



UNITED STATES
POSTAL SERVICE

COST AND REVENUE ANALYSIS

FISCAL YEAR 1999

FINANCE

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 1999

Classes and Sub-Classes of Mail (note 1)	(in millions)			(per piece)			
	Revenue	Incremental	Volume	Revenue	Marginal	Contribution	Cost
	(note 1)	Cost	Variable Cost		Cost	\$	Coverage
	A	B	C	D	E	(D-E)	(D/E)
First-Class Mail:							
Letters and sealed parcels.....	\$33,785.0	\$18,387.3	\$17,145.5	\$0.350	\$0.177	\$0.172	197.05%
Cards.....	977.9	672.3	657.6	0.185	0.124	0.061	148.71%
Fees (note 7).....	170.4						
Total First Class.....	34,933.2	19,263.7	17,803.1	0.343	0.175	0.168	196.22%
Priority Mail.....	4,533.3	3,129.7	2,761.1	3.811	2.321	1.490	164.18%
Express Mail.....	942.0	643.9	402.3	13.717	5.859	7.858	234.12%
Mailgram.....	1.6	0.9	0.9	0.393	0.225	0.169	174.97%
Periodicals:							
In-county.....	77.1	84.1	83.5	0.086	0.093	(0.007)	92.30%
Outside the county:							
Regular publications.....	1,673.1	1,806.5	1,790.5	0.232	0.249	(0.016)	93.45%
Nonprofit publications.....	331.3	375.7	373.8	0.156	0.176	(0.020)	88.64%
Classroom publications.....	13.3	14.6	14.6	0.223	0.245	(0.022)	91.07%
Fees (note 7).....	20.5						
Total Periodicals.....	2,115.3	2,289.8	2,262.3	0.206	0.220	(0.014)	93.50%
Standard Mail (A)							
Single piece rate.....	33.9	97.3	97.3	0.807	2.315	(1.508)	34.86%
Enhanced carrier route.....	4,827.1	2,460.5	2,335.3	0.147	0.071	0.076	206.70%
Regular.....	7,934.5	5,947.8	5,850.8	0.203	0.150	0.053	135.61%
Nonprofit enhanced carrier route.....	227.9	185.9	185.6	0.078	0.064	0.014	122.78%
Nonprofit.....	1,326.5	1,234.0	1,222.3	0.121	0.112	0.010	108.52%
Fees (note 7).....	86.0						
Total Standard Mail (A).....	14,435.8	10,238.8	9,691.3	0.169	0.113	0.055	148.96%
Standard Mail (B):							
Parcels zone rate.....	1,020.9	923.3	914.5	3.200	2.867	0.333	111.63%
Bound printed matter.....	444.6	427.6	424.7	0.897	0.857	0.040	104.69%
Special standard.....	314.1	313.8	313.1	1.567	1.562	0.005	100.33%
Library mail.....	46.5	48.3	48.3	1.657	1.718	(0.062)	96.42%
Fees (note 7).....	2.2						
Total Standard Mail (B).....	1,828.3	1,728.7	1,700.5	1.753	1.630	0.122	107.51%

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 1999

Classes and Sub-Classes of Mail (note 1)	(in millions)			(per piece)			
	Revenue (note 1) A	Incremental Cost (notes 2&11) B	Volume Variable Cost (note 3) C	Revenue D	Marginal Cost (note 4) E	Contribution \$ (note 5) (D-E)	Cost Coverage (note 6) (D/E)
Free mail - blind, handicapped & servicemen.....		\$27.3	\$27.3		\$0.513	N/A	N/A
International mail (note 9).....	\$1,628.2	1,296.4	1,229.3	\$1,690	1.276	\$0.414	132.44%
Total mail.....	60,417.6		35,878.3	0.300	0.178	0.122	168.40%
Special Services:							
Registry (note 13).....	95.1	108.4	108.3	6.967	7.931	(0.964)	87.84%
Ancillary services.....	4.0						
Total Registry.....	99.1						
Certified (note 13).....	370.2	442.2	393.2	1.395	1.481	(0.086)	94.17%
Ancillary services.....	281.1						
Total Certified.....	651.4						
Insurance (note 13).....	91.4	77.5	77.3	1.881	1.591	0.290	118.23%
Ancillary services.....	2.0						
Total Insurance.....	93.4						
COD (note 13).....	19.8	16.8	16.8	4.892	4.154	0.738	117.77%
Ancillary services.....							
Total COD.....	19.8						
Money orders (note 10).....	268.4	205.5	144.0	1.215	0.652	0.564	186.48%
Stamped cards (note 12).....	3.1	3.2	3.2				
Stamped envelopes.....	27.6	11.1	11.1				
Special handling.....	0.2	2.1	2.1				
Post office box.....	667.2	505.5	504.1				
Other.....	4.9		94.9				
Total Special Services.....	1,835.0		1,354.9				
Miscellaneous items (note 10).....	402.5						
Total mail and services.....	62,655.1		37,233.2				
Appropriations: Revenue forgone.....	71.2						
Total operating revenue.....	62,726.3						
Investment income.....	29.0						
Total (note 8).....	62,755.3		37,233.2				
All other costs.....			25,158.6				
Total costs (note 8).....			62,391.8				

See accompanying notes.

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 1999

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.....	53,783,619	2,641,888	0.8	181,013	14.6
Presort letters.....	42,859,119	1,620,459	0.6	111,028	14.6
Total Letters.....	96,642,738	4,262,347	0.7	292,041	14.6
Single-Piece cards.....	2,850,770	17,825	0.1	1,361	13.1
Presort cards.....	2,442,946	19,713	0.1	1,505	13.1
Total cards.....	5,293,716	37,538	0.1	2,866	13.1
Total First Class.....	101,936,454	4,299,885	0.7	294,907	14.6
Priority Mail.....	1,189,469	2,142,570	28.8	174,235	12.3
Express Mail.....	68,673	78,311	18.2	9,858	7.9
Mailgram.....	4,087	0	0.0	0	0.0
Periodicals:					
In-county.....	893,454	247,255	4.4	13,539	18.3
Outside the county:					
Regular publications.....	7,200,355	3,606,562	8.0	197,490	18.3
Nonprofit publications.....	2,120,463	595,513	4.5	32,609	18.3
Classroom publications.....	59,555	33,223	8.9	1,819	18.3
Total Periodicals.....	10,273,827	4,482,553	7.0	245,457	18.3
Standard Mail (A)					
Single piece rate.....	42,037	7,316	2.8	597	12.3
Commercial:Standard (A)					
Enhanced carrier route.....	32,755,982	4,861,825	2.4	272,524	17.8
Regular.....	38,996,265	4,838,081	2.0	271,193	17.8
Total Commercial.....	71,752,247	9,699,906	2.2	543,717	17.8
Nonprofit:Standard (A)					
Nonprofit enhanced carrier route.....	2,917,830	216,764	1.2	12,713	17.1
Nonprofit non carrier route.....	10,949,596	724,290	1.1	42,480	17.1
Total Nonprofit.....	13,867,426	941,054	1.1	55,193	17.1
Total Standard Mail (A).....	85,661,710	10,648,276	2.0	599,507	17.8

See accompanying notes.

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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)
Standard Mail (B):					
Parcels zone rate.....	318,982	1,936,972	97.2	276,079	7.0
Bound printed matter.....	495,662	1,234,993	39.9	87,039	14.2
Special standard.....	200,404	309,918	24.7	28,763	10.8
Library mail.....	28,077	51,284	29.2	3,857	13.3
Total Standard Mail (B).....	1,043,125	3,533,167	54.2	395,738	8.9
US Postal Service.....	382,283	102,574	4.3	7,247	14.2
Free mail - blind, handicapped & servicemen.....	53,227	26,573	8.0	2,596	10.2
International mail.....	963,425	244,891	4.1	23,220	10.5
Total mail.....	201,576,280	25,558,800	2.0	1,752,769	14.6
Special Services:					
Registry.....	13,653	N/A	N/A	N/A	N/A
Ancillary services.....	3,247				
Total Registry.....	16,900				
Certified.....	265,480	N/A	N/A	N/A	N/A
Ancillary services.....	227,149				
Total Certified.....	492,629				
Insurance.....	48,571	N/A	N/A	N/A	N/A
Ancillary services.....	1,609				
Total Insurance.....	50,180				
COD.....	4,038	N/A	N/A	N/A	N/A
Ancillary services.....	N/A				
Total COD.....	4,038				
Money orders.....	220,878	N/A	N/A	N/A	N/A
Stamped cards.....	N/A	N/A	N/A	N/A	N/A
Stamped envelopes.....	N/A	N/A	N/A	N/A	N/A
Special handling.....	27	N/A	N/A	N/A	N/A
Post office box.....	N/A	N/A	N/A	N/A	N/A
Other.....	19,967	N/A	N/A	N/A	N/A
Total Special Services.....	804,620	N/A	N/A	N/A	N/A

See accompanying notes.

**UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Fiscal Year 1999**

1. COST AND REVENUE ANALYSIS

The Cost and Revenue Analysis (CRA) is prepared annually by the United States Postal Service (Postal Service) each year commencing October 1 and ending September 30 as an aid in determining that the Postal Service is 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 estimates of the total and unit revenue of the categories of mail and services provided by the Postal Service during the year, as well as their estimated incremental and marginal costs. Such estimates are considered as one element of the Postal rate making process.

CRA data are based on information from the postal system of accounts. The postal system of accounts, however, generally does not accumulate financial data by class and subclass of mail. Apportionment factors are, therefore, required for development of the data for CRA purposes. These apportionment factors are derived from various postal operational and statistical information sources. Some of these, such as the In-Office Cost System and the Revenue, Pieces and Weight System, are dedicated to this purpose and involve extensive statistical sampling of postal activity during the year. New sampling procedures were partially implemented during Fiscal Years 1995 and 1996 for the Revenue, Pieces and Weights System to accommodate the effects of automation implementation. Coincident with implementation of these new sampling procedures, the difference between actual revenue as derived from the Postal Service financial systems and extrapolated revenue derived from the Revenue, Pieces and Weights System (before the routine adjustment for such differences) increased. During 1998, the Postal Service revised certain sampling procedures, which have decreased the difference between actual and extrapolated revenue. Management is continuing to refine and implement the new sampling procedures and explore further refinements and enhancements to sampling and expansion algorithms inherent in the Revenue, Pieces and Weights System. While extrapolated sample revenue should approximate actual Postal Service revenue, the system has been designed to accommodate and adjust for such differences, and the accuracy of apportionment factors used to develop per piece information does not necessarily depend on how close sample revenue are to actual revenues.

In 1997, the Postal Service changed its methodology used in estimating costs related to classes and subclasses of mail, and introduced estimates of incremental, volume variable and marginal costs. Development of such estimates included as one component the use of operational data included in the Management Operating Data System. The Postal Service also developed variability factors intended to estimate the relationship between increases and decreases in mail volume with associated changes in costs. Supporting information essential to the development of the CRA data is generally obtained from special studies. The methods employed to determine variability factors, and incremental, volume variable, and marginal costs are documented in the Summary Description and in testimony filed by the Postal Service before the Postal Rate Commission. The various criteria and methodologies utilized to develop the information presented in the CRA Report are available from Cost Attribution in Finance.

For Fiscal Year 1999, the U.S. Postal Service has conducted a major update of the data underlying its city carrier costs. The Postal Service has also modified its approach to the volume variability of certain mail processing operations to more closely align its procedures with those

of the Postal Rate Commission. In addition, certain RPW estimation methodologies have been refined. Nonautomated office (non-PERMIT System) precanceled stamp and metered data for First Class Presort and Standard Mail (A) bulk are estimated with mailing statements from a panel of post offices. Permit imprint Standard Mail (B) Parcel Post estimates are based on data from the PERMIT System.

2. INCREMENTAL COSTS

The incremental cost of a subclass of mail or service is an estimate derived from Postal Service cost models of the cost the Postal Service incurs as a result of providing the entire annual quantity of that subclass or service. Conversely, it is the estimate of the cost avoided by eliminating a product, assuming that all other products continue to be provided at their current volumes. The purpose of this cost category is to provide an indication of whether the customers of one subclass of mail (or group of subclasses) may be subsidizing customers of another subclass (or group of subclasses). Note, the incremental cost of a class of mail is greater than the sum of the incremental costs of its constituent subclasses. Class incremental cost includes common costs that are not caused by any one subclass alone but rather by the entire class.

3. VOLUME VARIABLE COSTS

The estimated volume variable cost (sometimes called total marginal cost) of a subclass is the product of its volume and its marginal cost. The sum of the volume variable cost across all subclasses (total volume variable cost) is the revenue that the Postal Service would earn, at current volumes, if it priced each subclass at its marginal cost. Therefore, the difference between the Postal Service's total cost and its total volume variable cost represents the sum of dollars the Postal Service must earn by setting the price levels of its subclasses above their marginal costs, if the Postal Service is going to break even in a given year. For the year ended September 30, 1999 volume variable costs comprised 59.67% of all costs incurred by the Postal Service.

4. MARGINAL COST

The Postal Service estimates of the marginal cost of subclass or mail category is the change in cost that results from a small change in its volume alone, with the volumes of other subclasses or mail categories remaining constant.

5. CONTRIBUTION

The relation of unit revenue to marginal cost provides a measure of the contribution earned by a subclass or mail category at the margin of production. The measure indicates the rate at which a given subclass offsets all other costs of the Postal Service. Contribution is computed by subtracting the marginal cost from the revenue per piece.

6. COST COVERAGE

The cost coverage column expresses unit revenue as a percentage of marginal cost.

7. FEES

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

8. MISCELLANEOUS ADJUSTMENTS

The following differences exist between the revenues shown in the Fiscal Year 1999 Annual Report of the Postal Service (AR) and the Fiscal Year 1999 CRA:

- a) Mortgage Income of \$0.5 million included with interest income in the AR is reported as miscellaneous revenue in the CRA.
- b) Reconciliation with the Annual Report of the Postal Service (page 57):

(dollars in millions)

Per the Annual Report		Per the Annual Report:	
Operating revenue	\$62,726	Operating expenses	\$60,631
Interest Income	29	Interest expense on borrowings	158
		POD Worker's compensation expense	11
		Interest Expenses on unfunded retirement liabilities	<u>1,592</u>
Total revenue per the CRA Report (page 2)	<u>\$62,755</u>	Total costs per the CRA Report (page 2)	<u>\$62,392</u>

9. INTERNATIONAL MAIL

International mail costs include costs of both U.S. origin and foreign origin mail. Volume statistics, however, do not include foreign origin mail.

10. MISCELLANEOUS ITEMS

Miscellaneous items include philatelic sales, fees, fines, unclaimed money from dead letters, sales of services performed for government agencies and private contractors. Miscellaneous items are net of the money order float of \$40.1 million included with special services revenue in the CRA.

11. PRODUCT SPECIFIC COST

Of the incremental cost of certain subclasses, a portion consists of product specific cost. Those amounts are as shown below (in millions):

First Class Letters and Cards	\$19.0
Priority Mail	344.0
Express Mail	231.0
Parcels Zone Rate	.8
International Mail	64.6
Money Orders	15.4
Post Office Box	1.3

12. CARDS

Stamped card revenue represents the fees charged for purchases of First Class single-piece stamped cards. The data reflect revenue reported by the RPW system beginning January 10, 1999. Volume variable cost is \$3.2 million for stamped cards' printing cost.

13. SPECIAL SERVICES

Excludes ancillary service revenue.

14. OTHER

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

- Denotes zero values.

() Denotes negative values.