projected overtime usage to reflect the higher level of actual usage  
 2 in PQ1, 2005. The workload growth experienced in PQ I, 2005 is not expected to  
 3 continue. Consequently, overtime, while expected to be higher than in FY 2004,  
 4 has been estimated to reflect lower growth in FY 2005, PQs II-IV than in PQ I.  
 5 Clerk, city carrier and mailhandler overtime workyear ratios are assumed to  
 6 increase in FY 2005 and then remain essentially at the FY 2005 ratio through the  
 7 Test Year.

8 The net impact of the changes due to the workyear mix is  
 9 reflected as an adjustment to the dollar estimates generated by the rollforward  
 10 model for clerks, city carriers, mailhandlers, and rural carriers. The workyear mix  
 11 adjustment is explained in greater detail in Chapter VIII of Library Reference K-  
 12 50.

13  
 14 **Table 18**  
 15 Workyear Mix Expressed As a  
 16 Percentage of Straight Time Workyears  
 17

	FY 2004 Actual	FY 2005 Estimate	Test Year BR Est.	Test Year AR Est.
<b>Clerks A-J</b>				
Career-Base	92.8%	92.9%	93.6%	93.6%
Career-Holiday	0.6%	0.6%	0.6%	0.6%
Casual	3.7%	3.7%	3.7%	3.7%
Transitional	3.0%	2.9%	2.1%	2.1%
Subtotal St. Time	100.0%	100.0%	100.0%	100.0%
Overtime	8.2%	10.3%	10.3%	10.3%
<b>City Carriers</b>				
Career-Base	97.8%	97.8%	97.9%	97.9%
Career-Holiday	0.3%	0.3%	0.3%	0.3%
Casual	1.9%	1.9%	1.9%	1.9%
Transitional	0.0%	0.0%	0.0%	0.0%
Subtotal St. Time	100.0%	100.0%	100.0%	100.0%
Overtime	12.6%	13.6%	13.6%	13.6%
<b>Mailhandlers</b>				
Career-Base	90.7%	90.7%	92.8%	93.8%
Career-Holiday	1.1%	1.1%	1.1%	1.1%
Casual	8.2%	8.2%	6.2%	5.1%
Transitional	0.0%	0.0%	0.0%	0.0%
Subtotal St. Time	100.0%	100.0%	100.0%	100.0%
Overtime	14.3%	15.6%	15.5%	15.5%
<b>Rural Carriers</b>				
Career-Base	69.3%	69.0%	68.7%	68.7%
Non-career Barg.	28.0%	28.4%	28.7%	28.7%
Casual	2.6%	2.6%	2.6%	2.6%
Total	100.0%	100.0%	100.0%	100.0%

1                   j. Final Adjustments

2                                 In order to reflect the cost changes due to certain volume  
3 trends at a finer level of disaggregation than represented in the Cost and  
4 Revenue Analysis (CRA) report, final adjustments were made. In this case, the  
5 final adjustments represent mail mix, Negotiated Service Agreements, and  
6 Special Services. The derivations of these and other adjustments are explained  
7 in the testimony of witness Moser (USPS-T-23) and are summarized in the  
8 testimony of witness Waterbury (USPS-T-10).

9   **Table 19**  
10   Final adjustments

C/S	Cost Segment	FY 2005	Test Year After Rates
2	Supervisors & Technicians	(13,592)	(27,116)
3	Clerks and Mailhandlers	(106,191)	(226,946)
6&7	City Delivery Carriers	(31,530)	(49,611)
8	Vehicle Service Drivers	(664)	3,630
10	Rural Carriers	(5,401)	(13,503)
11	Custodial and Maintenance Services	(9,905)	(20,992)
14	Transportation	(1,991)	(13,233)
	Total All C/S	(169,274)	(347,771)
	Unallocated Final Adjustments	(12,066)	(22,993)
	Total Final Adjustments	(181,340)	(370,704)

11  
12                   B. Specific Estimating Elements

13                                 In order to predict costs, known and reasonably certain cost  
14 changes are projected. In addition, estimates based on reasonable assumptions  
15 (for costs which will certainly change, but for which the rates of change are not  
16 precisely known) are made. Examples of known and reasonably certain cost  
17 changes are depreciation on existing plant and equipment, interest expense on  
18 debt already outstanding, and the effect of the major labor agreements now in  
19 place. Additional estimating procedures cover other salary and benefit and non-  
20 personnel cost changes, and general price increases.

21  
22                                 1. Labor Contract

23                                 The provisions of existing labor contracts are used to  
24 estimate wage increases through the Test Year. Current labor contracts for all  
25 major bargaining units, with the exception of the American Postal Workers Union  
26 (APWU), will continue in effect through the Test Year. The APWU contract is

1 due to expire in early FY 2006. For FY 2006, the effective change in APWU  
 2 bargaining unit employee wages was set at the Employment Cost Index for  
 3 Wages and Salaries for Private Industry (ECI), calculated on a September to  
 4 September basis, minus one percent. Also included is the carryover from FY  
 5 2005 related to the current contract.

6 The derivation of a Test Year revenue requirement required  
 7 that the financial impact of wage changes be estimated through FY 2006. The  
 8 annual and effective base wage impacts driving personnel cost level increases  
 9 are summarized in my Exhibit 6K. Additional details on the derivation of  
 10 personnel unit cost changes, which include pay increases, lump sum payments,  
 11 and cost of living adjustments, can be found in Chapter VII of Library Reference  
 12 K-50. The wage and benefit costs estimated in developing the revenue  
 13 requirement for the Test Year are not intended to imply that these costs are  
 14 reflective of specific changes in wages and benefits which might result from  
 15 arbitration or be negotiated in the future.

## 17 2. Other Salary and Benefit Changes

18 Bargaining unit employees receive periodic longevity (step)  
 19 increases that affect their average compensation. Similarly, pay for performance  
 20 increases, incurred as pay increases and lump sum payouts, affect the average  
 21 compensation of non-bargaining employees. Estimated effects of these actions  
 22 are included in appropriate cost level computations and are detailed in Chapter  
 23 VII of Library Reference K-50. The step increase amounts are offset by savings  
 24 from replacement of retirees at the top end of the salary schedule with new hires  
 25 who start at the lowest step of the salary schedule. Estimated net step amounts  
 26 for selected categories of employees are shown in Table 20 below.

27 **Table 20**  
 28 Step Increase Unit Costs Summary

	FY 2004	FY2005	Test Year
Clerks CAG A-J, Barg.	(258.51)	(248.12)	(258.51)
City Carriers, Barg.	62.27	77.80	62.27
Mail Handlers, Barg.	(69.16)	(59.57)	(69.16)

29  
 30 Federal Employee Health Benefit premiums for covered  
 31 active bargaining unit employees and non-bargaining unit employees increased  
 32 an average of 10.4 percent and 9.8 percent, respectively, in January 2004, and

1 increased 7.9 percent for bargaining employees and 7.0 percent for non-  
 2 bargaining staff in January 2005. A premium increase of 7.0 percent is estimated  
 3 in January 2006. Cost level computations based on these assumptions are  
 4 detailed in Chapter VII of Library Reference K-50.

5 Effective October 1, 2005 the employer normal cost  
 6 contribution rate for Federal Employee Retirement System (FERS) participants  
 7 was increased from 10.7 percent to 11.2 percent. This change has been  
 8 incorporated in the forecast of FY 2005 and 2006 costs. Cost level computations  
 9 based on these assumptions are detailed in Chapter VII of Library Reference K-  
 10 50.

### 12 3. General Price Increases

13 The Postal Service is a significant purchaser of supplies for  
 14 operations and maintenance, and services such as transportation. Most cost  
 15 level changes for these items are based upon projections contained in the Global  
 16 Insight<sup>14</sup> CISSIM/Trendlong 1104, and USSIM/Control 0105. CPI-W estimates  
 17 from Global Insight served as the basis for computation of cost of living  
 18 adjustments (COLA) for FYs 2005 and 2006 under the existing labor agreements  
 19 affecting bargaining unit employees.

20 Major indices used in this case are summarized in Table 21.

21 A more detailed list of the indices used, along with the specific factors for FY  
 22 2004 through the Test Year, can be found in Chapter Vc Library Reference K-50.

23 **Table 21**

24 Selected Global Insight Forecast Factors

	FY 2004	FY 2005	Test Year
CPI-W <sup>15</sup>	2.18	2.63	1.55
ECI <sup>16</sup>	3.06	2.54	3.18
Supplies & materials <sup>17</sup>	5.22	5.88	-1.11

26  
 14 Global Insight is a leading economic forecasting service. This service was formerly known as DRI/WEFA.

15 CPI-W is the percent change from the previous year of the Consumer Price Index for all Urban Wage Earners & Clerical Workers

16 ECI is the Employment Cost Index for Wages and Salaries, Private Industry. The ECI growth factors used in this testimony reflect the September index over the previous September index, applied to the subsequent year.

17 The USSIM/WPISOP2000 index is used for estimating the cost change of Supplies and Material.

1 C. Revenue Requirement (Exhibit USPS-6H)

2 The Test Year revenue requirement is presented in the same cost  
 3 segment format employed in the testimony of witness Waterbury (USPS-T-10).  
 4 The total revenue requirement is the sum of accrued costs for eighteen (18) cost  
 5 segments, plus workyear mix and final adjustments calculated outside the  
 6 rollforward model (see USPS Exhibit 6N). Due to the specialized nature of this  
 7 case, there is a provision for contingencies of zero and no provision for the  
 8 recovery of prior years' losses have been included in the calculation of the  
 9 revenue requirement. The Test Year revenue requirement before and after rates  
 10 is:

11 **Table 22**  
 12 Test Year Revenue Requirement  
 13 (\$ 000)

	Before Rates	After Rates
Total Cost Segments	73,237,070	72,611,152
Contingency Losses	0	0
Recovery of Prior Year	0	0
Total Revenue Required	73,237,070	72,611,152

14  
 15 Total accrued costs, included at Table 23, for the eighteen  
 16 (18) cost segments for the Base Year through the Test Year are:

17 **Table 23**  
 18 Total Cost Segments<sup>18</sup>  
 19 (\$ 000)

	Amount	% Change
FY 2004	65,963,685	
FY 2005	68,467,597	3.8%
Test Year before rates	73,237,070	7.0%
Test Year after rates	72,611,152	6.1%

20  
 21 A summary analysis of cost changes is presented here for  
 22 each cost segment. Included in the analyses are specific reasons for significant  
 23 cost increases or decreases. A brief description of the costs in each segment is  
 24 provided.

25 a. Postmasters (Segment 1)

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

<sup>18</sup> Includes workyear mix and final adjustments. Excludes contingency and recovery of prior years' losses.

**Table 24**  
Postmasters Cost  
(\$ 000)

	Amount	% Change
FY 2004	2,035,510	
FY 2005	2,175,801	6.9%
Test Year before rates	2,317,200	6.5%
Test Year after rates	2,310,398	6.2%

Segment costs include the personnel costs for Postmasters, District manager/postmasters of customer service districts, certain Bulk Mail Center Managers, and Officers-in-Charge. Also included is the compensation and benefits for relief or replacement of Postmasters. As reflected in Table 25, Postmaster costs are mainly impacted by cost level increases that result from estimated changes in salaries and benefits unit costs, primarily the cost of pay for performance and health benefits.

**Table 25**  
Significant Changes in Cost  
Postmasters  
(\$ 000)

	FY 2005	Test Year After Rates
Cost Level	142,820	148,949
Mail Volume Effect	6,949	(6,136)
Non-Volume Workload Effect	(3,557)	(5,892)
Additional Workday Effect	(5,920)	(2,323)

More detailed Postmaster personnel cost level assumptions and calculations can be found in Chapter VII of Library Reference K-50.

- b. Supervisors and Technical Personnel (Segment 2)  
Costs for this segment for the Base Year through the Test Year are:

**Table 26**  
Supervisors and Technical Personnel Cost  
(\$ 000)

	Amount	% Change
FY 2004	3,883,274	
FY 2005	4,080,651	5.1%
Test Year before rates	4,275,714	4.8%
Test Year after rates	4,242,597	4.0%

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

1 managers of Postal installations other than post offices, and certain Bulk Mail  
 2 Center managers. As reflected in Table 27, Supervisor costs are mainly  
 3 impacted by cost level increases, cost reductions, the non-volume workload  
 4 effect, the additional workday effect, the mail volume effect, and final  
 5 adjustments. Cost level increases result from estimated changes in salaries and  
 6 benefits unit costs, primarily the cost of pay for performance and health benefits.  
 7 FY 2005 and Test Year cost level increases are partially offset by breakthrough  
 8 productivity savings. Final adjustments reflect a shift in the mail mix toward less  
 9 costly categories. More detailed supervisor and technical personnel cost level  
 10 assumptions and calculations can be found in Chapter VII of Library Reference  
 11 K-50. Additional information on segment 2 cost reductions and other programs  
 12 can be found in LR K-49.

13 **Table 27**  
 14 Significant Changes in Cost  
 15 Supervisors and Technical Personnel  
 16 (\$ 000)

	FY 2005	Test Year After Rates
Cost Level	229,459	238,649
Mail Volume Effect	34,307	(22,900)
Non-Volume Workload Effect	5,622	5,964
Additional Workday Effect	(7,438)	(2,877)
Cost Reductions	(50,981)	(43,366)
Final Adjustments	(13,592)	(27,116)

17  
 18 c. Clerks and Mail Handlers, CAG A through J Offices  
 19 (Segment 3)  
 20 Costs for this segment for the Base Year through the Test  
 21 Year are:

22 **Table 28**  
 23 Clerks and Mail Handlers, CAG A through J Offices  
 24 (\$ 000)

	Amount	% Change
FY 2004	18,371,120	
FY 2005	18,500,391	0.7%
Test Year before rates	18,232,072	-1.5%
Test Year after rates	18,002,257	-2.7%

25  
 26 Costs of this segment include the personnel costs of clerks  
 27 and mail handlers at CAG A through J offices, including Processing and  
 28 Distribution Plants and Bulk Mail Centers. As reflected in Table 29, Clerk and

1 Mail Handler costs are mainly impacted by cost level increases resulting from  
 2 estimated changes in salaries and benefits unit costs and mail volume increases  
 3 in FY 2005 and decreases in Test Year. Offsetting the cost level increases in  
 4 both FY 2005 and the Test Year are cost reduction program savings net of other  
 5 program costs. Cost reductions primarily relate to automation and other  
 6 equipment programs as well as significant BPI savings. Final adjustments reflect  
 7 a shift in the mail mix toward less costly categories. More detailed clerk/mail  
 8 handler personnel cost level assumptions and calculations can be found in  
 9 Chapter VII of Library Reference K-50. Cost reductions and other programs are  
 10 detailed in LR K-49.

11  
 12  
 13  
 14

**Table 29**  
 Significant Changes in Cost  
 Clerks and Mail Handlers, CAG A through J Offices  
 (\$ 000)

	FY 2005	Test Year After Rates
Cost Level	631,746	569,421
Mail Volume Effect	211,989	(192,787)
Non-Volume Workload Effect	1,971	2,084
Additional Workday Effect	(16,318)	(6,026)
Cost Reductions	(722,834)	(932,610)
Other Programs	67,810	73,605
Workyear mix	61,098	170,034
Final Adjustments	(106,191)	(226,946)

15  
 16  
 17  
 18

d. Clerks - CAG K Offices (Segment 4)

Costs for this segment for the Base Year through the Test

Year are:

19  
 20  
 21

**Table 30**  
 Clerks, CAG K Offices Cost  
 (\$ 000)

	Amount	% Change
FY 2004	6,414	
FY 2005	6,768	5.5%
Test Year before rates	7,037	4.0%
Test Year after rates	6,975	3.1%

22  
 23

Costs of this segment include the personnel costs for clerks  
 24 assigned to CAG K offices. As reflected in Table 31, CAG K Clerk costs are  
 25 mainly impacted by cost level increases which result from estimated changes in  
 26 salaries and benefits unit costs.

**Table 31**  
Significant Changes in Cost  
Clerks, CAG K Offices  
(\$ 000)

	FY 2005	Test Year After Rates
Cost Level	281	276
Mail Volume Effect	81	(66)
Additional Workday Effect	(7)	(3)

e. City Delivery Carriers (Segments 6&7)

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

**Table 32**  
City Delivery Carriers Cost  
(\$ 000)

	Amount	% Change
FY 2004	15,033,200	
FY 2005	15,535,493	3.3%
Test Year before rates	15,818,154	1.8%
Test Year after rates	15,700,584	1.1%

Costs of this segment include the personnel costs of city delivery carriers. As reflected in Table 33, City Carrier costs are mainly impacted by: 1) cost level increases, resulting from estimated changes in salaries and benefits unit costs; 2) mail volume increases in FY 2005 and decreases in the Test Year; and 3) increases in the non-volume workload effect. These changes are offset partially by aggressive BPI savings. More detailed city carrier personnel cost level assumptions and calculations can be found in Chapter VII of Library Reference K-50. Cost reductions and other programs are detailed in Library Reference K-49.

**Table 33**  
Significant Changes in Cost  
City Delivery Carriers  
(\$ 000)

	FY 2005	Test Year After Rates
Cost Level	587,979	450,764
Mail Volume Effect	178,062	(54,936)
Non-Volume Workload Effect	38,213	38,568
Additional Workday Effect	(26,192)	(9,810)
Cost Reductions	(268,197)	(241,981)
Workyear mix	23,958	24,524
Final Adjustments	(31,530)	(49,611)

f. Vehicle Service Drivers (Segment 8)

Costs for this segment for the Base Year through the Test

Year are:

**Table 34**  
Vehicle Service Driver Costs  
(\$000)

	Amount	% Change
FY 2004	584,602	
FY 2005	608,768	4.1%
Test Year before rates	628,662	3.3%
Test Year after rates	623,639	2.4%

Costs of this segment include the personnel costs of Vehicle Service Drivers. As reflected in Table 35, Vehicle Service Driver costs are mainly impacted by cost level increases that result from estimated changes in salaries and benefits unit costs, mail volume changes, and by final adjustments. The final adjustments reflect a shift in the mail mix toward less costly categories. More detailed vehicle driver personnel cost level assumptions and calculations can be found in Chapter VII of Library Reference K-50.

**Table 35**  
Significant Changes in Cost  
Vehicle Service Drivers  
(\$ 000)

	FY 2005	Test Year After Rates
Cost Level	19,780	18,918
Mail Volume Effect	5,793	(8,032)
Additional Workday Effect	(815)	(310)
Other Programs	72	-
Final Adjustments	(664)	3,630

g. Rural Carriers (Segment 10)

Costs for this segment for the Base Year through the Test

Year are:

**Table 36**  
Rural Carrier Costs  
(\$ 000)

	Amount	% Change
FY 2004	5,153,115	
FY 2005	5,569,964	8.1%
Test Year before rates	5,849,144	5.0%
Test Year after rates	5,810,427	4.3%

Costs for this segment include the personnel costs of rural carriers and the equipment maintenance allowance (EMA) they receive for their

1 vehicles. As reflected in Table 37, rural carrier costs are mainly impacted by cost  
 2 level increases, which result from estimated changes in salaries and benefits unit  
 3 costs and estimated changes in the CPI-U for Private Transportation, non-  
 4 volume delivery workload growth, and mail volume increases in FY 2005 and  
 5 decreases in Test Year. Final adjustments reflect a shift in the mail mix toward  
 6 less costly categories. More detailed rural carrier personnel cost level  
 7 assumptions and calculations can be found in Chapter VII of Library Reference  
 8 K-50. Other programs are detailed in Library Reference K-49.

9 **Table 37**  
 10 Significant Changes in Cost  
 11 Rural Carriers  
 12 (\$ 000)

	FY 2005	Test Year After Rates
Cost Level	261,973	177,576
Mail Volume Effect	69,720	(3,284)
Non-Volume Workload Effect	82,003	86,538
Additional Workday Effect	(11,504)	(4,493)
Cost Reductions	(1,415)	(2,195)
Other Programs	29,188	2,745
Workyear mix	(7,716)	(16,038)
Final Adjustments	(5,401)	(13,503)

13 h. Custodial and Maintenance Services (Segment 11)

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

15 Year are:

16 **Table 38**  
 17 Custodial and Maintenance Services Cost  
 18 (\$ 000)

	Amount	% Change
FY 2004	3,006,461	
FY 2005	3,087,067	2.7%
Test Year before rates	3,196,264	3.5%
Test Year after rates	3,180,940	3.0%

19  
 20 Costs of this segment include the personnel costs for  
 21 custodial, operating equipment, and building and plant equipment maintenance.  
 22 Also included are expenses for contract cleaning services. As reflected in Table  
 23 39, the largest impact on Custodial and Maintenance costs is cost level  
 24 increases, and BPI cost reduction savings partially offset by other program  
 25 increases to support automation equipment programs and mail volume changes.  
 26 Custodial and maintenance services costs are also affected by growth in facilities  
 27

1 floor space (non-volume workload). More detailed custodial and maintenance  
 2 personnel cost level assumptions and calculations can be found in Chapter VII of  
 3 Library Reference K-50. Other programs are detailed in Library Reference K-49.

4 **Table 39**  
 5 Significant Changes in Cost  
 6 Custodial and Maintenance Services  
 7 (\$ 000)

	FY 2005	Test Year After Rates
Cost Level	112,261	107,520
Mail Volume Effect	13,852	(10,484)
Non-Volume Workload Effect	6,188	11,254
Additional Workday Effect	(7,472)	(2,819)
Cost Reductions	(61,496)	(37,588)
Other Programs	27,152	37,078
Corporatwide Activities	25	-
Final Adjustments	(9,905)	(20,992)

8  
 9  
 10 i. Motor Vehicle Service (Segment 12)

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

13 **Table 40**  
 14 Motor Vehicle Service Cost  
 15 (\$ 000)

	Amount	% Change
FY 2004	937,346	
FY 2005	991,925	5.8%
Test Year before rates	1,005,698	1.4%
Test Year after rates	1,000,584	0.9%

16  
 17 Costs of this segment include the personnel costs of vehicle  
 18 operating and maintenance personnel and their supervisors, vehicle operating  
 19 supplies, and vehicle hire. As reflected in Table 41, Motor Vehicle Service costs  
 20 are mainly impacted by cost level increases, the mail volume effect, and the non-  
 21 volume workload effect. Cost level increases result from estimated changes in  
 22 salaries and benefits unit costs of motor vehicle service personnel, and the effect  
 23 of forecasted Global Insight indices for supplies and materials and transportation  
 24 services. The reduction in the cost effect in the Test Year results primarily from a  
 25 reduction in the supplies and services costs offsetting increases in personnel  
 26 related costs. More detailed vehicle maintenance personnel cost level  
 27 assumptions and calculations can be found in Chapter VII of Library Reference  
 28 K-50. Other programs are detailed in LR K-49.

**Table 41**  
Significant Changes in Cost  
Motor Vehicle Service  
(\$ 000)

	FY 2005	Test Year After Rates
Cost Level	46,278	8,851
Mail Volume Effect	5,320	(3,316)
Non-Volume Workload Effect	4,451	4,516
Additional Workday Effect	(2,473)	(926)
Cost Reductions	(10)	(466)
Other Programs	1,020	-
Corporatewide Activities	(7)	-

j. Miscellaneous Local Operations (Segment 13)

Costs for this segment for the Base Year through the Test

Year are:

**Table 42**  
Miscellaneous Local Operations  
(\$ 000)

	Amount	% Change
FY 2004	285,914	
FY 2005	300,669	5.2%
Test Year before rates	312,850	4.1%
Test Year after rates	312,788	4.0%

This segment includes the personnel costs for the Mail Equipment Shops, Facilities Services Offices, 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 43, Miscellaneous Local Operations are mainly impacted by cost level increases and non-volume workload effects. Cost level increases result from estimated changes in salaries and benefits unit costs for the Mail Equipment Shops, Facilities Services 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 increases in the number of contract stations offset by a reduction in the number of CAG L post offices. The increase in Corporatewide Activities relates to the personnel costs in the Facilities and Purchasing field units and additional freight for materials and supplies. More detailed Mail Equipment Shops, Facilities Services Offices, and Purchasing Service Centers personnel cost level

1 assumptions and calculations can be found in Chapter VII of Library Reference  
2 K-50. Other programs are detailed in LR K-49.

3 **Table 43**  
4 Significant Changes in Cost  
5 Miscellaneous Local Operations  
6 (\$ 000)

	FY 2005	Test Year After Rates
Cost Level	8,686	8,277
Mail Volume Effect	101	(27)
Non-Volume Workload Effect	524	4,003
Additional Workday Effect	(327)	(133)
Other Programs	4,242	-
Corporatewide Activities	1,529	-

7  
8  
9 k. Contractual Transportation of Mail (Segment 14)  
10 Costs of this segment for the Base Year through the Test  
11 Year are:

12 **Table 44**  
13 Contractual Transportation of Mail  
14 (\$ 000)

	Amount	% Change
FY 2004	4,968,881	
FY 2005	5,249,150	5.6%
Test Year before rates	5,333,835	1.6%
Test Year after rates	5,193,047	-1.1%

15  
16 This segment includes the cost of non-Postal Service  
17 contractual resources used to transport domestic mail within the United States of  
18 America. Also included are the costs of transporting international mail between  
19 the United States and foreign countries, and the impact of fluctuations in  
20 international currency conversion exchange rates. As reflected in Table 45,  
21 Contractual Transportation costs are mainly impacted by cost level changes, mail  
22 volume workload, cost reductions, and other programs. Cost level changes  
23 result from the level of inflation forecasted by Global Insight. The cost level  
24 changes in FY 2005 and the Test Year are due mainly to a forecasted change in  
25 the highway transportation index of 6.25 percent and 3.30 percent, respectively,  
26 and a change in the air transportation index of 3.68 percent in 2005 and 2.31  
27 percent in the Test Year. Cost reductions in FY 2005 are primarily related to the  
28 termination of Amtrak rail service. The cost reductions are offset by an increase  
29 in other programs transportation costs to absorb the mail formerly transported

1 using Amtrak and the removal of prior year adjustments, such as international  
 2 terminal dues adjustments, from the base. In the Test Year the cost reductions  
 3 are related to the Surface Visibility program and the Periodicals cost reduction  
 4 initiative. In FYs 2005 and the Test Year, final adjustments reflect the cost  
 5 impact of mail mix adjustments as calculated by witness Moser (USPS-T-23).

6 **Table 45**  
 7 Significant Changes in Cost  
 8 Contractual Transportation of Mail  
 9 (\$ 000)

	FY 2005	Test Year After Rates
Cost Level	245,235	150,177
Mail Volume Effect	40,051	(138,383)
Additional Workday Effect	(2,555)	(952)
Cost Reductions	(51,525)	(56,125)
Other Programs	51,054	422
Final Adjustments	(1,991)	(13,233)

10  
 11 I. Building Occupancy (Segment 15)  
 12 Costs of this segment for the Base Year through the Test  
 13 Year are:

14 **Table 46**  
 15 Building Occupancy Cost  
 16 (\$ 000)

	Amount	% Change
FY 2004	1,855,314	
FY 2005	1,924,246	3.7%
Test Year before rates	1,968,755	2.3%
Test Year after rates	1,968,755	2.3%

17  
 18 Costs of this segment include the non-capital related non-  
 19 personnel costs of occupying and maintaining Postal Service owned and rented  
 20 facilities. Such costs include rent, heating fuel, building repairs and alterations,  
 21 and utilities such as gas, electricity, water, and voice telephone communications.  
 22 Also included in this segment is the utility cost related to the Emergency  
 23 Preparedness Program (EPP). Reflected in Table 47, Building Occupancy costs  
 24 are mainly impacted by cost level increases, non-volume workload, cost  
 25 reductions and other programs. Cost level increases, primarily in rents and  
 26 utilities, result from estimated changes in general inflation as forecasted by  
 27 Global Insight.. The fuel/oil/coal index shows double digit increases for FY 2005,  
 28 but then a decrease for the Test Year. Non-volume workload results from

1 changes in rented facilities floor space. Cost reduction programs in FY 2005  
 2 result from a reduction in the building projects related to the completion of the  
 3 anthrax decontamination. Much of the other program increase relates to utilities  
 4 usage increases for the EPP. Non-personnel related other programs and cost  
 5 reductions are explained more fully in Library Reference K-49.

6 **Table 47**  
 7 Significant Changes in Cost  
 8 Building Occupancy  
 9 (\$ 000)

	FY 2005	Test Year After Rates
Cost Level	86,456	29,400
Non-Volume Workload Effect	4,859	8,410
Additional Workday Effect	(2,496)	(946)
Cost Reductions	(27,177)	(2,495)
Other Programs	4,555	10,139
Corporatewide Activities	2,736	-

10  
 11 m. Supplies and Services (Segment 16)

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

14 **Table 48**  
 15 Supplies and Services Cost  
 16 (\$ 000)

	Amount	% Change
FY 2004	2,712,774	
FY 2005	3,008,489	10.9%
Test Year before rates	3,098,072	3.0%
Test Year after rates	3,082,800	2.5%

17  
 18 Costs of this segment include the personnel cost of  
 19 employees at the Label Printing Units and Material Distribution Centers. Also  
 20 included are most of the supplies and contractual services utilized by the Postal  
 21 Service, including printing and reproduction and postage stock. Supplies and  
 22 Services included in segments 14 and 18 are identified and are discussed  
 23 therein. As reflected in Table 49, Supplies and Services costs are mainly  
 24 impacted by cost level increases, other programs, cost reductions, the mail  
 25 volume effect, corporatewide activities, and final adjustments. Cost level  
 26 increases result from estimated changes in salaries and benefits unit costs for  
 27 the Label Printing Units and Material Distribution Centers and general inflation on  
 28 supplies and contractual services based on the Global Insight forecast for

1 supplies and materials and paper and paper products. The impact of inflation on  
 2 supplies and services is expected to be significant in FY 2005 and decline in the  
 3 Test Year. Other programs in FY 2005 relate to Headquarters Administered  
 4 Programs and the Emergency Preparedness Program (EPP) supplies and  
 5 services related to bio-detection, offset by a decrease in other Headquarters'  
 6 programs. In FY 2006, other program increases mainly relate to Emergency  
 7 Preparedness Program (EPP) supplies and services related to bio-detection and  
 8 other program growth. FY 2005 Corporatewide Activities increases relate to mail  
 9 transport equipment, advertising, debit/credit card fees, and stamp  
 10 manufacturing. More detailed Label Printing Units and Material Distribution  
 11 Centers personnel cost level assumptions and calculations can be found in  
 12 Chapter VII of Library Reference K-50. Other programs impacting supplies and  
 13 services are explained in greater detail in Library Reference K-49.

14 **Table 49**  
 15 Significant Changes in Cost  
 16 Supplies and Services  
 17 (\$ 000)

	FY 2005	Test Year After Rates
Cost Level	150,646	(23,313)
Mail Volume Effect	14,500	(14,046)
Non-Volume Workload Effect	3,601	4,362
Additional Workday Effect	(2,718)	(1,058)
Cost Reductions	(22,341)	(5,247)
Other Programs	(10,834)	113,612
Corporatewide Activities	162,860	-

18  
 19 n. Research and Development (Segment 17)  
 20 Costs for this segment for the Base Year through the Test  
 21 Year are:

22 **Table 50**  
 23 Research and Development Cost  
 24 (\$ 000)

	Amount	% Change
FY 2004	51,265	
FY 2005	56,991	11.2%
Test Year before rates	56,991	0.0%
Test Year after rates	56,991	0.0%

25  
 26 Costs of this segment include contracts for new and existing  
 27 technology development and applications engineering. Personnel and related  
 28 costs and other indirect costs are included in other cost segments. As reflected

1 in Table 51, other programs and corporatewide activities impact Research and  
 2 Development costs. A narrative description of these programs and the basis for  
 3 the resource requirements is contained in Library Reference K-49.

4 **Table 51**  
 5 Significant Changes in Cost  
 6 Research and Development  
 7 (\$ 000)

	FY 2005	Test Year After Rates
Other Programs	(5,000)	-
Corporatewide Activities	10,726	-

8  
 9  
 10 o. HQ & Area Administration & Corporatewide Personnel Costs  
 11 (Segment 18)

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

14 **Table 52**  
 15 HQ & Area Administration & Corporatewide Personnel Costs  
 16 (\$ 000)

	Amount	% Change
FY 2004	4,507,125	
FY 2005	4,724,146	4.8%
Test Year before rates	8,364,787	77.1%
Test Year after rates	8,364,787	77.1%

17  
 18 The costs of this segment include personnel costs for  
 19 Headquarters and Headquarters related field service units, the money order  
 20 function, Area Administration, and Law Enforcement, and other servicewide  
 21 costs, including the Public Law 108-18 escrow cost, servicewide personnel-  
 22 related costs of annual leave repricing, workers' compensation, unemployment  
 23 compensation, retiree health benefits, and the Civil Service Retirement System  
 24 supplemental liability costs. Remaining costs are supplies and services related  
 25 to Headquarters activities and miscellaneous support costs.

26 Inclusion of Public Law 108-18 escrow costs, as described in  
 27 Chapter III, result in an increase of \$3,081 million in servicewide cost during the  
 28 Test Year. The escrow expense, combined with increases in USPS workers'  
 29 compensation expense increase of \$284 million, retiree health benefits, and  
 30 depreciation represent most of the servicewide cost increases during the Test  
 31 Year. The cost level increases result from estimated changes in salaries and

1 benefits unit costs for Headquarters and Headquarters related field service units,  
2 the money order function, Area Administration, and Law Enforcement. Partially  
3 offsetting these cost increases are the cost reductions of approximately \$11  
4 million in FY 2006 related to the Human Capital Enterprise and Human Services  
5 Shared Services initiatives and cost reductions of \$65 million in FY 2005 related  
6 to EPP non-personnel contract costs for decontamination.

7                   The Postal Service is projecting an expense of \$1,100 million  
8 for workers' compensation in FY 2005 and \$1,384 million for the Test Year.  
9 Comparable expenses for FY 2004 were \$1,230 million. These amounts exclude  
10 all costs attributable to Post Office Department employees injured prior to the  
11 establishment of the Postal Service on July 1, 1971.

12                   An important component of the workers' compensation  
13 liability and expense estimation is the net discount factor used to determine the  
14 present value of estimated future payments. From FY 1999 until FY 2003, the  
15 Postal Service used net discount factors of 1.4% for medical claims and 3.0% for  
16 compensation claims. In FY 2004, the Postal Service reviewed and adjusted the  
17 discount factors. The net discount rate factors used for FY 2004 through the  
18 Test Year are -0.8 percent for the medical claims and 3.3 percent for the  
19 compensation claims. In the opinion of postal management, the revised discount  
20 rates used for medical and compensation claims represent a reasonable  
21 difference between (a) medical and societal inflation and (b) the rates of return  
22 on government debt instruments of terms comparable to the approximate likely  
23 lives of medical and compensation claims. It is our opinion that the factors  
24 currently used accurately reflect the value of the two individual liability  
25 components and the value of the workers' compensation liability as a whole.  
26 Summaries of workers' compensation liability and expense calculation and the  
27 discount rate analyses for medical and compensation claims can be found at  
28 Chapter V of Library Reference K-51.

29                   With the exception of workers' compensation costs and the Public  
30 Law 108-18 escrow cost, the derivations of corporatewide personnel costs are  
31 explained in Chapter VI of Library Reference K-50. The Public Law 108-18 costs  
32 were calculated by the Office of Personnel Management.

**Table 53**  
 Significant Changes in Cost  
 HQ & Area Administration & Corporatewide Personnel Costs  
 (\$ 000)

	FY 2005	Test Year After Rates
Cost Level	72,110	56,209
Non-Volume Workload Effect	289	526
Additional Workday Effect	(4,956)	(1,846)
Cost Reductions	(64,604)	(10,845)
Other Programs	64,307	-
Corporatewide Activities	(37,514)	34,929
Service-wide Costs	187,389	3,561,668

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

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

**Table 54**  
 Equipment Maintenance & Management Training Support  
 (\$ 000)

	FY 2005	Test Year After Rates
	Amount	% Change
FY 2004	49,212	
FY 2005	62,728	27.5%
Test Year before rates	63,843	1.8%
Test Year after rates	63,843	1.8%

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 55, Equipment Maintenance & Management Training Support costs are mainly impacted by other programs and cost level increases. Other program changes relate primarily to increases in training contracts, supplies and services. 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 Global Insight forecast for the consumer price index.

**Table 55**  
Significant Changes in Cost  
Equipment Maintenance & Management Training Support  
(\$ 000)

	FY 2005	Test Year After Rates
Cost Level	1,392	1,140
Additional Workday Effect	(18)	(6)
Cost Reductions	(21)	(20)
Other Programs	12,518	-
Corporatewide Activities	(354)	-

q. Depreciation, Write-Offs, Claims, and Interest (Segment 20)  
Costs of this segment for the Base Year through the Test

Year are:

**Table 56**  
Depreciation, Write-Offs, Claims, and Interest  
(\$ 000)

	FY 2005 Amount	Test Year After Rates % Change
FY 2004	2,522,156	
FY 2005	2,596,416	2.9%
Test Year before rates	2,737,522	5.4%
Test Year after rates	2,712,673	4.5%

In addition to depreciation on equipment and buildings, this segment includes the costs of domestic and foreign mail indemnities, insurance and tort claims, uncollectible receivables and other write-offs, and interest expense.

As reflected in Table 57, Depreciation, Write-Offs, Claims, and Interest costs are impacted by Servicewide cost changes in FY 2005 consisting mainly of estimated changes in depreciation and interest on retirement liabilities offset by a reduction in other expenses. In Test Year, cost increases are primarily due to increases in equipment and building depreciation. Also included are depreciation increases for EPP related equipment which is offset by appropriated revenue. The before rates increase of 5.4% is higher than the after rates increase of 4.5% due to the greater amount of borrowing that would be required, if rates are not increased. Cost level increases result from estimated changes in general inflation on indemnities and claims and losses based on the Global Insight forecast for the consumer price index. Detailed explanations of

1 how these costs were estimated can be found in Chapters V and VI of Library  
 2 Reference K-50.

3  
 4  
 5  
 6  
 7

**Table 57**  
 Significant Changes in Other Accrued Expenses

(\$ 000)

	FY 2005	Test Year After Rates
Cost Level	3,585	2,106
Mail Volume Effect	(3,984)	(3,326)
Cost Reductions	(5,750)	-
Other Programs	1,614	-
Corporatewide Activities	6,512	-
Service-wide Costs	72,283	117,476

V. REVENUES BEFORE AND AFTER RATES (Exhibit – 6A)

The three sources of postal revenues are operating revenue, appropriations, and interest income. Table 58 provides total revenues, actual and estimated through the Test Year:

**Table 58**  
Total Revenues  
(\$ 000)

FY 2004	69,028,592
FY 2005	70,111,052
Test Year before rates	70,195,210
Test Year after rates	72,723,174

A. Mail and Special Services Revenues<sup>19</sup> (Exhibit USPS-6D)

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 witness Taufique (USPS-T-28) and summarized in the testimony of witness Robinson (USPS-T-27).

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

**Table 59**  
Mail and Special Services Revenue  
(\$ 000)

FY 2004	68,282,879
FY 2005	69,416,498
Test Year before rates	69,445,440
Test Year after rates	71,967,198

B. Appropriations<sup>20</sup>

1. Revenue Forgone Appropriations

Prior to FY 1983, the Postal Service received annual appropriations for public service costs. However, since FY 1982, appropriation revenue has been for revenue forgone only. Revenue forgone results from providing free mail for the blind, the handicapped, and for absentee overseas voters.

<sup>19</sup> Volumes by class of mail and the attendant revenues for FYs 2004, 2005 and the Test Year before and after rates are shown in my Exhibits 6C and 6D. The development of volume estimates is included in the testimonies and workpapers of witnesses Thress, and Bernstein (USPS-T-7&8). After rates volume adjustments that result from market research or special studies are explained in the testimony of the appropriate pricing witness.

<sup>20</sup> My Exhibit 6E shows the components of appropriation revenue for the relevant years.

1           The revenue forgone appropriation included in this filing consists of  
2 two components. The first represents the estimated cost of providing free mail  
3 for the blind and visually handicapped and for overseas voting. As reflected in  
4 my Exhibit 6E, this amounts to \$79.935 million for the Test Year. The second  
5 component is a reconciliation adjustment of \$28.583 million relating to FY 2003  
6 to reconcile the appropriation received to the amount actually due based on the  
7 final audited mail volume. The FY 2004 and 2005 appropriation revenue in my  
8 Exhibit 6E also includes a third component of \$(.204) million and \$(.292) million  
9 respectively. These amounts relate to Federal Budget recisions that occurred or  
10 will occur in those years.

11           During FYs 1991-1993, the amounts appropriated were not  
12 sufficient to fund the services provided by the Postal Service. The Revenue  
13 Forgone Reform Act of 1993 authorized the appropriation of \$1.218 billion in 42  
14 annual \$29 million payments through FY 2035, to reimburse the Postal Service  
15 for earned but unpaid revenue forgone for FYs 1991–1993, and for a portion of  
16 the estimated revenue forgone during the period FYs 1994–1998. During FYs  
17 1994–1998, the revenue forgone appropriation for all previously subsidized  
18 categories of mail except free mail for the blind and absentee overseas voters  
19 was gradually phased out and reduced rates were gradually increased until half  
20 of the amount necessary to provide full funding was provided by the rates  
21 charged to those users. The remaining one-half of the shortfall is passed on to  
22 all mail users through higher rates that result from the rate-making process.

23           In recognition of the 42-year extended payment cycle of the  
24 Revenue Forgone Reform Act of 1993, on September 30, 1993, the Postal  
25 Service recorded as a receivable the present value of earned and unpaid  
26 revenue forgone appropriations for FY 1991–1993. During FY 1994–1998  
27 additional amounts were added to this receivable to recognize earned but unpaid  
28 revenue as the higher rates were phased-in for certain categories of subsidized  
29 mail. As each of the annual \$29 million appropriation payments is received, a  
30 portion is recorded as imputed interest income (because the account receivable  
31 was recorded at a present value discounted at 7 percent) and the remainder is  
32 recorded as a partial collection of the account receivable.

1 Additional details regarding the calculation of these amounts can be  
2 found in Chapters Xb and Xc of LR K-50.

## 3 4 2. Emergency Preparedness Appropriations

5 In FY 2002, the United States was subjected to biological terrorism,  
6 utilizing the mail as the delivery medium. In response, process changes and  
7 technology applications were implemented to reduce the risk to both our  
8 employees and our customers. The President of the United States and  
9 Congress authorized funding of \$762 million in FY2002 to assist in paying for  
10 some of these safety measures, and to replace or repair postal facilities in New  
11 York City damaged or destroyed as a result of the terrorist attacks on September  
12 11, 2001. Congress appropriated an additional \$503 million in FY2005 for the  
13 protection of postal employees and postal customers from exposure to  
14 hazardous materials in the mail.

15 In 2002 and 2003, the majority of our emergency preparedness  
16 expenses were for one-time activities, such as plant decontamination. The Postal  
17 Service recognized these expenses as non-operating expenses and the  
18 corresponding appropriation revenue offset as non-operating revenue.

19 But due to the ongoing nature of the remaining expenses, such as  
20 depreciation, supplies, and maintenance, beginning in 2004 all emergency  
21 preparedness items are treated as operating expenses and the associated  
22 appropriation revenue as operating revenue. The Postal Service recognizes  
23 these appropriations as revenue in the year in which the related expenditure is  
24 recognized as an expense, or when the government approves the  
25 reimbursement of a previously incurred expense.

26 Emergency Preparedness appropriations also are included on  
27 Exhibit 6E. During FY 2004 \$92 million of emergency preparedness  
28 appropriations were recognized as operating revenue. In FY 2005 and the Test  
29 Year, Emergency Preparedness appropriations to be recognized as operating  
30 revenue are estimated at \$58 million and \$114 million, respectively. These  
31 appropriation amounts reimburse the Postal Service for depreciation of  
32 equipment purchased primarily for the Biohazard Detection System (BDS) and

1 the Ventilation and Filtration System (VFS) for Mail Processing Equipment  
2 (Library Reference K-49 Section 1A).

3 Not all emergency preparedness expenditures are covered by  
4 these appropriations. Ongoing operating expenses, including items such as BDS  
5 consumables and equipment maintenance, are categorized as Other Programs  
6 (Library Reference K-49, Section 2A).

7 The following table shows revenue forgone appropriation and EPP  
8 revenue through the Test Year:

9 **Table 60**  
10 Appropriation Revenue  
11 (\$ 000)

	<b>Revenue Forgone</b>	<b>EPP</b>	<b>Total</b>
FY 2004	36,317	91,694	128,011
FY 2005	61,417	58,183	119,600
Test Year before rates	108,518	114,319	222,837
Test Year after rates	108,518	114,319	222,837

12  
13  
14 **C. Interest Income (Exhibit USPS-6G)**

15 Interest income has two components: investment income and  
16 imputed interest. Investment income earned by the Postal Service in any period  
17 depends upon prevailing short-term interest rates and the amount of cash  
18 invested. Imputed interest results from the calculation at 7 percent interest of the  
19 present value of future payments related to the Revenue Forgone Act of 1993.  
20 The calculation of these amounts is discussed above under appropriations and  
21 explained in detail in Chapter Xc of Library Reference K-50.

22  
23 The following table shows interest income for FY 2004 through the Test  
24 Year:

25 **Table 61**  
26 Interest Income <sup>21</sup>  
27 (\$ 000)

Period	Investment Income	Imputed Interest	Total Interest Income
FY 2004	6,911	25,673	32,584
FY 2005	28,373	25,400	53,773
Test Year before rates	5,796	25,200	30,996
Test Year after rates	12,520	25,200	37,720

<sup>21</sup> Estimated cash flows for FY 2004, FY 2005 and the Test Year before and after rates, along with projected investment income, are shown in my Exhibits 6F and 6G.

## 1 VI. TEST YEAR REVENUE DEFICIENCY

2 The Postal Service's total revenue deficiency in the Test Year at present  
 3 rates would be approximately \$3.0 billion. Changes in postal rates and fees  
 4 proposed in this filing will eliminate the deficiency as illustrated below:

5  
6  
7

**Table 62**  
 Test Year Revenue Deficiency <sup>22</sup>  
 (\$ 000)

<b>Present Rates</b>	<b>Test Year</b>
Total Revenue Requirement <sup>23</sup>	73,237,070
Less: Total Revenue <sup>24</sup>	70,195,210
Total Revenue Deficiency	3,041,860
<b>Proposed Rates</b>	
Increase in Revenue	2,527,964
Decrease in Revenue Requirement	625,919
Change in Revenue Deficiency	3,153,883
Revenue Surplus (Deficiency)	112,023

8  
9

10 Since the planned implementation of new rates will not occur before  
 11 January 2006, actual FY 2006 income is expected to be at least \$800 million less  
 than FY 2006, After Rates projections.

12 The financial impact of present and proposed rates in the Test Year, as  
 13 represented in the equity section of the balance sheet, is demonstrated in Table  
 14 63.

15  
16  
17

**Table 63**  
 Analysis of Changes in Equity  
 (\$ 000)

	FY 2004	FY 2005	Test Year Before Rates	Test Year After Rates
Beginning Balance	866,278	3,961,183	5,574,636	5,574,636
Net Income/(Loss)	3,064,905	1,643,453	(3,041,860)	112,023
Ending Balance	3,931,183	5,574,636	2,532,776	5,686,659

<sup>22</sup> An analysis of changes in income and expenses comparing before and after rates is included in my Exhibit 6H.

<sup>23</sup> From Table 22, 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>24</sup> From Table 58, revenues for the Test Year at present rates.

**USPS-T-6  
APPENDIX A**

**POSTAL SERVICE PROPOSAL  
MILITARY SERVICE PAYMENTS REQUIREMENTS  
PUBLIC LAW 108-18**

**POSTAL SERVICE PROPOSAL  
MILITARY SERVICE PAYMENTS REQUIREMENTS  
P. L. 108-18**

P. L. 108-18, the Postal Civil Service Retirement System Funding Reform Act (the Act) recognized that postal ratepayers would over-fund Postal Service Civil Service Retirement System (CSRS) pension obligations and was enacted to avert such over-funding. The Act also transferred from the United States Treasury to the Postal Service the responsibility for funding the costs of CSRS benefits that current and former Postal Service employees have earned through military service. Over 90% of the cost of military service, now charged to the Postal Service under the Act, was earned before the creation of the Postal Service on July 1, 1971. In fact, the majority of this service was performed in World War II, The Korean War and the Viet Nam War.

In relieving the Treasury of its historic responsibility for these costs of military service, the Act has created a direct cost transfer of \$27 billion from U.S. taxpayers to Postal ratepayers. Of this amount, \$17 billion is wholly retroactive, relating to funding between the years 1971 and 2002 by the United States Treasury in accordance with section 8348(g)(2) of Title 5, United States Code. No agency other than the Postal Service is responsible for these CSRS costs that Treasury continues to pay for all other federal employees. Neither is any private sector company responsible for these costs.

Because this change departs from fundamental public policy, P. L. 108-18 provides an opportunity to reconsider funding responsibility of these costs. The United States Postal Service, the Department of the Treasury, and the Office of Personnel Management are each to submit proposals “detailing whether and to what extent the Department of the Treasury or the Postal Service should be responsible for the funding of benefits attributable to the military service of current and former employees of the Postal Service.”

P. L. 108-18 evolved from the Comptroller General's request that the Office of Personnel Management (OPM) reexamine Postal Service CSRS funding. OPM determined that, without change, the Postal Service would over fund its CSRS obligations by \$78 billion. As a correction, OPM proposed that the Postal Service fund CSRS on a dynamic rather than a static basis. OPM included the cost of retirement benefits earned through military service in the dynamic funding rate assessed to the Postal Service. GAO, in its January 31, 2003 report to Congress, stated that this was a departure from current law under which the Department of the Treasury is responsible for funding these military service costs. GAO revealed that this change amounted to a \$27 billion cost transfer from Treasury to the Postal Service. Without this cost transfer, USPS over-funding of CSRS would exceed \$105 billion.

The Postal Service recommends that the responsibility for funding CSRS benefits of military service be returned to the U.S. Treasury. This proposal is consistent with the treatment of military service costs specified in Civil Service law and still accorded to all other federal agencies and all private sector companies. Charging the CSRS cost of military service to the Postal Service is not justified because the majority of this cost relates to military service performed before the creation of the Postal Service; the military service had no connection with Postal Service functions or operations; and because doing so creates an unmerited disparate impact on the Postal Service under CSRS.

Returning the obligation for payment of military service costs to the Treasury results in the Postal Service having not only fully funded its CSRS obligations as of the end of FY 2002; but over-funding these obligations by \$10 billion. The Postal Service proposes that the \$10 billion in over-funding remain in the Civil Service Retirement and Disability Fund in a separate account designated as the "Postal Service Retiree Health Benefit Fund." With this change, the Postal Service would be in a financial position to pre-fund retiree health benefits for its employees and retirees, a cost that is directly related to the operations of the Postal Service. The Postal Service has incorporated this recommendation in its proposal, also filed today as required by P. L. 108-18, detailing the use of "savings" to be achieved under the Act for years after FY 2005.

**THE POSTAL SERVICE BELIEVES THAT THE FUNDING OF THESE COSTS SHOULD BE MAINTAINED BY THE UNITED STATES TREASURY FOR THE FOLLOWING REASONS:**

Military service and federal civilian service are separate and distinct.

Each of the federal employment services, military and civilian, has separate compensation, retirement and benefits programs. Qualified federal employees may elect to have the term of

their military service credited in the calculation of CSRS retirement benefits they earn through civilian service. The federal agency employer has no role in this election and the qualified employee and the Treasury pay the cost associated with it.

Funding the costs of military service is the historic responsibility of the Treasury.

In 1969, P. L. 91-93 established a mechanism for the Treasury to make annual payments to the Civil Service Retirement and Disability Fund (CSRDF) to pay for CSRS military service costs. That same legislation required that the Treasury bear the funding responsibility for the CSRS unfunded liability resulting from increases in pay. In 1973, P. L. 93-349 made the Postal Service liable for any increases in the CSRS unfunded liability resulting from increases in Postal Service employee pay based on the same provisions as contained in P. L. 91-93. While making the Postal Service responsible for costs attributable to its decisions and actions, the 1973 law still maintained the responsibility of the Treasury to pay the costs of CSRS military service as they do now for all other federal agencies.

The Act creates a retroactive cost transfer for CSRS military service credit earned prior to the creation of the Postal Service and unrelated to its operations.

In considering the merits of who should bear responsibility for military service costs, it must be understood that approximately 90% of CSRS military service costs for postal employees and retirees earned by military service was completed before the establishment of the Postal Service in July, 1971. As the CSRS was closed to new enrollment in 1983, all Postal Service employees covered by CSRS had to begin their civilian service before January 1, 1984, and most would have completed their military service before 1971. By charging the cost of their military service to the Postal Service, P. L. 108-18 assigns it the liability for military service performed before the USPS was founded. Further, the Treasury has already paid the great majority of these costs on an annual basis since 1969. Clearly, charging the Postal Service for these past obligations and payments of the U.S. Treasury is a retroactive cost transfer of \$27 billion to postal ratepayers. The military service itself had no relation to Postal Service operations, on which postal rates are based. In fact, that military service had no relation to the operations of the former Post Office Department.

Crediting the Postal Service with actual interest earned does not justify the transfer of military service costs.

GAO found in its report that shifting the cost of military service to the Postal Service had been proposed on the basis of a belief that this was “appropriate because under [the] proposal the ‘Postal Fund’ would be credited with a proportional share of the excess investment returns earned by the CSRDF over the past 30 years.” Neither in accepted actuarial nor accepted financial

practice can we find a substantiating basis for this rationale. Under previous law, the Postal Service was charged for the full cost of CSRS benefits resulting from Postal Service pay increases and retiree COLAs. Accordingly, it should receive the full benefit of actual investment returns on its funding of those costs. No price should be imposed and no penalty exacted from the Postal Service because it is to be credited with earnings of its own funds.

There is no identity between FERS funding and CSRS funding.

FERS was created on a dynamically funded basis to phase out CSRS and to establish a more limited federal employment benefits program that would be funded fully by the employee and the employing agency. CSRS was left standing whole and intact as a fully functioning retirement program on which both employees and employers depend. It is a totally different program from FERS, with different benefits and different levels of contribution. In fact, CSRS was never fully funded by employers and employees, with the exception of the U. S. Postal Service.

Under FERS, all federal agencies are treated consistently and years of service are compensated at a maximum of 1% compared to the 2% maximum rate of CSRS. Moreover, upon creation of FERS, military costs were applied to new employees only. No retroactive assessments were charged and all agencies were treated equally. Finally, it is by statute that FERS is funded on a dynamic basis and it is by statute that, under FERS, military service costs are included in the dynamic normal cost assumptions. There is no statute or regulation that requires CSRS to be funded on a dynamic basis and, under CSRS, the statute requires that the U.S. Treasury pay the cost associated with military service.

No self-supporting federal agencies other than the Postal Service fully fund the costs of Civil Service retirement.

Like the Postal Service, some other federal agencies and government corporations are self supporting, earning revenues from fees charged for services performed. However, the Postal Service is alone when it comes to funding the full costs of its obligations under the Civil Service Retirement System. All other self-supporting federal entities, as well as all appropriated agencies, contribute the CSRS static normal cost of 7 percent on the pay of their covered CSRS employees. No other agency, however, is charged additional funds required to fund the increase in pension costs resulting from employees' pay increases and retirees' COLAs. The U.S. Treasury fully funds other agencies' CSRS pension costs relating to pay increases, and also pays 5 percent interest on the increase in the CSRS unfunded liability resulting from COLA increases. Only the Postal Service has been accountable for fully funding these costs for its employees and retirees, and only the Postal Service is now charged with funding the CSRS military service retirement cost of its employees and retirees.

The President's Commission on the United States Postal Service recommended that "taxpayers, not ratepayers, should finance costs associated with military service."

The July 31, 2003 report of the President's Commission on the United States Postal Service stated that "no other Federal agency is required to pay such costs for its retirees under CSRS" and concluded that "it is inappropriate to require the Postal Service, as a self-financing entity that is charged with operating as a business, to fund costs" unrelated to its operations. Further, the Commission stated that the Act "asks those who use the nation's postal system to subsidize the U.S. military every time they use the mail. The Commission recommends repeal of this requirement."

### **PROPOSAL OF THE UNITED STATES POSTAL SERVICE**

The Postal Service proposes to the President, the Congress and the General Accounting Office that the military payments requirements of P. L. 108-18 be amended, that the obligation for payments of military service retirement benefits credited to Postal Service employees be returned to the United States Treasury, and that the \$27 billion costs of these payments be returned to the credit of the Postal Service, to remain in the CSRDF in a separate sub-fund for Postal Service pre-funding of retiree health care benefits, as detailed in the separate required Postal Service proposal for utilization of savings under the Act.

The Postal Service believes this proposal is in the public interest. It will help stabilize postal rates, use funds already paid by the Postal Service for the general purpose for which they were intended and collected from postal ratepayers, maintain these funds in the CSRDF for the benefit of all CSRS and FERS employees and retirees, and address the concerns surfaced by the GAO and reflected in the Sense of Congress statements enacted in P. L. 108-18. This proposal is consistent with the intent and practice of historic Civil Service law and regulation and with the requirements of Title 39.

In returning to Treasury its historic responsibility for payment of CSRS military service benefits, this proposal honors the service of military veterans as Congress intended.

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

**USPS 6A**

LINE NUMBER		FY 2004 ACTUAL	FY 2005 ESTIMATE	TEST YEAR B/R	TEST YEAR A/R
	<b>REVENUES</b>				
1	OPERATING REVENUE	68,868.0	69,937.7	69,941.4	72,462.6
2	APPROPRIATIONS	128.0	119.6	222.8	222.8
3	INTEREST & INVESTMENT INCOME	32.6	53.8	31.0	37.7
4	<b>TOTAL REVENUES</b>	<b>69,028.6</b>	<b>70,111.1</b>	<b>70,195.2</b>	<b>72,723.2</b>
	<b>OPERATING EXPENSES</b>				
5	POSTMASTERS	2,035.5	2,175.8	2,317.2	2,310.4
6	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	3,883.3	4,080.7	4,275.7	4,242.6
7	CLERKS & MAILHANDERS	18,371.1	18,500.4	18,232.1	18,002.3
8	CLERKS, CAG K POST OFFICES	6.4	6.8	7.0	7.0
9	CITY DELIVERY CARRIERS	15,033.2	15,535.5	15,818.2	15,700.6
10	VEHICLE SERVICE DRIVERS	584.6	608.8	628.7	623.6
11	SPECIAL DELIVERY MESSENGERS	0.0	0.0	0.0	0.0
12	RURAL CARRIERS	5,153.1	5,570.0	5,849.1	5,810.4
13	CUSTODIAL & MAINTENANCE SERVICES	3,006.5	3,087.1	3,196.3	3,180.9
14	MOTOR VEHICLE SERVICES	937.3	991.9	1,005.7	1,000.6
15	MISCELLANEOUS LOCAL OPERATIONS	285.9	300.7	312.9	312.8
16	CONTRACTURAL TRANSPORTATION OF MAIL	4,968.9	5,249.2	5,333.8	5,193.0
17	BUILDING OCCUPANCY	1,855.3	1,924.2	1,968.8	1,968.8
18	RESEARCH & DEVELOPMENT	51.3	57.0	57.0	57.0
19	EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	49.2	62.7	63.8	63.8
20	SUPPLIES & SERVICES	2,712.8	3,008.5	3,098.1	3,082.8
21	HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	4,507.1	4,724.1	8,364.8	8,364.8
22	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	2,522.2	2,596.4	2,737.5	2,712.7
23	SUBTOTAL SEGMENTS 16,18, AND 20	9,742.1	10,329.1	14,200.4	14,160.3
24	FINAL ADJUSTMENTS (not allocated to cost segment)		(12.1)	(29.5)	(22.9)
25	<b>TOTAL ACCRUED COSTS</b>	<b>65,963.7</b>	<b>68,467.6</b>	<b>73,237.1</b>	<b>72,611.2</b>
	NET INCOME (LOSS)	3,064.9	1,643.5	(3,041.9)	112.0
26	CONTINGENCY			0.0	0.0
	NET INCOME (LOSS) WITH CONTINGENCY			(3,041.9)	112.0
27	RECOVERY OF PRIOR YEAR LOSSES			0.0	0.0
28	<b>TOTAL REVENUE REQUIREMENT</b>			<b>73,237.1</b>	<b>72,611.2</b>
30	NET SURPLUS (DEFICIENCY)			<b>(3,041.9)</b>	<b>112.0</b>

NOTE: NUMBERS MAY NOT ADD DUE TO ROUNDING

**R2005-1 USPS version - FY2005  
 Cost Segment Summary Table  
 Total Costs \$(000)**

C/S	Cost Segment	Comp	BY2004	Cost Level Change	Mail Volume Change	Non-Volume Workload	Additional Workday	Cost Reductions	Other Programs	Corporatewide Activities	Servicewide Costs	FY2005 Before Workyear Mix Adj.	Workyear Mix Adjustment	FY2005 After Workyear Mix Adj.
1	Postmasters	251	2,035,510	142,820	6,949	-3,557	-5,920	0	0	0	0	2,175,801	0	2,175,801
2	Supervisors & Technicians	252	3,883,274	229,459	34,307	5,622	-7,438	-50,981	0	0	0	4,094,243	0	4,094,243
3	Clerks and Mailhandlers	253	18,371,120	631,746	211,989	1,971	-16,318	-722,834	67,810	0	0	18,545,484	61,098	18,606,582
4	Clerks, CAG K Post Offices	254	6,414	281	81	0	-7	0	0	0	0	6,768	0	6,768
6	City Delivery Carriers, Office	256	4,694,946	183,629	93,345	1,410	-2,928	-92,243	0	0	0	4,878,158	7,519	4,885,678
7	City Delivery Carriers, Street	257	10,338,254	404,350	84,717	36,804	-23,264	-175,955	0	0	0	10,664,907	16,439	10,681,346
8	Vehicle Service Drivers	258	584,602	19,780	5,793	0	-815	0	72	0	0	609,432	0	609,432
10	Rural Carriers	260	5,153,115	261,973	69,720	82,003	-11,504	-1,415	29,188	0	0	5,583,081	-7,716	5,575,365
11	Custodial and Maint Svcs	261	3,006,461	112,261	13,852	6,188	-7,472	-61,496	27,152	25	0	3,096,972	0	3,096,972
12	Motor Vehicle Service	262	937,346	46,278	5,320	4,451	-2,473	-10	1,020	-7	0	991,925	0	991,925
13	Misc Local Operations	263	285,914	8,686	101	524	-327	0	4,242	1,529	0	300,669	0	300,669
14	Transportation	264	4,968,881	245,235	40,051	0	-2,555	-51,525	51,054	0	0	5,251,141	0	5,251,141
15	Building Occupancy	265	1,855,314	86,456	0	4,859	-2,496	-27,177	4,555	2,736	0	1,924,246	0	1,924,246
16	Supplies and Services	266	2,712,774	150,646	14,500	3,601	-2,718	-22,341	-10,834	162,860	0	3,008,489	0	3,008,489
17	Research and Development	267	51,265	0	0	0	0	0	-5,000	10,726	0	56,991	0	56,991
18	Admin and Area Operations	268	4,507,125	72,110	0	289	-4,956	-64,604	64,307	-37,514	187,389	4,724,146	0	4,724,146
19	General Mgmt Systems	269	49,212	1,392	0	0	-18	-21	12,518	-354	0	62,728	0	62,728
20	Other Accrued Expenses	270	2,522,156	3,585	-3,984	0	0	-5,750	1,614	6,512	72,283	2,596,416	0	2,596,416
	<b>Total All C/S</b>		<b>65,963,683</b>	<b>2,600,684</b>	<b>576,741</b>	<b>144,164</b>	<b>-91,209</b>	<b>-1,276,350</b>	<b>247,698</b>	<b>146,513</b>	<b>259,672</b>	<b>68,571,597</b>	<b>77,340</b>	<b>68,648,937</b>

**R2005-1 USPS version - FY2006BR**  
**Cost Segment Summary Table**  
**Total Costs \$(000)**

C/S	Cost Segment	Comp	FY2005 Before Workyear Mix Adj	Cost Level Change	Mail Volume Change	Non-Volume Workload	Additional Workday	Cost Reductions	Other Programs	Corporatewi de Activities	Servicewide Costs	FY2006BR Before Workyear Mix Adj.	Workyear Mix Adjustment	FY2006BR After Workyear Mix Adj.
1	Postmasters	251	2,175,801	148,949	683	-5,910	-2,323	0	0	0	0	2,317,200	0	2,317,200
2	Supervisors & Technicians	252	4,094,243	238,649	6,611	5,964	-2,877	-43,366	0	0	0	4,299,224	0	4,299,224
3	Clerks and Mailhandlers	253	18,545,484	569,421	17,997	2,084	-6,026	-932,610	73,605	0	0	18,269,953	153,634	18,423,587
4	Clerks, CAG K Post Offices	254	6,768	276	-4	0	-3	0	0	0	0	7,037	0	7,037
6	City Delivery Carriers, Office	256	4,878,158	141,471	32,382	1,423	-1,091	-78,225	0	0	0	4,974,119	7,754	4,981,872
7	City Delivery Carriers, Street	257	10,664,907	309,293	25,744	37,145	-8,719	-163,756	0	0	0	10,864,614	16,935	10,881,550
8	Vehicle Service Drivers	258	609,432	18,918	1,796	0	-310	0	0	0	0	629,837	0	629,837
10	Rural Carriers	260	5,583,081	177,576	34,537	86,538	-4,493	-2,195	2,745	0	0	5,877,789	-16,038	5,861,751
11	Custodial and Maint Srvcs	261	3,096,972	107,520	1,528	11,254	-2,819	-37,588	37,078	0	0	3,213,944	0	3,213,944
12	Motor Vehicle Service	262	991,925	8,851	1,798	4,516	-926	-466	0	0	0	1,005,698	0	1,005,698
13	Misc Local Operations	263	300,669	8,277	35	4,003	-133	0	0	0	0	312,850	0	312,850
14	Transportation	264	5,251,141	150,177	-15,684	0	-952	-56,125	422	0	0	5,328,979	0	5,328,979
15	Building Occupancy	265	1,924,246	29,400	0	8,410	-946	-2,495	10,139	0	0	1,968,755	0	1,968,755
16	Supplies and Services	266	3,008,489	-23,313	1,227	4,362	-1,058	-5,247	113,612	0	0	3,098,072	0	3,098,072
17	Research and Development	267	56,991	0	0	0	0	0	0	0	0	56,991	0	56,991
18	Admin and Area Operations	268	4,724,146	56,209	0	526	-1,846	-10,845	0	34,929	3,561,668	8,364,787	0	8,364,787
19	General Mgmt Systems	269	62,728	1,140	0	0	-6	-20	0	0	0	63,843	0	63,843
20	Other Accrued Expenses	270	2,596,416	2,106	-2,907	0	0	0	0	0	141,906	2,737,522	0	2,737,522
	Total All C/S		68,571,597	1,944,921	105,743	160,315	-34,528	-1,332,938	237,602	34,929	3,703,574	73,391,215	162,285	73,553,500

**R2005-1 USPS version - FY2006AR**  
**Cost Segment Summary Table**  
**Total Costs \$(000)**

C/S	Cost Segment	Comp	FY2005 Before Workyear Mix Adj	Cost Level Change	Mail Volume Change	Non-Volume Workload	Additional Workday	Cost Reductions	Other Programs	Corporatewi de Activities	Servicewide Costs	FY2006AR Before Workyear Mix Adj.	Workyear Mix Adjustment	FY2006AR After Workyear Mix Adj.
1	Postmasters	251	2,175,801	148,949	-6,136	-5,892	-2,323	0	0	0	0	2,310,398	0	2,310,398
2	Supervisors & Technicians	252	4,094,243	238,649	-22,900	5,964	-2,877	-43,366	0	0	0	4,269,713	0	4,269,713
3	Clerks and Mailhandlers	253	18,545,484	569,421	-192,787	2,084	-6,026	-932,610	73,605	0	0	18,059,169	170,034	18,229,203
4	Clerks, CAG K Post Offices	254	6,768	276	-66	0	-3	0	0	0	0	6,975	0	6,975
6	City Delivery Carriers, Office	256	4,878,158	141,471	-19,646	1,423	-1,091	-77,978	0	0	0	4,922,338	7,676	4,930,014
7	City Delivery Carriers, Street	257	10,664,907	309,293	-35,290	37,145	-8,719	-164,003	0	0	0	10,803,333	16,848	10,820,181
8	Vehicle Service Drivers	258	609,432	18,918	-8,032	0	-310	0	0	0	0	620,009	0	620,009
10	Rural Carriers	260	5,583,081	177,576	-3,284	86,538	-4,493	-2,195	2,745	0	0	5,839,968	-16,038	5,823,930
11	Custodial and Maint Srvcs	261	3,096,972	107,520	-10,484	11,254	-2,819	-37,588	37,078	0	0	3,201,932	0	3,201,932
12	Motor Vehicle Service	262	991,925	8,851	-3,316	4,516	-926	-466	0	0	0	1,000,584	0	1,000,584
13	Misc Local Operations	263	300,669	8,277	-27	4,003	-133	0	0	0	0	312,788	0	312,788
14	Transportation	264	5,251,141	150,177	-138,383	0	-952	-56,125	422	0	0	5,206,280	0	5,206,280
15	Building Occupancy	265	1,924,246	29,400	0	8,410	-946	-2,495	10,139	0	0	1,968,755	0	1,968,755
16	Supplies and Services	266	3,008,489	-23,313	-14,046	4,362	-1,058	-5,247	113,612	0	0	3,082,800	0	3,082,800
17	Research and Development	267	56,991	0	0	0	0	0	0	0	0	56,991	0	56,991
18	Admin and Area Operations	268	4,724,146	56,209	0	526	-1,846	-10,845	0	34,929	3,561,668	8,364,787	0	8,364,787
19	General Mgmt Systems	269	62,728	1,140	0	0	-6	-20	0	0	0	63,843	0	63,843
20	Other Accrued Expenses	270	2,596,416	2,106	-3,326	0	0	0	0	0	117,476	2,712,673	0	2,712,673
	Total All C/S		68,571,597	1,944,921	-457,725	160,333	-34,528	-1,332,938	237,602	34,929	3,679,144	72,803,335	178,520	72,981,855

**Mail Volume FY 2004 - Test Year  
(Millions)**

**USPS 6C**

<b>Line No.</b>	<b>Class</b>	<b>2004 Actual 1/</b>	<b>2005 Estimate 2/</b>	<b>Test Yr BR Estimate 2/</b>	<b>Test Yr AR Estimate 2/</b>
1	First Class	97,926	98,625	96,944	95,886
2	Priority	849	846	843	799
3	Express Mail	54	54	53	50
4	Mailgrams	2	2	1	1
5	Periodicals	9,135	9,166	9,079	9,050
6	Standard Mail	95,564	101,467	105,742	104,008
7	Package Services	1,132	1,138	1,162	1,151
8	U.S.Postal Service	529	666	667	667
9	Free for the Blind	71	73	75	75
10	International	844	866	863	847
11	<b>Total Mail Volume</b>	<b>206,106</b>	<b>212,903</b>	<b>215,428</b>	<b>212,535</b>

1/ FY 2004 Revenue, Pieces, and Weights Report dated 11/03/04

2/ Testimony of M. Robinson (USPS-T-27, Exhibits 27A-C).

**Mail and Special Services Revenue  
Fiscal Year 2004 - Test Year  
(Dollars in Millions)**

**USPS 6D**

<b>Line No.</b>	<b>Class</b>	<b>2004 Actual 1/</b>	<b>2005 Estimate 2/</b>	<b>Test Yr BR Estimate 2/</b>	<b>Test Yr AR Estimate 2/</b>
1	First Class	36,377	36,426	35,680	37,116
2	Priority	4,421	4,409	4,391	4,390
3	Express Mail	853	849	831	834
4	Mailgrams	1	1	1	1
5	Periodicals	2,192	2,199	2,194	2,297
6	Standard Mail	18,123	19,111	19,865	20,611
7	Package Services	2,207	2,209	2,248	2,332
8	U.S.Postal Service	0	0	0	
9	Free for the Blind	0	0	0	
10	International	1,723	1,799	1,784	1,840
11	<b>Total Mail Revenue</b>	<b>65,896</b>	<b>67,003</b>	<b>66,994</b>	<b>69,419</b>
12	Special Services	2,387	2,414	2,451	2,548
13	Other Income	618	575	527	533
14	Appropriations	128	120	223	223
15	<b>Total Revenue</b>	<b>69,029</b>	<b>70,111</b>	<b>70,195</b>	<b>72,723</b>

1/ FY 2004 RPW Report dated 11/3/2004 and FY 2004 USPS Reallocated Trial Balance.

2/ Testimony of M. Robinson (USPS-T-27, Exhibits 27A-C).

**APPROPRIATION REVENUE**  
**FY 2004 -- TEST YEAR**  
(\$ in thousands)

	FY 2004 Actual	FY 2005 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	55,685	55,631	79,935	79,935
Reconciliation Adjustment	(19,164)	6,078	28,583	28,583
Recission	(204)	(292)		
Total Revenue Forgone 1/	36,317	61,417	108,518	108,518
Emergency Preparedness 2/	91,694	58,183	114,319	114,319
<b>Total Appropriation Revenue</b>	<b>128,011</b>	<b>119,600</b>	<b>222,837</b>	<b>222,837</b>

1/ FY 06 reflects amount requested in the FY 2006 Congressional Budget.

2/ Represents recognition as revenue of appropriation receipts to the extent qualified expenses are incurred.

Note: Imputed interest resulting from the \$29 million annual revenue forgone appropriation is included with interest and investment income (see Chapter VB).

U.S. Postal Service  
Statement of Cash Flows  
FY 2004 - FY 2006  
(dollars in millions)

	2004	2005	2006 BR	2006 AR
Net Income (Loss)	3,065	1,643	(3,042)	112
Adjustments to reconcile net income to to cash provided by operating activities:				
Depreciation and amortization	2,145	2,171	2,290	2,290
All other differences (net)	625	616	851	850
Net cash provided by operating activities	5,835	4,431	100	3,252
Cash flows from investing activities:				
Purchase of property and equipment*	(1,685)	(1,766)	(2,149)	(2,149)
All other (net)	26	-	(18)	(5)
Net cash provided by (used in) investing activities	(1,659)	(1,766)	(2,167)	(2,154)
Net cash provided by (used in) financing activities*	(5,565)	(718)	744	(1,255)
Net (decrease) increase in cash	(1,390)	1,947	(1,324)	(157)
Interest Expense	14.004	0.262	42.630	5.270

\* Impact of EPP capital outlays reflected in net cash provided by (used in) financing activities.

Investment Income  
(Dollars in Thousands)

	Item	FY 2004	FY 2005	FY 2006 BR	FY 2006 AR
Minority CD Program	(1)	5,502	5,502	5,502	5,502
CD Program Income	(2)	131	165	198	198
Rate	(3)	2.39%	3.00%	3.60%	3.60%
Investment Income			28,208	5,598	12,322
Total Investment Income			28,373	5,796	12,520

(1) Minority Bank CD Program - Balance as September 30th 2004 from Auditor Balance Sheet, Account 12050 - Marketable Securities

(2) Actual investment income received in FY 2004

(3) The rate is assumed to be the same rate as the short term borrowing rate for FY2005 and FY2006, respectively

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	69,941,378
3	Appropriations	222,837
4	Interest Income	30,996
5	Total	<u>70,195,211</u>
6	Total Revenue Requirement	<u>73,237,070</u>
7	Net Surplus (Deficiency)	<u><u>(3,041,859)</u></u>
	<u>With Proposed Rates</u>	
8	Revenues and Operating Receipts:	
9	Mail and Special Services	72,462,616
10	Appropriations	222,837
11	Interest Income	37,720
12	Total	<u>72,723,173</u>
13	Total Revenue Requirement	<u>72,611,152</u>
14	Net Surplus (Deficiency)	<u><u>112,021</u></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)	3,370,234
17	Increase in special services revenue	96,635
18	Net increase in interest and other income	6,204
19	Subtotal	<u>3,473,073</u>
20	Revenue loss from decrease in volume	<u>(945,111)</u>
21	Subtotal	2,527,962
22	Increased revenue from revenue forgone appropriations	<u>0</u>
23	Increase in revenue	<u><u>2,527,962</u></u>
	Changes in Costs:	
23	Decrease in costs from lower mail volume	(563,468)
24	Decrease in final adjustments	(54,275)
25	Decrease in interest on debt	(24,430)
26	Increase in workyear mix adjustment	16,235
27	Decrease in provision for contingencies	0
28	All other changes	18
29	Decrease in costs	<u><u>(625,920)</u></u>
30	Net change in revenues and costs	<u>3,153,882</u>
31	Net Surplus (Deficiency)	<u><u>112,023</u></u>

Note: Numbers may not add due to rounding

**US Postal Service**  
**Summary of Net Income (Loss) & Equity**  
**FY 1971 - FY 2005**  
**Dollars in Millions**

EXHIBIT  
USPS 6I

Fiscal Year	Net Income	Net (Loss)	Cumulative NI (Loss)		Equity
1971					1,685.717
1972		(175.435)	(175.435)		1,548.306
1973		(12.964)	(188.399)	R80-1	1,565.552
1974		(438.359)	(626.758)	Cumulative	1,146.782
1975		(988.758)	(1,615.516)	FY 81-84	190.267
1976		(1,175.802)	(2,791.318)	(588)	(955.358)
TQ	15.170		(2,776.148)	214	(428.830)
1977		(687.849)	(3,463.997)	830	(587.534)
1978		(379.428)	(3,843.425)	948	(945.222)
1979	469.836		(3,373.589)		(443.692)
1980		(306.392)	(3,679.981)	R94-1	(718.931)
1981		(587.739)	(4,267.720)	Cumulative	(1,306.700)
1982	801.576		(3,466.144)	FY 95-98	(505.146)
1983	616.326		(2,849.818)	1,770	111.770
1984	117.352		(2,732.466)	3,337	310.739
1985		(251.480)	(2,983.946)	4,602	58.364
1986	304.608		(2,679.338)	5,152	361.868
1987		(222.686)	(2,902.024)		138.227
1988		(596.910)	(3,498.934)	R97-1	(460.434)
1989	60.719		(3,438.215)	Cumulative	(401.629)
1990		(873.578)	(4,311.793)	FY 99-00	(1,277.666)
1991		(1,468.614)	(5,780.407)	363	(2,746.936)
1992		(536.462)	(6,316.869)	164	(3,283.116)
1993		(1,764.915)	(8,081.784)		(5,047.700)
1994		(913.600)	(8,995.384)	R2000-1	(5,961.500)
1995	1,770.255		(7,225.129)	Cumulative	(4,191.045)
1996	1,567.177		(5,657.952)	FY 01-02	(2,623.500)
1997	1,264.382		(4,393.570)	(1,680)	(1,359.539)
1998	550.243		(3,843.327)	(2,356)	(809.403)
1999	363.411		(3,479.916)		(445.992)
2000		(199.828)	(3,679.744)	R2001-1	(645.820)
2001		(1,679.938)	(5,359.682)	Cumulative	(2,325.758)
2002		(676.447)	(6,036.129)	FY 03-05	(3,002.205)
2003	3,868.483		(2,167.646)	3,868	866.278
2004	3,064.905		897.259	6,933	3,931.183
2005 Est.	1,643.453		2,540.712	8,577	5,574.636
<b>Total 72-05</b>	<b>16,477.896</b>	<b>(13,937.184)</b>	<b>2,540.712</b>		

Source: FY 2000 and prior years taken from R2001-1, USPS-T-6, Exhibit 6L. FYs 2001 - 2004 taken from USPS Financial Statements.

Note: The period FY 95-98 includes 3 months of R90-1 rates. The period FY 99-FY 2000 includes 3 months of R94-1 rates. The period FY 01-02 includes 3 mos of R97-1 rates and 3 mos of R2001-1 rates.

EXHIBIT USPS-6J

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

	Fiscal Year 2005			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.		Prior Yr.	Total Chg.
Prior Yr. Cost	65,963.7			68,467.6			68,467.6		
Cost Level	2,600.7	3.9%	103.9%	1,944.9	2.8%	40.8%	1,944.9	2.8%	46.9%
Mail Volume Effect	576.7	0.9%	23.0%	105.7	0.2%	2.2%	(457.7)	-0.7%	-11.0%
Non-Volume Workload	144.2	0.2%	5.8%	160.3	0.2%	3.4%	160.3	0.2%	3.9%
Additional Workday	(91.2)	-0.1%	-3.6%	(34.5)	-0.1%	-0.7%	(34.5)	-0.1%	-0.8%
Cost Reductions	(1,276.4)	-1.9%	-51.0%	(1,332.9)	-1.9%	-27.9%	(1,332.9)	-1.9%	-32.2%
Other Programs	247.7	0.4%	9.9%	237.6	0.3%	5.0%	237.6	0.3%	5.7%
Corporatewide Activities	146.5	0.2%	5.9%	34.9	0.1%	0.7%	34.9	0.1%	0.8%
Servicewide Costs	259.7	0.4%	10.4%	3,703.6	5.4%	77.7%	3,679.1	5.4%	88.8%
Workyear Mix Adj. 1/	77.3	0.1%	3.1%	84.9	0.1%	1.8%	101.2	0.1%	2.4%
Final Adjustments 1/	(181.3)	-0.3%	-7.2%	(135.1)	-0.2%	-2.8%	(189.4)	-0.3%	-4.6%
Total Chg. Before Contingency	2,503.9	3.8%	100.0%	4,769.5	7.0%	100.0%	4,143.6	6.1%	100.0%
Contingency	-	-	-	-	-	-	-	0.0%	0.0%
Total Chg. After Contingency	2,503.9	3.8%	100.0%	4,769.5	7.0%	100.0%	4,143.6	6.1%	100.0%

1/ The workyear mix and final adjustments are relative to FY 04. The change from FY 05 is therefore calculated by subtracting the FY 05 adjustment from the FY 06 adjustment.

Summary of Unit Labor Costs for Major  
Employee Groups

Pay Increases	%	Effective Date	Annual Rate	Effective Amount		
				FY 2004	FY 2005	FY 2006
Clerks	1.30	11/15/2003	\$ 547.50	\$ 480.19	\$ 67.32	
City Carriers	1.20	11/15/2003	\$ 488.02	\$ 428.02	\$ 60.00	
Mail Handlers	1.30	11/15/2003	\$ 472.52	\$ 414.42	\$ 58.10	
Rural Carriers	1.20	11/15/2003	\$ 505.39	\$ 443.25	\$ 62.14	
Non- Bargaining	3.70	12/27/2003	\$ 2,051.43	\$ 1,563.79	\$ 487.63	
Clerks 1/		11/13/2004	\$ 23.17		\$ 20.44	\$ 2.73
Clerks	1.30	11/27/2004	\$ 547.50		\$ 462.00	\$ 85.50
City Carriers	1.30	11/27/2004	\$ 528.69		\$ 446.12	\$ 82.56
Mail Handlers	1.30	11/27/2004	\$ 537.84		\$ 453.85	\$ 83.99
Rural Carriers	1.30	11/27/2004	\$ 559.55		\$ 472.16	\$ 87.38
Non- Bargaining	6.00	1/8/2005	\$ 3,468.81		\$ 2,527.95	\$ 940.86
Clerks	2.20	10/1/2005	\$ 971.84			\$ 971.84
City Carriers	1.30	11/26/2005	\$ 528.69			\$ 447.57
Mail Handlers	1.30	11/26/2005	\$ 537.84			\$ 455.32
Rural Carriers	1.30	11/26/2005	\$ 559.55			\$ 473.70
Non- Bargaining	5.30	1/21/2006	\$ 3,241.83			\$ 2,247.08

**Lump Sums**

Non- Bargaining 2/				\$ 395.92	\$ 566.58	\$ 821.20
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**COLA'S**

City Carriers		3/6/2004	\$ 187.00	\$ 106.78	\$ 80.22	
Clerks, MH's, Rurals		3/6/2004	\$ 208.00	\$ 118.78	\$ 89.22	
Clerks, MH's, City, Rurals		9/4/2004	\$ 624.00	\$ 46.03	\$ 577.97	
City Carriers		3/5/2005	\$ 270.00		\$ 155.34	\$ 114.66
Clerks, MH's, Rurals		3/5/2005	\$ 249.00		\$ 143.26	\$ 105.74
Clerks, MH's, City, Rurals		9/3/2005	\$ 292.00		\$ 22.40	\$ 269.60
City Carriers		3/5/2006	\$ 166.00			\$ 95.51
MH's, Rurals		3/5/2006	\$ 187.00			\$ 107.59
MH's, City, Rurals		9/2/2006	\$ 291.00			\$ 23.12

1/ CFS clerk upgrades.

2/ Lump sum portion of pay for performance.

Source - Chapter VIIb - Library Reference K-50.

## CHANGES IN WORKYEARS BY SOURCE

Sources of Change	FY 2005 BR		
	Amount	Percent of	
		Prior Year	Total Change
Prior Year Workyears	820,157		
Mail Volume Effect	8,542	1.0%	-90.5%
Non-Volume Effect	2,234	0.3%	-23.7%
Additional Workday	(1,251)	-0.2%	13.2%
Cost Reduction Programs	(17,906)	-2.2%	189.6%
Other Programs	2,064	0.3%	-21.9%
Corporate-wide Activities	(438)	-0.1%	4.6%
Final Adjustments \1	(2,688)	-0.3%	28.5%
Total Change	(9,442)	-1.2%	100.0%

Sources of Change	FY 2006 BR		
	Amount	Percent of	
		Prior Year	Total Change
Prior Year Workyears	810,714		
Mail Volume Effect	1,970	0.2%	-12.3%
Non-Volume Effect	2,306	0.3%	-14.4%
Additional Workday	(457)	-0.1%	2.9%
Cost Reduction Programs	(20,040)	-2.5%	125.1%
Other Programs	2,055	0.3%	-12.8%
Corporate-wide Activities	-	0.0%	0.0%
Final Adjustments \1	(1,849)	-0.2%	11.5%
Total Change	(16,015)	-2.0%	100.0%

Sources of Change	FY 2006 AR		
	Amount	Percent of	
		Prior Year	Total Change
Prior Year Workyears	810,714		
Mail Volume Effect	(4,668)	-0.6%	20.0%
Non-Volume Effect	2,306	0.3%	-9.9%
Additional Workday	(457)	-0.1%	2.0%
Cost Reduction Programs	(20,040)	-2.5%	86.0%
Other Programs	1,731	0.2%	-7.4%
Corporate-wide Activities	324	0.0%	-1.4%
Final Adjustments \1	(2,511)	-0.3%	10.8%
Total Change	(23,315)	-2.9%	100.0%

Source: Chapter IX of Library Reference K-50

\1 Do not carry forward

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

<b>Cost Segment</b>	FY 2004 Workyears	Projected Change from FY 2004 to FY 2005	% Chg	FY 2005 Workyears
1 Postmasters	31,356	(36)	-0.1%	31,320
2 Supervisors	53,027	(414)	-0.8%	52,613
3 Clerks & Mail Handlers	315,773	(9,345)	-3.0%	306,428
4 Clerks - CAG K	133	1	1.1%	134
6 & 7 City Delivery Carriers	249,703	(1,752)	-0.7%	247,951
8 Vehicle Drivers	9,482	69	0.7%	9,551
10 Rural Carriers	93,425	2,983	3.2%	96,408
11 Custodial & Maintenance	46,568	(524)	-1.1%	46,044
12 Motor Vehicle Service	6,377	46	0.7%	6,424
13 Miscellaneous	506	6	1.3%	512
16 Supplies & Services	218	11	4.9%	229
18 Administration & Area Operations	13,543	(484)	-3.6%	13,059
19 Maintenance & Technical Support	46	(4)	-8.0%	42
<b>Total Workyears</b>	<b>820,157</b>	<b>(9,442)</b>	<b>-1.2%</b>	<b>810,714</b>

<b>Cost Segment</b>	FY 2005 Workyears	Projected Change from FY 2005 to FY 2006	% Chg	FY 2006 Workyears
1 Postmasters	31,320	(102)	-0.3%	31,218
2 Supervisors	52,613	(521)	-1.0%	52,092
3 Clerks & Mail Handlers	306,428	(14,950)	-4.9%	291,478
4 Clerks - CAG K	134	(0)	-0.1%	134
6 & 7 City Delivery Carriers	247,951	(2,608)	-1.1%	245,343
8 Vehicle Drivers	9,551	15	0.2%	9,566
9 Rural Carriers	96,408	1,911	2.0%	98,318
10 Custodial & Maintenance	46,044	3	0.0%	46,047
11 Motor Vehicle Service	6,424	35	0.5%	6,459
12 Miscellaneous	512	(1)	-0.1%	511
13 Supplies & Services	229	(0)	-0.1%	229
16 Administration & Area Operations	13,059	204	1.6%	13,262
18 Maintenance & Technical Support	42	(0)	-0.1%	42
<b>19 Total Workyears</b>	<b>810,714</b>	<b>(16,015)</b>	<b>-2.0%</b>	<b>794,699</b>

<b>Cost Segment</b>	FY 2005 Workyears	Projected Change from FY 2005 to TY AR	% Chg	FY 2006 Workyears
1 Postmasters	31,320	(193)	-0.6%	31,127
2 Supervisors	52,613	(925)	-1.8%	51,688
3 Clerks & Mail Handlers	306,428	(18,911)	-6.2%	287,517
4 Clerks - CAG K	134	(1)	-1.0%	133
6 & 7 City Delivery Carriers	247,951	(4,432)	-1.8%	243,519
8 Vehicle Drivers	9,551	(61)	-0.6%	9,489
9 Rural Carriers	96,408	1,207	1.3%	97,614
10 Custodial & Maintenance	46,044	(204)	-0.4%	45,840
11 Motor Vehicle Service	6,424	4	0.1%	6,428
12 Miscellaneous	512	(1)	-0.1%	511
13 Supplies & Services	229	(0)	-0.1%	229
16 Administration & Area Operations	13,059	204	1.6%	13,262
18 Maintenance & Technical Support	42	(0)	-0.1%	42
<b>19 Total Workyears</b>	<b>810,714</b>	<b>(23,315)</b>	<b>-2.9%</b>	<b>787,400</b>

Source: Chapter IX of Library Reference K-50

Analysis of Pers Cost Lvl Chg

ANALYSIS OF CHANGES IN PERSONNEL COST LEVELS

EXHIBIT USPS-6M

FY 2005

Page 1 of 2

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THIS WORKBOOK IS LINKED WORKBOOKS PRFF\_05.XLS, INPUT\_05.XLS AND REALTB04.XLS

SALARIES

COST SEGMENT	FY 2004 ACTUAL	COST LEVEL CHANGES-SALARIES											
		CARRYOVER COSTS			NEW COSTS			NET LUMP SUM	STEP	ROLLUP PREMIUM	OTHER	TOTAL CST LEVEL	% INCR.
		PAY	COLA	TOTAL	PAY *	COLA	TOTAL						
1 Postmasters	1,571,181	15,128	-	15,128	78,428	-	78,428	4,751	-	4,915	-	103,222	6.6%
2 Supervisors and Technical Personnel	3,019,468	24,234	-	24,234	125,633	-	125,633	7,610	-	7,874	-	165,351	5.5%
3 Clerks & Mail Handlers, CAG A-J (Incl SDMGrsgs)	14,502,186	17,763	177,889	195,652	136,812	44,169	180,976	-	(59,218)	63,601	-	381,010	2.6%
4 Clerks, CAG K Post Offices	4,954	12	75	87	61	19	80	-	(29)	26	-	164	3.3%
6&7 City Delivery Carriers	11,724,655	13,020	142,823	155,843	99,218	38,569	137,788	-	13,511	60,484	-	367,626	3.1%
8 Vehicle Service Drivers	457,123	836	5,530	6,366	3,919	1,373	5,292	-	(2,143)	1,798	-	11,313	2.5%
10 Rural Carriers	3,794,668	5,145	42,678	47,823	67,863	10,597	78,460	-	13,896	5,635	-	145,814	3.8%
11 Custodial & Maintenance Services	2,267,127	5,612	26,424	32,036	26,960	6,561	33,521	508	(10,238)	9,088	-	64,915	2.9%
12 Motor Vehicle Service	311,061	817	3,577	4,395	3,917	888	4,805	87	(1,386)	1,242	-	9,143	2.9%
13 Miscellaneous Local Operations	35,504	229	29	258	1,186	7	1,194	71	(11)	82	-	1,594	4.5%
14 Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
15 Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
16 Supplies and Services	11,739	49	88	137	246	22	268	11	(34)	40	-	422	3.6%
17 Research & Development	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
18 Headquarters and Area Administration	1,026,801	5,487	1,629	7,117	28,344	405	28,749	1,646	(631)	2,237	-	39,117	3.8%
19 Equip. Maintenance & Mgt Tng. Spt.	3,307	22	-	22	115	-	115	7	-	7	-	151	4.6%
20 Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Total Change in Salaries	38,729,774	88,355	400,743	489,098	572,702	102,610	675,308	14,691	(46,284)	157,029	-	1,289,842	3.3%

BENEFITS

COST SEGMENT	FY 2004 ACTUAL	COST LEVEL CHANGES-BENEFITS										
		CARRYOVER COSTS			NEW COSTS			ROLLUPS			TOTAL CST LEVEL	% INCR.
		HEALTH	UNIF ALL		HEALTH	UNIF ALL		RET BASE	LI,RET,TSP	SS,MED		
1 Postmasters	430,981	4,601			9,330	-		3,702	15,866	5,194	38,694	9.0%
2 Supervisor and Technical Personnel	802,776	7,370			14,946	-		5,931	25,416	8,783	62,446	7.8%
3 Clerks & Mail Handlers, CAG A-J (Incl SDMGrsgs)	3,854,675	43,470	30		93,617	231		37,999	51,060	23,959	250,366	6.5%
4 Clerks, CAG K Post Offices	1,397	18	0		40	0		18	29	9	115	8.3%
6&7 City Delivery Carriers	3,304,959	35,375	-		76,183	-		34,089	50,079	24,534	220,260	6.7%
8 Vehicle Service Drivers	127,428	1,351	3		2,910	16		1,344	2,149	693	8,465	6.6%
10 Rural Carriers	950,455	10,429			22,460	-		11,255	16,463	10,570	71,177	7.5%
11 Custodial & Maintenance Services	638,268	6,950	12		14,905	77		6,819	11,965	3,730	44,457	7.0%
12 Motor Vehicle Service	89,802	958	2		2,053	10		937	1,681	523	6,165	6.9%
13 Miscellaneous Local Operations	9,982	76			154	0		62	247	80	619	6.2%
14 Purchased Transportation of Mail	-	-			-	-		-	-	-	-	0.0%
15 Building Occupancy	-	-			-	-		-	-	-	-	0.0%
16 Supplies and Services	3,497	32			69	0		30	72	23	226	6.5%
17 Research & Development	-	-			-	-		-	-	-	-	0.0%
18 Headquarters and Area Administration	284,293	1,992			4,090	5		1,679	6,130	1,990	15,886	5.6%
19 Equip. Maintenance & Mgt Tng. Spt.	925	7			14	-		5	23	8	57	6.1%
20 Depreciation, Write-offs, Losses, & Interest	-	-			-	-		-	-	-	-	0.0%
Total Change in Benefits	10,499,437	112,630	46	-	240,770	340	-	103,870	181,181	80,096	718,933	6.8%

Analysis of Pers Cost Lvl Chg

ANALYSIS OF CHANGES IN PERSONNEL COST LEVELS

FY 2006

(\$ 000)

EXHIBIT USPS-6M

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SALARIES

COST SEGMENT	FY ESTIMATE	COST LEVEL CHANGES-SALARIES											
		CARRYOVER COSTS			NEW COSTS			NET LUMP SUM	STEP	ROLLUP PREMIUM	OTHER	TOTAL CST LEVEL	% INCR.
		PAY	COLA	TOTAL	PAY *	COLA	TOTAL						
1 Postmasters	1,672,459	29,155	-	29,155	69,633	-	69,633	7,112	-	5,190	-	111,091	6.6%
2 Supervisors and Technical Personnel	3,170,501	46,547	-	46,547	111,172	-	111,172	11,355	-	8,286	-	177,361	5.6%
3 Clerks & Mail Handlers, CAG A-J (Incl SDMGrgrs)	14,524,971	23,098	97,658	120,755	240,395	6,553	247,036	-	(55,046)	60,721	-	373,467	2.6%
4 Clerks, CAG K Post Offices	5,174	10	43	53	124	-	124	-	(28)	28	-	177	3.4%
6&7 City Delivery Carriers	12,031,814	17,826	82,966	100,791	99,716	25,441	125,157	-	16,796	47,819	-	290,563	2.4%
8 Vehicle Service Drivers	472,350	713	3,137	3,850	8,308	-	8,308	-	(2,074)	1,906	-	11,990	2.5%
10 Rural Carriers	4,070,582	22,612	24,802	47,414	44,325	8,637	52,962	-	18,197	4,705	-	123,278	3.0%
11 Custodial & Maintenance Services	2,315,272	6,456	14,739	21,195	46,237	-	46,244	758	(9,743)	9,466	-	67,920	2.9%
12 Motor Vehicle Service	322,537	999	2,027	3,026	6,581	-	6,581	131	(1,340)	1,313	-	9,711	3.0%
13 Miscellaneous Local Operations	37,681	446	15	462	1,097	-	1,098	108	(10)	88	-	1,746	4.6%
14 Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
15 Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
16 Supplies and Services	12,753	84	52	136	308	-	308	18	(34.45)	44	-	472	3.7%
17 Research & Development	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
18 Headquarters and Area Administration	1,031,693	9,971	877	10,848	25,680	-	25,659	2,384	(580)	2,277	-	40,588	3.9%
19 Equip. Maintenance & Mgt Tng. Spt.	3,183	39	-	39	94	-	94	10	-	7	-	150	4.7%
20 Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Total Change in Salaries	39,670,970	157,957	226,315	384,272	653,671	40,631	694,377	21,876	(33,862)	141,851	-	1,208,514	3.0%

BENEFITS

COST SEGMENT	FY ESTIMATE	COST LEVEL CHANGES-BENEFITS										
		CARRYOVER COSTS				NEW COSTS			ROLLUPS		TOTAL CST LEVEL	% INCR.
		HEALTH		UNIF ALL		HEALTH	RET BASE	UNIF ALL	LI,RET,TSP	SS,MED		
1 Postmasters	469,129	3,468		-		10,052	-	-	16,754	5,793	36,067	7.7%
2 Supervisor and Technical Personnel	861,333	5,538		-		16,049	-	-	26,748	9,763	58,098	6.7%
3 Clerks & Mail Handlers, CAG A-J (Incl SDMGrgrs)	4,006,236	34,001		37		87,912	-	42	49,634	23,394	195,019	4.9%
4 Clerks, CAG K Post Offices	1,529	15		0		39	-	-	31	10	95	6.2%
6&7 City Delivery Carriers	3,507,591	28,212		-		72,944	-	-	39,386	19,417	159,959	4.6%
8 Vehicle Service Drivers	137,029	1,092		3		2,824	-	-	2,270	735	6,924	5.1%
10 Rural Carriers	1,055,362	8,635		-		22,327	-	-	14,410	8,904	54,276	5.1%
11 Custodial & Maintenance Services	677,815	5,501		12		14,339	-	-	12,453	3,926	36,232	5.3%
12 Motor Vehicle Service	96,666	770		2		2,010	-	-	1,777	559	5,118	5.3%
13 Miscellaneous Local Operations	10,768	58		0		166	-	-	265	90	580	5.4%
14 Purchased Transportation of Mail	-	-		-		-	-	-	-	-	-	0.0%
15 Building Occupancy	-	-		-		-	-	-	-	-	-	0.0%
16 Supplies and Services	3,904	27		0		72	-	-	79	26	204	5.2%
17 Research & Development	-	-		-		-	-	-	-	-	-	0.0%
18 Headquarters and Area Administration	290,540	1,468		1		4,159	-	-	6,250	2,133	14,010	4.8%
19 Equip. Maintenance & Mgt Tng. Spt.	903	5		-		14	-	-	23	8	49	5.4%
20 Depreciation, Write-offs, Losses, & Interest	-	-		-		-	-	-	-	-	-	0.0%
Total Change in Benefits	11,118,806	88,789		54		232,906	-	42	170,082	74,757	566,630	5.1%

Adjustment of Rollforward Cost for Workyear Mix and Final Adjustments  
Dollars In Thousands

	FY 05 Rollforward	Workyear Mix	Adjusted Total	Mail Mix	Final Adjustments			Adjusted Total
						Other		
1 POSTMASTERS	2,175,801		2,175,801					2,175,801
2 MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	4,094,243		4,094,243	(13,592)				4,080,651
3 CLERKS & MAILHANDERS	18,545,484	61,098	18,606,582	(106,191)				18,500,391
4 CLERKS, CAG K POST OFFICES	6,768		6,768					6,768
6&7 CITY DELIVERY CARRIERS	15,543,065	23,958	15,567,023	(31,530)				15,535,493
8 VEHICLE SERVICE DRIVERS	609,432		609,432	(664)				608,768
9 SPECIAL DELIVERY MESSENGERS			-					-
10 RURAL CARRIERS	5,583,081	(7,716)	5,575,365	(5,401)				5,569,964
11 CUSTODIAL & MAINTENANCE SERVICES	3,096,972		3,096,972	(9,905)				3,087,067
12 MOTOR VEHICLE SERVICES	991,925		991,925					991,925
13 MISCELLANEOUS LOCAL OPERATIONS	300,669		300,669					300,669
14 CONTRACTURAL TRANSPORTATION OF MAIL	5,251,141		5,251,141	(1,991)				5,249,150
15 BUILDING OCCUPANCY	1,924,246		1,924,246					1,924,246
17 RESEARCH & DEVELOPMENT	56,991		56,991					56,991
19 EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	62,728		62,728					62,728
16 SUPPLIES & SERVICES	3,008,489		3,008,489					3,008,489
18 HQ & AREA ADMIN. & SERVICEWIDE PERSONNEL COSTS	4,724,146		4,724,146					4,724,146
20 DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	2,596,416		2,596,416					2,596,416
SUBTOTAL	68,571,597	77,340	68,648,937	(169,274)	-	-	-	68,479,663
Unallocated Final Adjustments	-	-	-	(12,066)	-	-	-	(12,066)
Totals	68,571,597	77,340	68,648,937	(181,340)	-	-	-	68,467,597

	FY 2006 BR Rollforward	Workyear Mix	Adjusted Total	Mail Mix	Final Adjustments			Adjusted Total
						Other		
1 POSTMASTERS	2,317,200		2,317,200					2,317,200
2 MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	4,299,224		4,299,224	(23,510)				4,275,714
3 CLERKS & MAILHANDERS	18,269,953	153,634	18,423,587	(191,515)				18,232,072
4 CLERKS, CAG K POST OFFICES	7,037		7,037					7,037
6&7 CITY DELIVERY CARRIERS	15,838,733	24,689	15,863,422	(45,268)				15,818,154
8 VEHICLE SERVICE DRIVERS	629,837		629,837	(1,175)				628,662
9 SPECIAL DELIVERY MESSENGERS			-					-
10 RURAL CARRIERS	5,877,789	(16,038)	5,861,751	(12,607)				5,849,144
11 CUSTODIAL & MAINTENANCE SERVICES	3,213,944		3,213,944	(17,680)				3,196,264
12 MOTOR VEHICLE SERVICES	1,005,698		1,005,698					1,005,698
13 MISCELLANEOUS LOCAL OPERATIONS	312,850		312,850					312,850
14 CONTRACTURAL TRANSPORTATION OF MAIL	5,328,979		5,328,979	4,856				5,333,835
15 BUILDING OCCUPANCY	1,968,755		1,968,755					1,968,755
17 RESEARCH & DEVELOPMENT	56,991		56,991					56,991
19 EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	63,843		63,843					63,843
16 SUPPLIES & SERVICES	3,098,072		3,098,072					3,098,072
18 HQ & AREA ADMIN. & SERVICEWIDE PERSONNEL COSTS	8,364,787		8,364,787					8,364,787
20 DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	2,737,522		2,737,522					2,737,522
SUBTOTAL	73,391,214	162,285	73,553,499	(286,899)	-	-	-	73,266,600
Unallocated Final Adjustments	-	-	-	(29,530)	-	-	-	(29,530)
Totals	73,391,214	162,285	73,553,499	(316,429)	-	-	-	73,237,070

Adjustment of Rollforward Cost for Workyear Mix and Final Adjustments  
Dollars In Thousands

		FY 06 AR	Workyear	Adjusted	Mail	Final Adjustments		Adjusted
		Rollforward	Mix	Total	Mix	Other		Total
1	POSTMASTERS	2,310,398		2,310,398				2,310,398
2	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	4,269,713		4,269,713	(27,116)			4,242,597
3	CLERKS & MAILHANDERS	18,059,169	170,034	18,229,203	(226,946)			18,002,257
4	CLERKS, CAG K POST OFFICES	6,975		6,975				6,975
6&7	CITY DELIVERY CARRIERS	15,725,671	24,524	15,750,195	(49,611)			15,700,584
8	VEHICLE SERVICE DRIVERS	620,009		620,009	3,630			623,639
9	SPECIAL DELIVERY MESSENGERS			-				-
10	RURAL CARRIERS	5,839,968	(16,038)	5,823,930	(13,503)			5,810,427
11	CUSTODIAL & MAINTENANCE SERVICES	3,201,932		3,201,932	(20,992)			3,180,940
12	MOTOR VEHICLE SERVICES	1,000,584		1,000,584				1,000,584
13	MISCELLANEOUS LOCAL OPERATIONS	312,788		312,788				312,788
14	CONTRACTURAL TRANSPORTATION OF MAIL	5,206,280		5,206,280	(13,233)			5,193,047
15	BUILDING OCCUPANCY	1,968,755		1,968,755				1,968,755
17	RESEARCH & DEVELOPMENT	56,991		56,991				56,991
19	EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	63,843		63,843				63,843
16	SUPPLIES & SERVICES	3,082,800		3,082,800				3,082,800
18	HQ & AREA ADMIN. & SERVICEWIDE PERSONNEL COSTS	8,364,787		8,364,787				8,364,787
20	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	2,712,673		2,712,673				2,712,673
	SUBTOTAL	72,803,336	178,520	72,981,856	(347,771)	-	-	72,634,085
	Unallocated Final Adjustments	-	-	-	(22,933)	-	-	(22,933)
	Totals	72,803,336	178,520	72,981,856	(370,704)	-	-	72,611,152

**OPM Retirement Reform Savings and Escrow**  
\$ Millions

	FY 2003	FY 2004	FY 2005	FY 2006
CSRS Unfunded Liability	2,652	2,697	2,766	2,690
Annuitant Cola	1,273	1,339	1,473	1,591
<b>Total Cost Reductions</b>	<b>3,925</b>	<b>4,036</b>	<b>4,240</b>	<b>4,281</b>
<b> </b>				
Employer Contribution	444	1,030	1,024	960
Supplemental Liability		240	240	240
<b>Total Cost Increases</b>	<b>444</b>	<b>1,270</b>	<b>1,264</b>	<b>1,200</b>
<b> </b>				
<b>Net Reduction in Cost (OPM)</b>	<b>3,481</b>	<b>2,766</b>	<b>2,976</b>	<b>3,081</b>

Notes: Savings must be escrowed beginning in FY 2006 per P.L. 108-18  
Employer contribution increased from 7% to 17.4% in May 2003 per P.L. 108-18.  
Supplemental liability determined by Office of Personnel Management (OPM).  
First supplemental liability payment accrued by USPS over two years  
(\$125 million in FY 03 and \$115 million in FY 04).