



**UNITED STATES
POSTAL SERVICE**

PROCESSED

COST AND REVENUE ANALYSIS

FISCAL YEAR 2004

FINANCE



SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2004

Classes and Sub-Classes of Mail (note 1)	(in millions)			(per piece)			
	Revenue (note 1) A	Incremental Cost (notes 2 & 4) B	Volume Variable Cost (note 2) C	Revenue \$ D	Marginal Cost \$ (note 2) E	Contribution \$ (note 2) (D-E)	Cost Coverage (note 2) (D/E)
First-Class Mail:							
Single-Piece Letters.....	\$20,480.3	\$12,010.3	\$11,362.3	\$0.454	\$0.252	\$0.202	180.25%
Presort Letters.....	14,469.9	4,679.5	4,509.1	0.306	0.095	0.210	320.91%
Total Letters.....	34,950.1	17,213.5	15,871.4	0.378	0.172	0.206	220.21%
Single-Piece Cards.....	601.7	532.9	519.8	0.238	0.206	0.032	115.74%
Presort Cards.....	539.8	181.1	180.7	0.186	0.062	0.124	298.70%
Total Cards.....	1,141.5	714.9	700.6	0.210	0.129	0.081	162.94%
Fees (note 2).....	279.3						
Total First-Class.....	36,370.9	18,166.0	16,572.0	0.371	0.169	0.202	219.47%
Priority Mail.....	4,421.1	3,071.1	2,816.2	5.210	3.319	1.891	156.99%
Express Mail.....	852.8	541.1	448.3	15.757	8.282	7.475	190.25%
Mailgram.....	0.7	0.3	0.3	0.425	0.182	0.243	233.33%
Periodicals:							
In County.....	72.0	62.9	62.8	0.095	0.083	0.012	114.56%
Outside County (note 2).....	2,100.0	2,202.2	2,174.2	0.251	0.260	(0.009)	96.59%
Fees (note 2).....	19.9						
Total Periodicals.....	2,191.8	2,268.1	2,237.0	0.240	0.245	(0.005)	97.98%
Standard Mail:							
Enhanced Carrier Route (note 2).....	5,352.0	2,264.5	2,187.0	0.162	0.066	0.096	244.71%
Regular (note 2).....	12,662.9	8,517.0	8,216.0	0.202	0.131	0.071	154.12%
Fees (note 2).....	107.7						
Total Standard Mail.....	18,122.5	11,057.5	10,403.1	0.190	0.109	0.081	174.20%
Package Services:							
Parcel Post.....	1,242.1	1,009.3	992.9	3.307	2.643	0.663	125.10%
Bound Printed Matter.....	583.2	448.8	445.1	1.053	0.804	0.250	131.05%
Media Mail (note 2).....	379.0	377.8	376.0	1.870	1.855	0.015	100.80%
Fees (note 2).....	2.1						
Total Package Services.....	2,206.4	1,869.9	1,813.9	1.949	1.603	0.347	121.64%

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2004

Classes and Sub-Classes of Mail (note 1)	(in millions)			(per piece)			
	Revenue (note 1)	Incremental Cost (notes 2 & 4)	Volume Variable Cost (note 2)	Revenue \$	Marginal Cost \$ (note 2)	Contribution \$ (note 2)	Cost Coverage (note 2)
	A	B	C	D	E	(D-E) (D-E)	(D/E)
Free Mail - blind, handicapped & servicemen.....	-	39.7	39.6	-	0.518	N/A	0.00%
International Mail (note 2).....	1,724.0	1,371.0	1,306.2	2,041	1.547	\$0.495	131.99%
Total Mail.....	65,890.3		35,636.5	0.320	0.173	0.147	184.90%
Special Services:							
Registry	56.6	81.4	81.3	11,292	16,224	(4,932)	69.60%
Certified	629.5	432.2	403.6	2,300	1,475	0.825	155.97%
Insurance.....	122.5	94.5	94.0	2,377	1,825	0.553	130.29%
COD	11.4	8.2	8.2	5,970	4,303	1,666	138.72%
Money Orders (note 2).....	236.3	189.7	127.3	1,262	0.680	0.582	185.57%
Stamped Cards (note 5).....	1.9	1.2	1.2				
Special Handling.....	20.0	11.6	11.6				
Post Office Box.....	6.7	2.5	2.5				
Other (note 2).....	779.9	607.6	606.6				
Total Special Services.....	537.0	211.3	211.3				
Miscellaneous items (note 2).....	2,401.7	1,718.8	1,547.6				
Total Mail and Services.....	668.9						
	68,960.8		37,184.1				
Appropriations: Revenue Forgone.....	36.3						
Total Operating Revenue.....	68,997.2						
Investment Income.....	31.5						
Total (note 3).....	69,028.7		37,184.1				
All Other Costs.....			28,779.6				
Total Costs (note 3).....			65,963.7				

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2004

VOLUME STATISTICS

Classes and Sub-Classes of Mail (note 1)	Pieces (thousands)	Weight in Pounds (thousands)	Weight per Piece (ounces)	Cubic Feet (thousands)	Weight per Cubic Foot (pounds)
First-Class Mail:					
Single-Piece Letters.....	45,156,577	2,167,182	0.8	121,495	17.8
Presort Letters.....	47,333,818	2,176,533	0.7	121,298	17.9
Total Letters.....	92,490,395	4,343,715	0.8	242,793	17.9
Single-Piece Cards.....	2,525,719	16,232	0.1	1,087	14.9
Presort Cards.....	2,904,901	29,823	0.2	1,997	14.9
Total Cards.....	5,430,620	46,055	0.1	3,084	14.9
Total First Class.....	97,921,015	4,389,770	0.7	245,877	17.9
Priority Mail.....	848,629	1,626,300	30.7	352,810	4.6
Express Mail.....	54,123	50,624	15.0	8,031	6.3
Mailing.....	1,648	0	0.0	0	0.0
Periodicals:					
In County.....	760,020	246,886	5.2	9,853	25.1
Outside County (note 2).....	8,375,252	3,820,656	7.3	152,473	25.1
Total Periodicals.....	9,135,272	4,067,542	7.1	162,326	25.1
Standard Mail:					
Enhanced Carrier Route (note 2).....	32,995,701	5,370,242	2.6	211,186	25.4
Regular (note 2).....	62,567,820	5,778,057	1.5	248,742	23.2
Total Standard Mail.....	95,563,521	11,148,299	1.9	459,928	24.2
Package Services:					
Parcel Post.....	375,613	1,937,285	82.5	385,460	5.0
Bound Printed Matter.....	553,666	1,311,970	37.9	138,240	9.5
Media Mail (note 2).....	202,643	383,312	30.3	49,371	7.8
Total Package Services.....	1,131,922	3,632,567	51.3	573,071	6.3

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2004

VOLUME STATISTICS

Classes and Sub-Classes of Mail (note 1)	Pieces (thousands)	Weight in Pounds (thousands)	Weight per Piece (ounces)	Cubic Feet (thousands)	Weight per Cubic Foot (pounds)
US Postal Service.....	529,326	105,370	3.2	16,154	6.5
Free Mail - blind, handicapped & servicemen.....	76,473	34,851	7.3	3,147	11.1
International Mail (note 2).....	844,553	228,625	4.3	36,826	6.2
Total Mail	206,106,482	25,283,948	2.0	1,858,170	13.6
Special Services:					
Registry	5,009	N/A	N/A	N/A	N/A
Certified	273,701	N/A	N/A	N/A	N/A
Insurance.....	51,514	N/A	N/A	N/A	N/A
COD	1,905	N/A	N/A	N/A	N/A
Money Orders (note 2).....	187,211	N/A	N/A	N/A	N/A
Stamped Cards.....	0.0	N/A	N/A	N/A	N/A
Stamped Envelopes.....	0.0	N/A	N/A	N/A	N/A
Special Handling.....	1126.0	N/A	N/A	N/A	N/A
Post Office Box.....	0.0	N/A	N/A	N/A	N/A
Other (note 2).....	840,042	N/A	N/A	N/A	N/A
Total Special Services	1,360,508	N/A	N/A	N/A	N/A

See accompanying notes.

UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Fiscal Year 2004

1. Cost and Revenue Analysis

The U.S. Postal Service (Postal Service) annually prepares the Cost and Revenue Analysis (CRA) covering the period from October 1 through September 30. The CRA aids us in determining that we are meeting the statutory requirements under Title 39 U.S. Code, that "each class of mail or type of mail service bear the direct and indirect costs attributable to that class or service...." The CRA presents management's estimates of the total and per unit revenue by category of mail or service. It also presents each category's estimated incremental and marginal costs. These estimates are considered as one element of the postal rate making process.

The postal system of accounts is the basis for CRA data; however, the postal system of accounts generally does not accumulate financial data by class and subclass of mail. Apportionment factors, derived from various postal operational and statistical information sources, are required for development of the data for CRA purposes. Some of these sources (e.g., In-Office Cost System and Origin-Destination Information System - Revenue, Pieces and Weight (ODIS-RPW) system) are dedicated to this purpose and involve extensive statistical sampling of postal activity during the year. The ODIS-RPW system resulted from a merger of the ODIS and RPW systems at the beginning of FY04. We compare and scale calculated amounts to actual data in the postal system of accounts, as appropriate. With respect to the ODIS-RPW system, calculated sample revenue should approximate actual Postal Service revenue, but the ODIS-RPW system has been designed to accommodate and adjust for any differences. Although the accuracy of the ODIS-RPW system does not necessarily depend on how close calculated revenue is to actual revenue, we are investigating reasons for the continuing differences between the two. In FY04, the Book Revenue Adjustment Factor was closer to unity than in prior years and we are continuing to investigate and monitor it.

Some methods we have proposed that have not been adopted by the Postal Rate Commission are still used in the CRA development. For example, we attribute mail processing costs differently from the PRC, generally assuming that costs vary less than proportionately with volume. The methods employed in developing CRA data are described in the Summary Description and in testimony we filed before the PRC. These documents are available from Cost Attribution in Finance.

2. Definitions

Incremental Costs – An estimate of the cost we incur as a result of providing the entire annual quantity of a subclass of mail or service. Incremental cost of a subclass of mail or service can be determined by estimating the cost avoided by eliminating that particular subclass of service, assuming that all other products continue to be provided at their current volumes. The purpose of this determination is to indicate whether the customers of one subclass of mail (or group of subclasses) may be subsidizing (or contributing revenue to) customers of another subclass of mail (or group of subclasses.)

Marginal Costs – We estimate the marginal cost of a subclass or mail category as the change in cost that results from a small change in its volume alone, when the volumes of other subclasses or mail categories remain constant.

Volume Variable Costs – Volume times Marginal Cost.

Contribution – Revenue per piece minus Marginal Cost per piece. Contribution indicates the rate at which a given subclass offsets all other costs.
Cost Coverage – Revenue per piece as a percentage of Marginal Cost. Unit Revenue/Marginal Cost times 100.

Fees – Fees associated with a specific class or subclass of mail are included in the reported revenue for that class or subclass.

International Mail – International mail includes costs and revenues from both U.S. origin and foreign origin mail and special services. Volume statistics generally do not include foreign origin mail. Accordingly, the per piece figures on the International line, though indicative of changes from previous years, do not signify the true unit revenue, cost and contribution.

Other – Other Special Services is a category that includes several cost items such as identifiable costs for return receipts, delivery confirmation, signature confirmation, merchandise return receipt, business reply, and Forms 3547/3579. The volume and revenues are the same as ODIS-RPW's Delivery Receipt Services.

Miscellaneous Items – Miscellaneous items include philatelic sales, fees, fines, unclaimed money from dead letters, sales of services performed for government agencies and private contractors. They do not include the \$9.1 million in revenue earned from the money order float, which is included in special services and international mail revenue in the CRA.

Combined Mail Categories – The following mail categories include more than one subclass due to the enactment of Public Law 106-384 (October 27, 2000):

“Outside County” contains Nonprofit Periodicals, Classroom Periodicals and Regular Periodicals.

“Enhanced Carrier Route” (ECR) contains Standard Mail Nonprofit ECR and Standard Mail Regular ECR.

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

“Media Mail” contains Library Rate and Media Mail (formerly known as Special Standard.)

3. Miscellaneous Adjustments

A) Mortgage income of \$1.1 million is included with interest income in the Annual Report and is reported as miscellaneous revenue in the CRA.
(in millions)

Operating Revenue per Annual Report \$68,996

Interest Income per Annual Report 33

Annual Report Revenue \$69,029

CRA Report Revenue \$69,029

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

	(in millions)
Operating Expenses per Annual Report	\$65,851
Interest expense on deferred retirement liabilities	103
Interest expense on borrowings	10
Annual Report Expenses	<u>\$65,964</u>
CRA Report Expenses	<u>\$65,964</u>

4. Product Specific Costs

Product specific costs, not included in volume variable costs, represent a portion of the incremental cost of certain subclasses of mail. Though these costs make up a very small portion of overall costs, they constitute the largest part of the difference between volume variable and incremental cost for some products. Selected product specific costs are shown below (in millions):

Priority Mail	\$161.5
Express Mail	81.5
International Mail	62.8

5. Cards

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

6. Public Law 108-18

On April 23, 2003, Public Law 108-18, the "Postal Civil Service Retirement System Funding Reform Act of 2003" was signed into law. Under this legislation, the Postal Service reduces the amount paid for certain retirement benefits administered by the Office of Personnel Management (OPM). The legislation expresses that to the extent "savings" resulting from the Act are attributable to fiscal years prior to 2006, they shall be used to reduce postal debt and to hold postage rates unchanged. The legislation expresses the sense of Congress that some portion of any anticipated "savings" after fiscal year 2005 be used to address debt repayment, prefunding of postretirement healthcare benefits for current and former employees, productivity and cost saving capital investments, delaying or moderating increases in postal rates, and any other matter. Volume variable and institutional costs for all products reflect an aggregate \$2.8 billion cost reduction from Public Law 108-18. Included in the legislation was the requirement that the Postal Service bear the CSRS cost associated with the prior military service of Postal Service retirees, a cost previously funded by the U.S. Treasury. The legislation included provisions for the Congress to reconsider whether responsibility for the cost will be borne in the future by the U.S. Treasury or by the Postal Service. Until provided for by law, the corresponding "savings" accruing to any fiscal year after 2005 are to be considered operational expenses of the Postal Service and held in escrow, and may not be obligated or expended.

7. Other

All figures in the CRA are rounded and may not add to totals.
Percents are rounded to the nearest decimal.

- Denotes zero values.
- () Denotes negative values.