



February 7, 2011

SYLVESTER BLACK  
VICE PRESIDENT, OPERATIONS, WESTERN AREA

SUBJECT: Audit Report – Facility Optimization: Western Area  
(Report Number DA-AR-11-001)

This report presents the results of our audit of facility optimization in the Western Area (Project Number 10YG020DA002). The U.S. Postal Service Office of Inspector General (OIG) initiated this audit from a random sample of districts nationwide. For the Western Area, our objective was to identify opportunities to optimize existing real estate in the Alaska, Central Plains, Mid-America, Northland, and Seattle Districts. See [Appendix A](#) for additional information about this audit.

The Western Area uses 3,592 facilities with almost 24 million interior square feet (SF) in the five districts noted above. While the area employs these facilities, it has experienced a significant reduction in workload in recent years. From fiscal years (FYs) 2005 to 2010, mail volume in the Western Area has dropped 20 percent. Likewise, mail volume in the Alaska, Central Plains, Mid-America, Northland, and Seattle Districts has decreased by 20 percent, 19 percent, 19 percent, 20 percent, and 22 percent, respectively. This reduction in workload provides an opportunity to reevaluate space needs and identify potential excess space.

## Conclusion

The districts analyzed in the Western Area have over 4.5 million SF in excess of what their workload suggests they need. The U.S. Postal Service has the option to optimize excess real property through:

- Disposal – selling property.
- Outleasing – leasing owned property.
- Subleasing/Reassignment – reassigning leased property.
- Development – investing in real estate projects.

With two major efforts underway, the Postal Service has begun taking action to optimize existing space. Specifically, the Western Area plans to dispose of 1,476,803 SF of this excess through approved optimization projects, with another 25,896 SF scheduled for evaluation in FY 2011 for the five districts selected for our review. Although it has made

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progress, the Postal Service can do more to dispose of excess interior space more quickly. The opportunity to optimize excess interior space in the reviewed districts exists because:

- Postal Service policy requires installation heads to report excess space, but does not provide the necessary guidance to effectively accomplish this task.
- The excess space reporting system does not track metrics such as dates or space conditions to allow for prioritizing disposal actions.

We estimate that if the Western Area initiates disposal<sup>1</sup> action for the excess space we identified, there is an opportunity to realize \$173,835,881<sup>2</sup> over typical and remaining lease terms. We consider this amount to be funds put to better use.<sup>3</sup> See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for our calculation of monetary impact.

Our audit also noted that the Postal Service could be more aggressive in seeking opportunities to fill the space needs of federal entities. In the districts reviewed, our analysis shows that excess space identified at Postal Service facilities may be able to accommodate 71 percent of current federal agencies' space needs. This opportunity exists because the Postal Service has not capitalized on the priority status it has for filling federal agencies' space needs. By capitalizing on this status, the Postal Service has another option for reducing its facility infrastructure size and generating additional revenue. See [Appendix D](#) for more information.

We recommend the vice president, Operations, Western Area; district managers; area managers; and the Western Facility Service Office manager work in coordination to:

1. Clarify procedures for reporting excess space.
2. Initiate disposal actions for excess space identified.
3. Pursue opportunities with federal agencies as an option to optimize excess property.

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<sup>1</sup> Disposal actions available include sale, termination of lease, consolidation, and/or subleasing. At a minimum, the Postal Service can out-lease or initiate a sublet action for owned or leased property, respectively.

<sup>2</sup> The annualized savings is \$17,383,588.

<sup>3</sup> Funds that could be used more efficiently by implementing recommended actions. This amount does not include excess square footage that is part of an approved node study.

## Management's Comments

Management agreed with the finding that excess space exists in a number of facilities, agreed to the recommendations made, and stated corrective actions to address the first two recommendations will be in place by March 2011. They conveyed that corrective action to address the third recommendation is an ongoing process with results available each fiscal year. While management agreed to develop a more accurate process and additional metrics to better manage excess space, as well as continue to make excess property available to other federal agencies, management did not agree with the amount of excess space or the potential monetary impact reported. Specifically, they disagreed with the methodology used to calculate existing excess space, in addition to the data and cost factors used to value the excess space and calculate monetary impact.

In reference to the level of excess space reported, management conveyed that our methodology does not include allowances for:

1. Unusable space such as basements and corridors. The audit treats every square foot as usable and leasable.
2. Unique operational functions not included in standard designs.
3. Historic property.
4. Parking and dock space requirements.
5. Large inflexible retail lobbies.
6. Unmaintained excess space too costly to renovate.

In reference to the data and cost factors used in our calculations, management disagreed with the:

- Level of impacted facilities within the approved optimization studies reported.
- Earned facility square footage calculation because it did not account for unique operations that are not part of the basic standard small building design plan.
- Sublease efficiency rate used to calculate the amount of excess space that could potentially be successfully subleased.
- Build-out cost factors.

As such, management believes the accurate way to calculate monetary impact is by multiplying useable excess space by sublease value less conversion cost. This calculated outcome should then be adjusted for maintenance and utility savings.

Finally, management expressed the challenges facing the Postal Service when disposing property in poor market conditions and actions they have already taken to reduce excess property. In particular, management has focused its attention on properties that have more than 10,000 interior SF which represents 16 percent of buildings and 76 percent of interior square footage. This allows the Postal Service to capture the largest opportunities for excess space that is usable. See [Appendix E](#) for management's comments in their entirety.

### **Evaluation of Management's Comments**

Considering the rapid decline of workload and the dynamic nature of excess space, the OIG considers management's comments responsive to the recommendations. Management's corrective actions over time should resolve the issues identified in the audit report. With respect to the methodology used to calculate excess space, we did not determine whether the excess space identified was usable, in part because Postal Service systems do not identify usable areas. We agree realty management policies and systems need to be updated to define usable areas. According to commercial realty standards,<sup>4</sup> usable areas are generally measured from "paint to paint" inside the permanent walls to the middle of partitions. No deductions are made for columns and projections necessary to the building. Our calculations reflect these standards.

As it relates to the usability of basements, we note that Postal Service Headquarters and many federal agency buildings use basement space. We did not include allowances for existing functions, building layout inefficiencies, and inflexible spaces because the Postal Service's current space standards did not specify these allowances. Our audit focused on interior excess space, thus, enclosed parking and dock space were outside the scope of the audit.

Postal Service management also conveyed that we did not consider the historic nature of buildings and the challenges or costs associated with making changes to these buildings. While we agree that there are properties of the Postal Service that are historic in nature, we do not feel this has a large impact in the presentation of our results. The number of eligible historic buildings listed in the Postal Service's systems account for less than 1 percent of their properties. Also, while the Postal Service is required to consult with historical organizations, they are not bound by these consultations or decisions.

The standard building design matrix served as the basis for determining earned space. During the on-site visits, we inquired if there were unique operations conducted at the facility, such as bulk mail entry units or delivery bar code sorters, and allotted the necessary space for those functions. Additionally, we applied the non-Flats Sequencing Sorter (FSS) rate of 123 SF per route to determine the earned delivery space, rather than the post-FSS rate of 95 SF per route. Conservatively, we did not consider performance measures such as street efficiency or alternate access sales channels

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<sup>4</sup> [www.boma.org](http://www.boma.org).

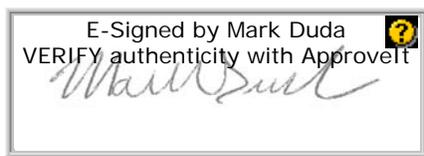
which would decrease the earned facility size and increase excess space. We did not apply the standard building design criteria to plants or administrative facilities. Administrative facilities were not in the scope of our review. In those instances where administrative space was co-located with operational space, we specifically excluded the administrative space from our calculations.

The Postal Service does not have a methodology of determining “build-out” costs at a national, area or district level. As such, to determine build-out cost we used the average build-out costs for the district as presented in their node studies. We note that build-out costs are negotiable and lessees, at times, absorb the cost of conversion. We built in several different tolerances relating to the size of excess space at sites reviewed and considered the marketability of properties within the districts. Further, the multiple actions, such as lease terminations, disposals, and space/lease reductions, within the approved node studies were acknowledged and reflected in our monetary impact calculations. We recognized realty market conditions and discounted our excess space calculations by the national commercial vacancy rate of 14 percent. Therefore, we consider our presentation of the level of excess space and value a reasonable estimate of the opportunity loss associated with unproductive assets.

Finally, we recognize the efforts made to optimize Postal Service real estate and management’s attention to properties greater than 10,000 SF. We believe that once management modernizes its realty management systems to have greater visibility of excess space, it will be able to better prioritize disposal actions associated with its full building inventory.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Miguel A. Castillo, director, Engineering and Facilities, or me at 703-248-2100.



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## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Western Area leases or owns 3,592 facilities with over 23 million interior SF to move mail in the Alaska, Central Plains, Mid-America, Northland, and Seattle Districts. The consolidation or closure of facilities is a widely discussed topic due to declining mail volume and the resulting financial condition of the Postal Service. In response, the Postal Service's Facilities and Retail Management organizations have implemented initiatives to optimize space, namely, the initiation of the Facility Optimization Program and the Station and Branch Optimization Consolidation (SBOC) program.

In April 2008, the vice president of Facilities initiated the Facility Optimization Program to balance the portfolio of existing delivery facilities with the Postal Service's current and projected space needs. The program's objectives are to generate revenue and reduce rent obligations and operational costs. The process entails identifying, investigating, analyzing, and approving space before executing the approved optimization action. The Western Area has two approved optimization studies in the Alaska District, three in the Central Plains District, four in the Mid-America District, four in the Northland District, and 10 in the Seattle District.

Established in May 2009, the SBOC program provides tools and strategies to evaluate the effectiveness of Postal Service retail placement in support of the *Transformation Plan's* goals of improved service and increased revenue. As of February 26, 2010, management was considering the following facilities for closure: the Woods Park Station; and Stations A, B, and C in the Central Plains District and the Metro Mall, Southeast Station, William M Chick, Fairfax, and Packer facilities in the Mid-America District.

In addition to the ongoing node studies<sup>5</sup> and SBOC program, the districts have taken the following initiatives to consolidate space:

- The Northland District has begun plans to reconfigure their plants. For example, they sold the dock and land of the St Paul Processing and Distribution Center (P&DC) to the city to use as a train depot. They have moved the mail processing operations to the new Eagan P&DC.
- The Mid-America District has been actively sub-leasing space in its facilities and is selling Hallmark cards in its existing lobby space.
- The Seattle District indicated that by moving operations out of the Seattle Air Mail Center and another facility, it realized cost savings and eliminated leases.
- The Alaska and Central Plains Districts are proactively evaluating space requirements based on workload changes.

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<sup>5</sup> Studies of consolidation for sites in a geographic radius.

In October 2010, the Postal Service consolidated optimization efforts to manage excess space. The goal is to manage the excess space portfolio for all space types in one overall optimization effort. Currently, the Postal Service has a program in place to optimize carrier delivery facilities through the use of node studies. However, the Postal Service will now include mail processing plants, retail facilities, small delivery units, administrative space, and carrier delivery facilities in one overall optimization effort. The goal is to manage the excess space portfolio for all space types in one overall initiative. This integrated effort between Facilities Headquarters and the field offices will use computer modeling and equipment analysis along with local analysis and metro planning to form a headquarters and district/area partnership.

To supplement and expand on existing Postal Service initiatives, the OIG developed a Real Estate Risk Model (RERM) to identify and prioritize emerging facility risk. The risk model measures facility performance results by district for the following nine metrics:

**Table 1 – Risk Metrics**

RERM Metrics	
Ratio of Mail Volume to Interior SF	Excess Postal Service Identified Interior Space
Ratio Revenue to Interior SF	Excess Land
Ratio of Total Expense to Interior SF	Facility Condition
Ratio of Employees to Interior SF	Density, Geographic Location
Ratio of Retail Revenue to Total Expense	

We randomly selected 17 districts to study excess interior space on a national basis; five of the selected districts were in the Western Area.

**OBJECTIVE, SCOPE, AND METHODOLOGY**

Our objective was to identify opportunities for the Postal Service’s Western Area to optimize existing real estate. We visited 158 of 3,592 facilities in the Alaska, Central Plains, Mid-America, Northland, and Seattle Districts, representing 16 percent of the OIG-calculated excess space when actual interior space is compared to space standards. The scope of the audit primarily included main post offices (MPOs), carrier annexes, stations, branches, and mail processing facilities. To accomplish our objective we visited selected facilities, conducted interviews, and examined other relevant materials.

To calculate an earned<sup>6</sup> facility size, we compared the workload data from Postal Service databases<sup>7</sup> to the number of carrier routes, the number of rented post office box sections, and peak window use. We based the earned facility size on Postal Service criteria<sup>8</sup> for planning new space projects, which differs from existing Postal Service initiatives<sup>9</sup> because it focuses on the total facility size, not specific retail or delivery operations. We calculated excess space by taking the difference between earned facility size and actual interior square footage reported in the electronic Facilities Management System (eFMS). For the plants, the local in-plant support provided us the excess space data which we assessed for reasonableness.

We conducted this performance audit from June 2010 to February 2011 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management on December 14, 2010, and included their comments where appropriate.

We assessed the reliability of facility-related data by verifying the accuracy of computer generated information through observations during facility tours and interviewing agency officials knowledgeable about the data. We determined that the data was sufficiently reliable for the purposes of this report.

**PRIOR AUDIT COVERAGE**

The following audit reports are relevant to the Postal Service’s facility infrastructure:

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Facility Optimization: Northern New Jersey District</i>	DA-AR-10-008	8/25/2010	\$157,963,990	The OIG identified 1.98 million SF of excess space. The Postal Service agreed with recommendations but disagreed with the monetary impact.
<i>Facility Optimization: Chicago District</i>	DA-AR-10-009	8/25/2010	\$23,517,019	The OIG identified 740,529 SF of excess space. The Postal Service agreed with recommendations but disagreed with the monetary impact.

<sup>6</sup> We used Postal Service criteria established in March of 2007 outlined in a letter issued by the senior vice president of Operations. In support of these new criteria, the headquarters Facility Group, Planning and Approval, designed matrices to assist with the space requirements of planned facilities.

<sup>7</sup> WebBATS Monthly Summary Data for issued post office box information, Intelligent Mail and Address Quality Delivery Statistics Summary for route information, and Retail Data Mart for earned peak modeled window staffing.

<sup>8</sup> Space Requirements Matrix for Non-FSS offices.

<sup>9</sup> SBOC and Facilities Optimization programs.

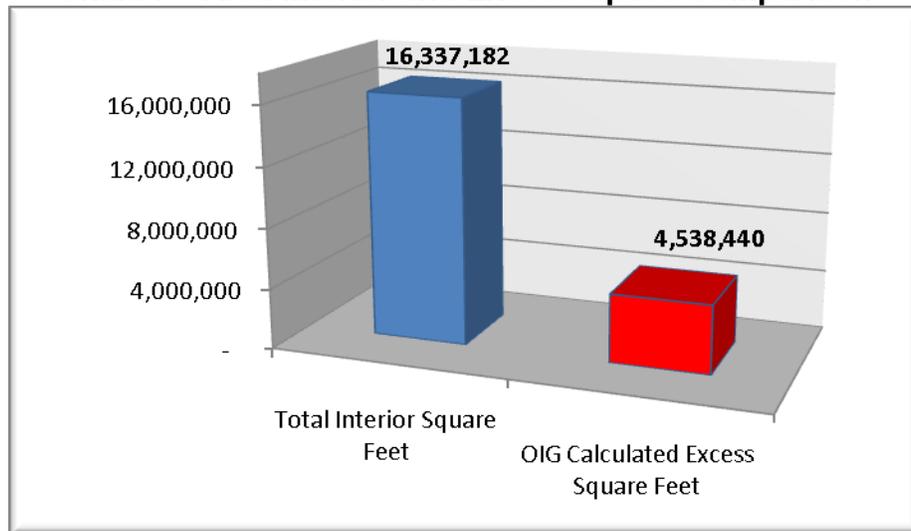
Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Facility Optimization: New York District</i>	DA-AR-10-010	8/25/2010	\$446,258,222	The OIG identified 2.4 million SF of excess space. The Postal Service agreed with recommendations but disagreed with monetary impact.
<i>Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability</i>	GAO-09-937SP	7/28/2009	None	The Government Accountability Office added the U.S. Postal Service's financial condition to the list of high-risk areas needing Congress' attention and the executive branch to achieve broad-based transformation. It recognized the need to reduce the facility infrastructure. There was no Postal Service response in the report.
<i>Federal Real Property: An Update on High-Risk Issues</i>	GAO-09-801T	7/15/2009	None	Federal agencies have taken some positive steps to address real property issues but some of the core problems that led to designation of this area as "high-risk" continue to persist. There was no Postal Service response in the report.
<i>Network Rightsizing Needed to Help Keep USPS Financially Viable</i>	GAO-09-674T	5/20/2009	None	The Postal Service will require action in a number of areas, such as rightsizing its retail and mail processing networks by consolidating operations and closing unnecessary facilities. The Postal Service generally agreed with the accuracy of the statements and provided technical comments, which were incorporated.

**APPENDIX B: DETAILED ANALYSIS**

**Excess Space is Significant in the Western Area**

Based on facility space requirements,<sup>10</sup> we calculated that the districts reviewed in the Western Area maintain over 4.5 million SF more than what is required for current operational workload, thus can be considered potential excess space. As depicted in Chart 1, excess space was 28 percent of the total interior square footage.

**Chart 1 – Area Interior and Excess Space Comparison**



The breakdown of interior square footage and OIG-calculated excess for the 158 visited facilities in the Western Area is represented in Table 2. MPOs contributed 32 percent of the excess space, while stations (23 percent), carrier annexes (15 percent), and branches (14 percent) followed to a lesser degree.

**Table 2 – Excess Space by Facility Type Visited**

Facility Type	Facility Type Count	Percentage of Count	Percentage of Excess	OIG-Calculated Excess	Interior Square Footage
MPO	32	20.3%	32.3%	412,016	787,953
Station	41	25.9%	22.8%	291,474	829,459
Carrier Annex	17	10.8%	14.8%	188,712	362,542
Branch	18	11.4%	13.5%	172,874	362,086
Plant	21	13.3%	8.9%	113,339	5,323,766
Finance Station	29	18.4%	7.7%	97,690	194,551
<b>Total</b>	<b>158</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1,276,105</b>	<b>7,860,357</b>

<sup>10</sup> We used Postal Service criteria established in March of 2007 outlined in a letter issued by the senior vice president of Operations. In support of these new criteria, the Headquarters Facility Group, Planning and Approval, designed matrices to assist with the space requirements of planned facilities.

To highlight excess space in the Western Area, Illustration 1 depicts two facilities with excess interior space. The Independence MPO is Postal Service-owned and has delivery and retail operations along with vacant space in the facility. The West Edina Carrier Annex is another Postal Service-owned facility with delivery operations and significant vacant space on the workroom floor. According to our calculations, 83 percent of the sites visited contained excess space, ranging from 265 to 91,246 SF.

**Illustration 1 – Examples of Excess Space**

<p><b>Independence MPO</b>                  301 West Lexington Avenue                  Independence, MO                  Interior Square Footage:54,390  <b>OIG-Calculated Excess SF: 38,876</b></p> 	<p><b>West Edina Carrier Annex</b>                  7360 Bush Lake Road                  Minneapolis, MN                  Interior Square Footage:29,739  <b>OIG-Calculated Excess SF: 21,739</b></p> 
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[Causes for Excess Interior Space](#)

The opportunity to optimize excess interior space in the Western Area exists because:

- Postal Service policy requires installation heads to report excess space, but does not provide the necessary guidance to effectively accomplish this task.
- Facility systems do not track metrics such as dates or space conditions to allow effective management of excess space.

[Guidance Can Be Improved](#)

A review of the facility database user guide shows it does not provide sufficient guidance for identifying excess space using the workload-driven space requirements. For example, the facility database space survey asks installation heads to objectively answer “Do you have any vacant space in your facility that is in leasable condition and has access that does not compromise the security of the operation?” without providing

further guidance or referencing space standards. While we identified excess space at 131 of the 158 Postal Service facilities we visited, only five locations answered “yes” to the vacant leasable space survey question. Further, our interviews revealed Operations’ employees were unaware of the method used to identify excess space at their facilities. As a result, we identified over 4.5 million excess SF in the Alaska, Central Plains, Mid-America, Northland, and Seattle Districts.

### Facility Systems Do Not Allow for Effective Management of Excess Space

The Postal Service is experiencing a considerable workload decline which has resulted in significant excess space. However, the electronic system that manages facility space does not collect or monitor metrics such as length of time space is underused or vacant and the condition of excess space in order to efficiently prioritize disposal actions.

For comparison purposes, we benchmarked Postal Service facility practices against the General Services Administration’s (GSA) realty management practices and found that GSA “ages” its available space for tracking, monitoring, and decision-making. The Postal Service is not able to age excess space as it does not collect dates on entry.

GSA’s Public Buildings Service also manages its leased portfolio by focusing on four primary areas: reducing vacancy, managing lease administration expenses, managing customer requirements, and analyzing market trends. Similarly, GSA-owned facilities are monitored and analyzed using performance metrics such as revenue, funds from operations, operating costs, vacancy, net operating income, and return on equity. The Postal Service’s facility management systems are not able to manage property in this manner. For example, rents from leases or subleases are tracked manually using electronic spreadsheets.

Additionally, because the Postal Service’s eFMS calculates space based on delivery and retail metrics, the excess space reported for processing and distribution plants is inaccurate. Therefore, it is not a reliable source for identifying how much excess space is available in its plants. The Postal Service plans to measure plants and update the facility database. To complete this task, industrial engineers, working with local in-plant support, are using blueprints to identify processing equipment, staging areas, and manual work areas and identify excess space.

We estimate if the Western Area initiated disposal actions, there is a potential opportunity to realize \$173,835,881<sup>11</sup> over typical and remaining lease terms. This amount is considered funds that could be used more efficiently by implementing recommended actions. See [Appendix C](#) for the monetary impact calculation and assumptions.

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<sup>11</sup> The annualized savings would be \$17,383,588.

### Opportunity to Fulfill Federal Space Needs

GSA is the nation's largest public real estate organization. It provides workspace for more than 1 million federal workers through its Public Buildings Service. According to the Code of Federal Regulations (CFR), in situations when GSA-controlled space is not available, federal agencies must extend priority consideration to available space in Postal Service buildings.<sup>12</sup>

Our audit noted that the Postal Service can be more aggressive in seeking opportunities to fill the space needs of federal entities. Table 3 illustrates the potential fulfillment opportunities in each of the five districts reviewed in the Western Area. Specifically, it shows that GSA leases on behalf of federal entities primarily from the commercial sector rather than the Postal Service. Space requirements were greater than the excess space identified in Postal Service facilities. GSA paid considerably more per square foot than the value assigned to the Postal Service space.<sup>13</sup>

**Table 3 – Postal Service Excess Space Lease Opportunity**

Districts	GSA Leased SF	Postal Service Excess SF	GSA Facility Count	Postal Service Facility Count	Existing GSA/ Postal Service Leases	GSA Average SF Cost	Postal Service Average SF Value	Number of GSA Leases Excess Space May Accommodate	
Alaska	1,018,247	346,940	132	143	1	\$28.07	\$26.64	99 of 132	75%
Central Plains	2,798,922	1,303,200	139	617	1	\$15.63	5.86	120 of 139	86%
Mid-America	5,651,707	967,024	134	343	4	\$12.53	6.91	82 of 134	61%
Northland	1,216,795	1,120,675	127	409	0	\$24.67	8.38	100 of 127	79%
Seattle	3,240,385	800,601	234	202	5	\$27.16	11.44	143 of 234	61%
<b>Total</b>	<b>13,926,056</b>	<b>4,538,440</b>	<b>766</b>	<b>1,714</b>	<b>11</b>	<b>\$18.75</b>	<b>\$9.28</b>	<b>544 of 766</b>	<b>71%</b>

Table 3 and [Appendix D](#) also illustrate the strong correlation between space leased by the GSA and the ability of the Postal Service to significantly accommodate federal space needs. For the districts reviewed, we estimate that Postal Service excess space may accommodate 544 of 766 (or 71 percent) of current federal leases. However, we understand that more information is necessary to determine whether the Postal Service’s excess space would be suitable.

<sup>12</sup> 41 CFR 102-73.20.

<sup>13</sup> We assigned Postal Service excess space a value based on historical lease rates in the same geographic areas.

**APPENDIX C: MONETARY IMPACTS**  
**FUNDS PUT TO BETTER USE**

Alaska Excess Interior Space Monetary Impacts										
Project year	0	1	2	3	4	5	6	7	8	9
Fiscal year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b><u>Owned**</u></b>										
Sublease Value	(\$8,572,718)	\$7,405,227	\$7,405,227	\$7,405,227	\$7,405,227	\$7,405,227	\$7,405,227	\$7,405,227	\$7,405,227	\$1,851,307
Utility Savings		\$1,042,403	\$1,066,378	\$1,090,904	\$1,115,995	\$1,141,663	\$1,167,921	\$1,194,784	\$305,566	
Custodial Savings		\$639,340	\$639,340	\$639,340	\$639,340	\$639,340	\$639,340	\$639,340	\$159,835	
<b><u>Leases Expiring FY 2011***</u></b>										
Sublease Value	(\$521,165)	\$450,189	\$450,189	\$450,189	\$450,189	\$450,189				
Utility Savings		\$63,371	\$64,829	\$66,320	\$67,845	\$69,406				
Custodial Savings		\$38,868	\$38,868	\$38,868	\$38,868	\$38,868				
<b><u>Leases Expiring After 10/1/2011</u></b>										
Sublease Value	(\$1,605,746)	\$1,387,065	\$1,250,588	\$1,227,944	\$1,215,264	\$1,204,581	\$1,165,207	\$1,141,071	\$675,111	\$494,358
Utility Savings		\$195,251	\$180,089	\$180,895	\$183,145	\$185,710	\$183,772	\$184,104	\$111,430	\$83,473
Custodial Savings		\$119,754	\$107,971	\$106,016	\$104,921	\$103,999	\$100,600	\$98,516	\$58,287	\$42,681
<b>Subtotal</b>	<b>(\$10,699,630)</b>	<b>\$11,341,469</b>	<b>\$11,203,479</b>	<b>\$11,205,704</b>	<b>\$11,220,795</b>	<b>\$11,238,983</b>	<b>\$10,662,067</b>	<b>\$10,663,042</b>	<b>\$3,161,535</b>	<b>\$620,512</b>
<b>Cash Flows @ Sub Lease Efficiency Rate</b>	<b>(\$9,276,579)</b>	<b>\$9,833,053</b>	<b>\$9,713,417</b>	<b>\$9,715,346</b>	<b>\$9,728,429</b>	<b>\$9,744,199</b>	<b>\$9,244,012</b>	<b>\$9,244,858</b>	<b>\$2,741,051</b>	<b>\$537,984</b>
<b>Discounted at Postal Service cost of borrowing</b>	<b>(\$9,276,579)</b>	<b>\$9,466,237</b>	<b>\$9,002,227</b>	<b>\$8,668,125</b>	<b>\$8,356,003</b>	<b>\$8,057,326</b>	<b>\$7,358,585</b>	<b>\$7,084,725</b>	<b>\$2,022,222</b>	<b>\$382,094</b>

<b>Net Present Value: \$51,120,963</b>			
<b>Build-Out Costs SF</b>	<b>\$30.84</b>	<b>Utilities Savings SF per Year</b>	<b>\$3.75</b>
<b>Lease Savings SF per Year</b>	<b>\$26.64</b>	<b>Utility Cost Escalation Rate</b>	<b>2.30%</b>
<b>Postal Service Cost of Borrowing</b>	<b>3.875%</b>	<b>Custodial Rate SF</b>	<b>\$4.60</b>
<b>Sub-lease Efficiency Rate</b>	<b>86.7%</b>		
<b>Assumption: **Weighted Average Lease Years = 7.3</b>			

Central Plains Excess Interior Space Monetary Impacts										
Project year	0	1	2	3	4	5	6	7	8	9
Fiscal year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Owned**</b>										
Sublease Value	(\$26,148,280)	\$4,968,512	\$4,968,512	\$4,968,512	\$4,968,512	\$4,968,512	\$4,968,512	\$4,968,512	\$4,968,512	\$1,242,128
Utility Savings		\$1,076,794	\$1,101,560	\$1,126,896	\$1,152,814	\$1,179,329	\$1,206,454	\$1,234,202	\$315,647	
Custodial Savings		\$1,004,725	\$1,004,725	\$1,004,725	\$1,004,725	\$1,004,725	\$1,004,725	\$1,004,725	\$1,004,725	\$251,181
<b>Leases Expiring After 10/1/2011</b>										
Sublease Value	(\$14,042,408)	\$2,668,240	\$2,270,914	\$1,945,098	\$1,601,403	\$1,498,132	\$252,062	\$229,349	\$139,497	\$26,224
Utility Savings		\$578,270	\$503,480	\$441,163	\$371,564	\$355,598	\$61,206	\$56,971	\$35,449	\$6,817
Custodial Savings		\$539,567	\$459,221	\$393,335	\$323,833	\$302,950	\$50,972	\$46,379	\$28,209	\$5,303
<b>Subtotal</b>	<b>(\$40,190,688)</b>	<b>\$10,836,108</b>	<b>\$10,308,412</b>	<b>\$9,879,728</b>	<b>\$9,422,852</b>	<b>\$9,309,246</b>	<b>\$7,543,930</b>	<b>\$7,540,138</b>	<b>\$2,012,111</b>	<b>\$38,344</b>
Cash Flows @ Sub Lease Efficiency Rate	(\$34,845,326)	\$9,394,906	\$8,937,393	\$8,565,725	\$8,169,613	\$8,071,116	\$6,540,587	\$6,537,299	\$1,744,501	\$33,244
Discounted at Postal Service cost of borrowing	(\$34,845,326)	\$9,044,434	\$8,283,022	\$7,642,422	\$7,017,094	\$6,673,881	\$5,206,556	\$5,009,808	\$1,287,013	\$23,611

<b>Net Present Value: \$15,342,513</b>			
<b>Build-Out Costs SF</b>	<b>\$30.84</b>	<b>Utilities Savings SF per Year</b>	<b>\$1.27</b>
<b>Lease Savings SF per Year</b>	<b>\$5.86</b>	<b>Utility Cost Escalation Rate</b>	<b>2.30%</b>
<b>Postal Service Cost of Borrowing</b>	<b>3.875%</b>	<b>Custodial Rate SF</b>	<b>\$2.37</b>
<b>Sub-lease Efficiency Rate</b>	<b>86.7%</b>		

Mid America Excess Interior Space Monetary Impacts										
Project year	0	1	2	3	4	5	6	7	8	9
Fiscal year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Owned**</b>										
Sublease Value	(\$12,959,201)	\$4,531,785	\$4,531,785	\$4,531,785	\$4,531,785	\$4,531,785	\$4,531,785	\$4,531,785	\$4,531,785	\$1,132,946
Utility Savings		\$1,003,420	\$1,026,499	\$1,050,108	\$1,074,261	\$1,098,969	\$1,124,245	\$1,150,102	\$294,139	
Custodial Savings		\$950,954	\$950,954	\$950,954	\$950,954	\$950,954	\$950,954	\$950,954	\$950,954	\$237,738
<b>Leases Expiring FY 2011***</b>										
Sublease Value	(\$1,306,294)	\$456,806	\$456,806	\$456,806	\$456,806	\$456,806				
Utility Savings		\$101,145	\$103,472	\$105,851	\$108,286	\$110,777				
Custodial Savings		\$95,857	\$95,857	\$95,857	\$95,857	\$95,857				
<b>Leases Expiring After 10/1/2011</b>										
Sublease Value	(\$4,842,899)	\$1,693,544	\$974,151	\$866,376	\$540,659	\$526,749	\$473,826	\$440,271	\$396,579	\$275,053
Utility Savings		\$374,982	\$220,656	\$200,757	\$128,163	\$127,738	\$117,547	\$111,734	\$102,961	\$73,052
Custodial Savings		\$355,375	\$204,417	\$181,801	\$113,452	\$110,534	\$99,428	\$92,387	\$83,218	\$57,717
Subtotal	(\$19,108,394)	\$9,563,867	\$8,564,595	\$8,440,295	\$8,000,223	\$8,010,168	\$7,297,784	\$7,277,233	\$2,247,581	\$405,822
Cash Flows @ Sub Lease Efficiency Rate	(\$16,566,978)	\$8,291,873	\$7,425,504	\$7,317,736	\$6,936,193	\$6,944,815	\$6,327,179	\$6,309,361	\$1,948,653	\$351,848
Discounted at Postal Service cost of borrowing	(\$16,566,978)	\$7,982,549	\$6,881,829	\$6,528,954	\$5,957,678	\$5,742,560	\$5,036,674	\$4,835,130	\$1,437,627	\$249,894

<b>Net Present Value: \$28,085,917</b>			
<b>Build-Out Costs SF</b>	<b>\$19.76</b>	<b>Utilities Savings SF per Year</b>	<b>\$1.53</b>
<b>Lease Savings SF per Year</b>	<b>\$6.91</b>	<b>Utility Cost Escalation Rate</b>	<b>2.30%</b>
<b>Postal Service Cost of Borrowing</b>	<b>3.875%</b>	<b>Custodial Rate SF</b>	<b>\$2.90</b>
<b>Sub-lease Efficiency Rate</b>	<b>86.7%</b>		

Northland Excess Interior Space Monetary Impacts										
Project year	0	1	2	3	4	5	6	7	8	9
Fiscal year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Owned**</b>										
Sublease Value	(\$5,065,183)	\$5,978,342	\$5,978,342	\$5,978,342	\$5,978,342	\$5,978,342	\$5,978,342	\$5,978,342	\$5,978,342	\$1,494,586
Utility Savings		\$1,298,399	\$1,328,262	\$1,358,812	\$1,390,065	\$1,422,036	\$1,454,743	\$1,488,202	\$380,608	
Custodial Savings		\$1,148,584	\$1,148,584	\$1,148,584	\$1,148,584	\$1,148,584	\$1,148,584	\$1,148,584	\$287,146	
<b>Leases Expiring FY 2012***</b>										
Sublease Value	(\$368,966)	\$435,483	\$435,483	\$435,483	\$435,483	\$435,483				
Utility Savings		\$94,580	\$96,755	\$98,981	\$101,257	\$103,586				
Custodial Savings		\$83,667	\$83,667	\$83,667	\$83,667	\$83,667				
<b>Leases Expiring After 10/1/2011</b>										
Sublease Value	(\$2,522,644)	\$2,977,431	\$1,804,030	\$1,497,053	\$968,929	\$941,099	\$850,386	\$708,914	\$513,971	\$397,681
Utility Savings		\$646,650	\$400,817	\$340,264	\$225,292	\$223,854	\$206,929	\$176,472	\$130,887	\$103,602
Custodial Savings		\$572,036	\$346,598	\$287,620	\$186,155	\$180,808	\$163,380	\$136,200	\$98,746	\$76,404
<b>Subtotal</b>	<b>(\$7,956,793)</b>	\$13,235,172	\$11,622,538	\$11,228,807	\$10,517,774	\$10,517,460	\$9,802,363	\$9,636,714	\$2,905,942	\$577,687
<b>Cash Flows @ Sub Lease Efficiency Rate</b>	<b>(\$6,898,539)</b>	\$11,474,894	\$10,076,741	\$9,735,375	\$9,118,910	\$9,118,638	\$8,498,649	\$8,355,031	\$2,519,452	\$500,855
<b>Discounted at Postal Service cost of borrowing</b>	<b>(\$6,898,539)</b>	\$11,046,829	\$9,338,949	\$8,685,995	\$7,832,471	\$7,540,060	\$6,765,247	\$6,402,813	\$1,858,736	\$355,724

<b>Net Present Value: \$52,928,285</b>			
<b>Build-Out Costs SF</b>	<b>\$7.10</b>	<b>Utilities Savings SF per Year</b>	<b>\$1.82</b>
<b>Lease Savings SF per Year</b>	<b>\$8.38</b>	<b>Utility Cost Escalation Rate</b>	<b>2.30%</b>
<b>Postal Service Cost of Borrowing</b>	<b>3.875%</b>	<b>Custodial Rate SF</b>	<b>\$3.22</b>
<b>Sub-lease Efficiency Rate</b>	<b>86.7%</b>		

Seattle Excess Interior Space Monetary Impacts										
Project year	0	1	2	3	4	5	6	7	8	9
Fiscal year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020
<b>Owned**</b>										
Sublease Value	(\$24,421,368)	\$5,988,863	\$5,988,863	\$5,988,863	\$5,988,863	\$5,988,863	\$5,988,863	\$5,988,863	\$5,988,863	\$1,497,216
Utility Savings		\$1,104,589	\$1,129,995	\$1,155,985	\$1,182,572	\$1,209,771	\$1,237,596	\$1,266,061	\$323,795	
Custodial Savings		\$1,067,944	\$1,067,944	\$1,067,944	\$1,067,944	\$1,067,944	\$1,067,944	\$1,067,944	\$266,986	
<b>Leases Expiring FY 2011***</b>										
Sublease Value	(\$3,544,327)	\$869,177	\$869,177	\$869,177	\$869,177	\$869,177				
Utility Savings		\$160,311	\$163,999	\$167,771	\$171,629	\$175,577				
Custodial Savings		\$154,993	\$154,993	\$154,993	\$154,993	\$154,993				
<b>Leases Expiring After 10/1/2011</b>										
Sublease Value	(\$9,382,341)	\$2,300,836	\$1,684,060	\$1,218,097	\$1,050,249	\$1,012,463	\$828,279	\$620,254	\$374,786	\$222,794
Utility Savings		\$424,367	\$317,753	\$235,120	\$207,384	\$204,521	\$171,164	\$131,123	\$81,053	\$49,291
Custodial Savings		\$410,289	\$300,304	\$217,213	\$187,282	\$180,544	\$147,700	\$110,605	\$66,832	\$39,729
<b>Subtotal</b>	<b>(\$37,348,037)</b>	<b>\$12,481,370</b>	<b>\$11,677,087</b>	<b>\$11,075,162</b>	<b>\$10,880,094</b>	<b>\$10,863,853</b>	<b>\$9,441,546</b>	<b>\$9,184,850</b>	<b>\$2,610,668</b>	<b>\$311,814</b>
<b>Cash Flows @ Sub Lease Efficiency Rate</b>	<b>(\$32,380,748)</b>	<b>\$10,821,347</b>	<b>\$10,124,034</b>	<b>\$9,602,166</b>	<b>\$9,433,042</b>	<b>\$9,418,961</b>	<b>\$8,185,820</b>	<b>\$7,963,265</b>	<b>\$2,263,449</b>	<b>\$270,342</b>
<b>Discounted at Postal Service cost of borrowing</b>	<b>(\$32,380,748)</b>	<b>\$10,417,663</b>	<b>\$9,382,780</b>	<b>\$8,567,144</b>	<b>\$8,102,287</b>	<b>\$7,788,392</b>	<b>\$6,516,224</b>	<b>\$6,102,586</b>	<b>\$1,669,869</b>	<b>\$192,006</b>

<b>Net Present Value: \$26,358,203</b>			
<b>Build-Out Costs SF</b>	<b>\$46.65</b>	<b>Utilities Savings SF per Year</b>	<b>\$2.11</b>
<b>Lease Savings SF per Year</b>	<b>\$11.44</b>	<b>Utility Cost Escalation Rate</b>	<b>2.30%</b>
<b>Postal Service Cost of Borrowing</b>	<b>3.875%</b>	<b>Custodial Rate SF</b>	<b>\$4.08</b>
<b>Sub-lease Efficiency Rate</b>	<b>86.7%</b>		

### **Value Assigned to the Excess Space**

Table 4 shows the value per square foot for each district. Using the Facility Inventory Reports from the eFMS, we calculated this figure by dividing total interior square footage by total lease costs.

### **Utility Costs Associated with the Excess Space**

Table 4 shows the utility cost per square foot for each district. Using the information from line 42 of the Financial Performance Report (FPR), we calculated this figure by dividing the total annual utility expenses by the district's total interior square footage, with a cost escalation rate of 2.3 percent.

### **Maintenance Costs Associated with the Excess Space**

Table 4 shows the maintenance cost per square foot for each district. We calculated this cost by dividing the total annual maintenance expenses<sup>14</sup> by the district's total interior square footage. However, we reduced the cost by 50 percent, based on previously identified savings in a custodial maintenance audit.<sup>15</sup>

### **Build-Out Costs Associated with Implementing Optimization Actions**

Table 4 shows the build-out cost per square foot for each district. We calculated this figure by dividing the "build-out/Line 63 capital" costs for all approved optimization node studies in each district by the total reduction in square footage identified in the approved node studies.

For the Mid-America, Northland, and Seattle Districts, we calculated the average build-out cost and then removed any "outliers," such as items with no build-out cost or items whose build-out cost per square foot was not in keeping with the emerging range of costs to generate a new build-out cost. However, in the Alaska and Central Plains Districts, there were not enough node studies with build-out costs to be considered representative of the district. In these cases, we calculated the build-out cost per square foot for the entire Western Area, which is \$30.84. We calculated this figure using the same methodology as the district cost, but expanded the scope to include all node studies for districts in the Western Area.

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<sup>14</sup> eFlash (Labor Distribution Code 38, salary and benefits) + FPR Line 3F Contract Cleaners Costs.

<sup>15</sup> *Custodial Maintenance* (Report Number DA-AR-09-011, dated August 13, 2009).

**Table 4 – Square Footage Costs by District**

District	Lease Cost/SF	Utility Cost/SF	Maintenance Cost/SF	Build out Cost/SF <sup>16</sup>
Alaska	\$26.64	\$3.75	\$4.60	\$30.84
Central Plains	\$5.86	\$1.27	\$2.37	\$30.84
Mid-America	\$6.91	\$1.53	\$2.90	\$19.76
Northland	\$8.38	\$1.82	\$3.22	\$7.10
Seattle	\$11.44	\$2.11	\$4.08	\$46.65

**Ownership of Facility and Term Years**

We categorized all facilities in the district by ownership – leased versus Postal Service-owned. We further grouped the leased properties by the number of term years remaining on the lease.

We calculated leases expiring before the end of FY 2011 based on the assumption that these lease would be renewed for the standard 5-year period. We calculated leases expiring after October 1, 2011, for the remaining lease term. We calculated Postal Service-owned facilities over a period of 7.3 years, which was the historical national average lease term.

**Sublease Efficiency Rate**

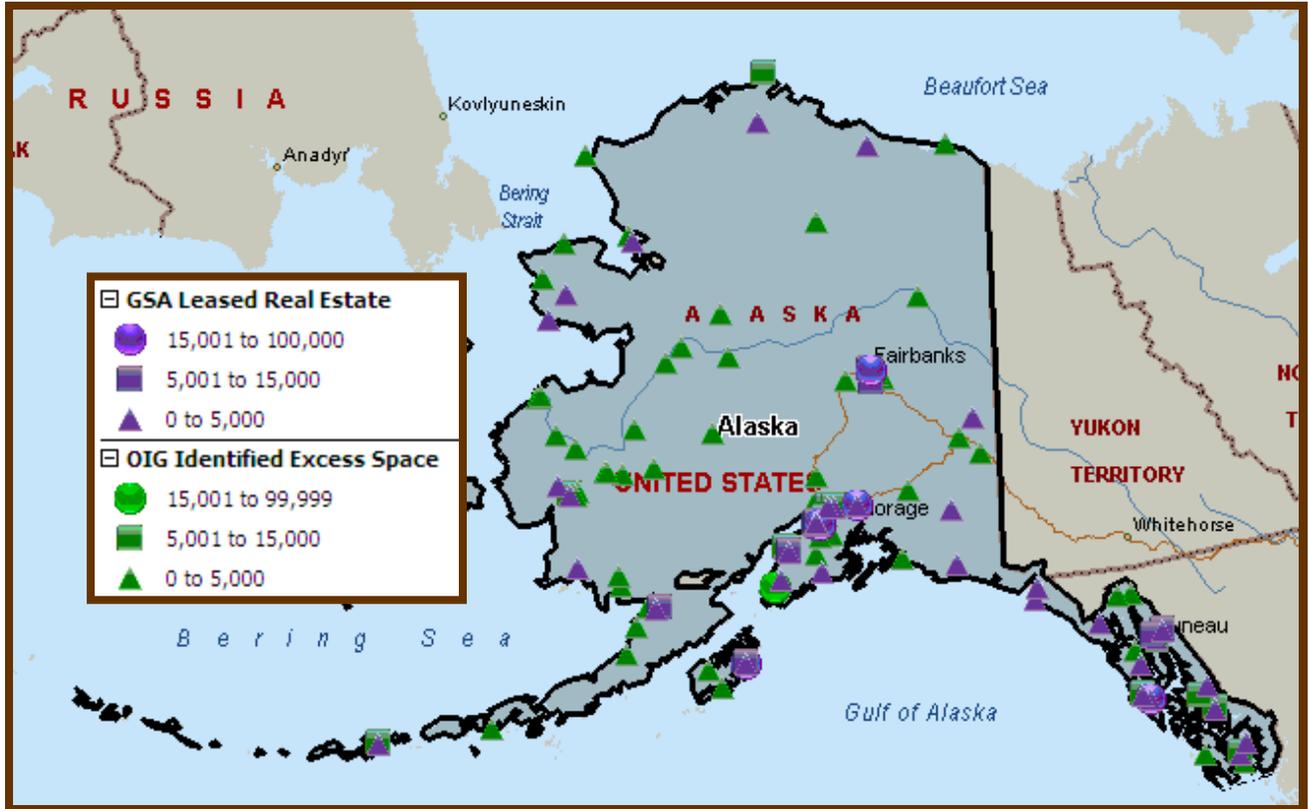
We identified the national commercial property vacancy rate from the National Realty Association for industrial and retail space as 13.3 percent, so we reduced the net present value savings realization to an 86.7 percent “success rate.”

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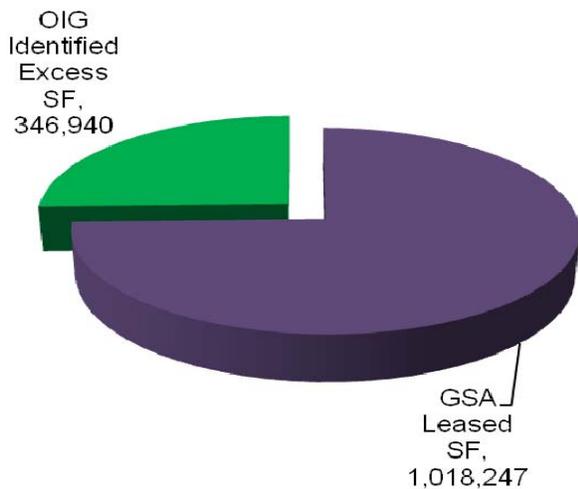
<sup>16</sup> While build-out costs are negotiable and, at times, paid for by the lessor, these costs ranged from \$0 per square footage to \$169.49 per square footage in the node studies analyzed.

**APPENDIX D: GSA-LEASED PROPERTIES COMPARED TO POSTAL SERVICE EXCESS SPACE**

**Alaska District**

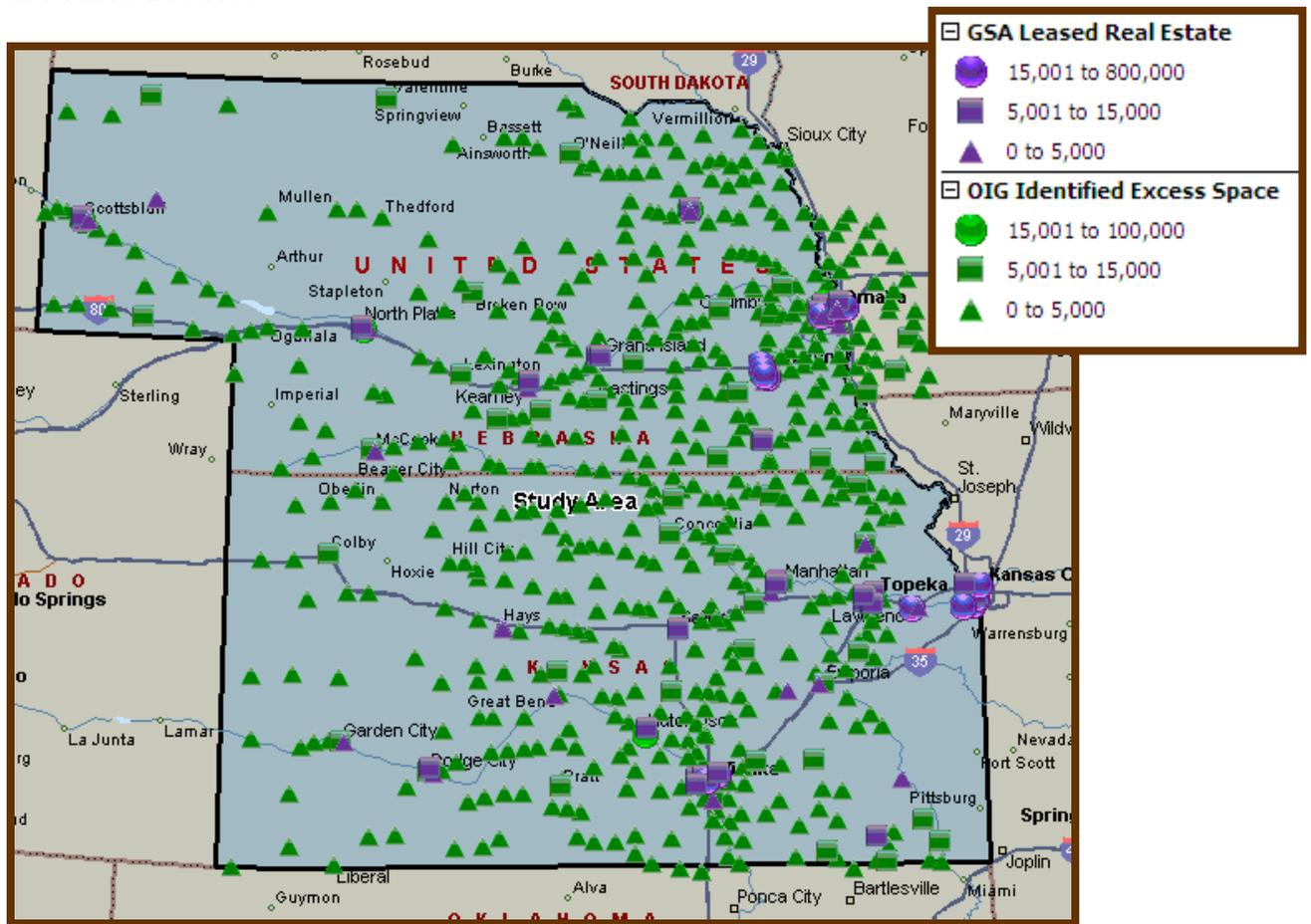


The pie chart illustrates the ratio of Postal Service excess space to GSA-leased commercial space. The table below provides additional analysis by placing the real estate into size categories to further assess supply versus demand.

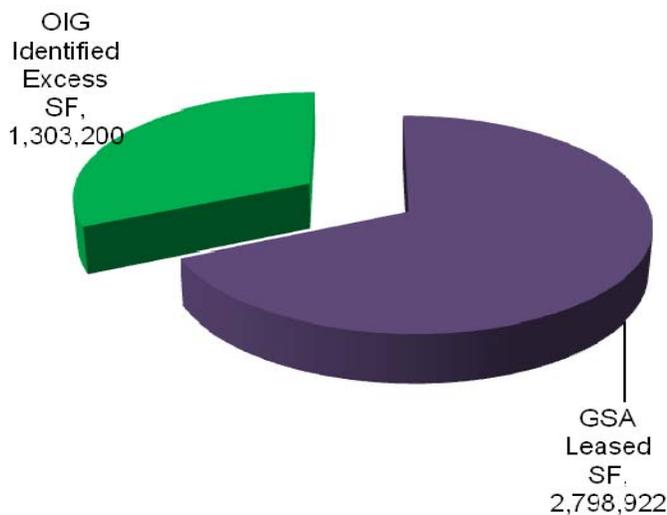


Building Size (SF)	GSA Leased Facilities	OIG Identified Excess
1,000	27	71
5,000	56	55
10,000	19	9
20,000	14	7
30,000	12	1
40,000	2	0
50,000	0	0
More	2	0
<b>Total Count</b>	<b>132</b>	<b>143</b>

Central Plains District

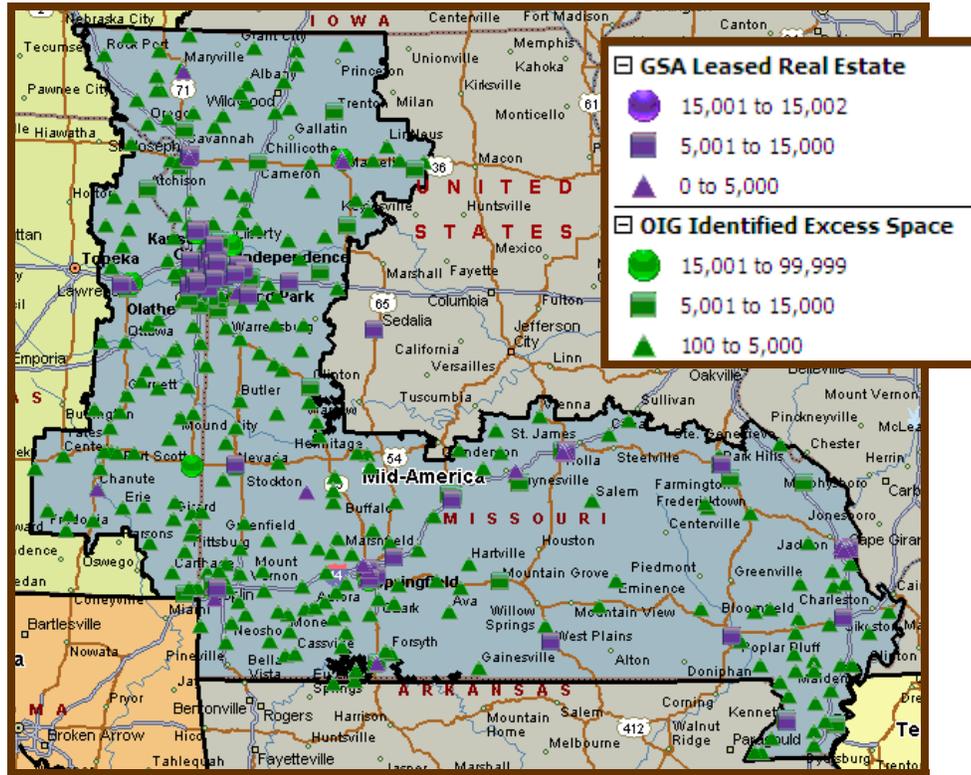


The pie chart illustrates the ratio of Postal Service excess space to GSA-leased commercial space. The table below provides additional analysis by placing the real estate into size categories to further assess supply versus demand.

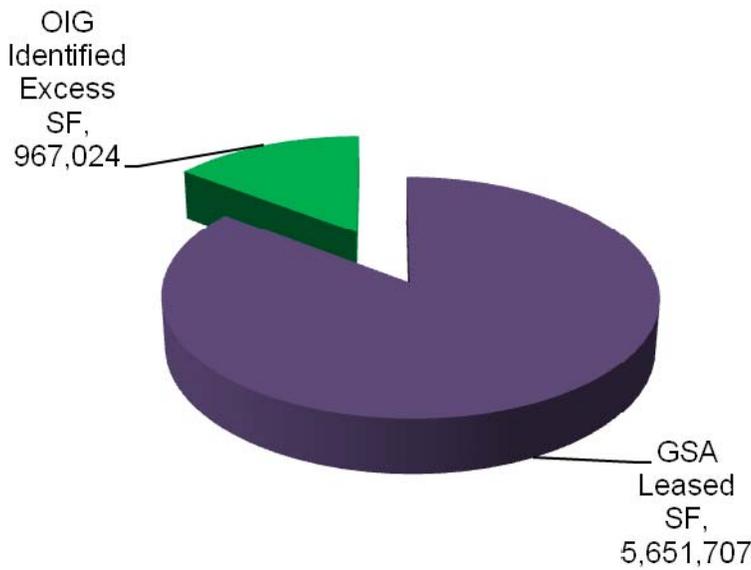


Building Size (SF)	GSA Leased Facilities	OIG Identified Excess
1,000	19	393
5,000	43	151
10,000	37	52
20,000	19	15
30,000	5	3
40,000	2	1
50,000	1	0
More	13	2
<b>Total Count</b>	<b>139</b>	<b>617</b>

Mid-America District

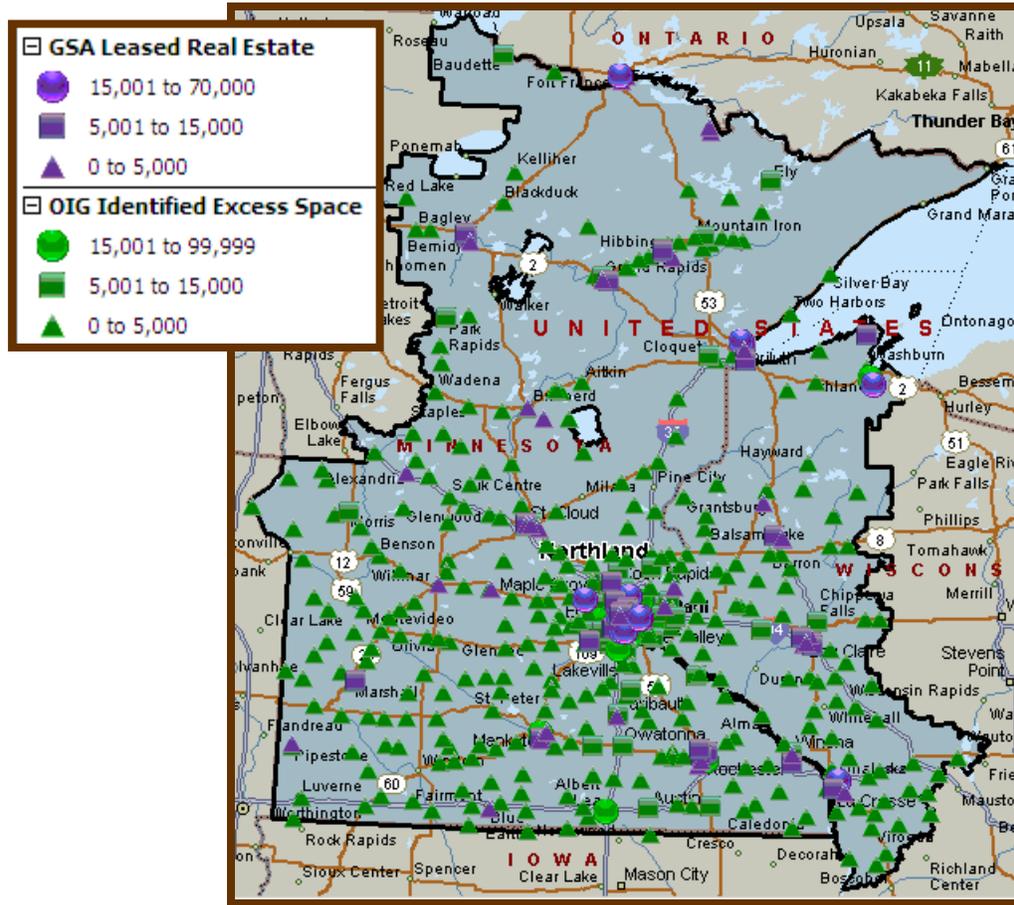


The pie chart illustrates the ratio of Postal Service excess space to GSA-leased commercial space. The table below provides additional analysis by placing the real estate into size categories to further assess supply versus demand.

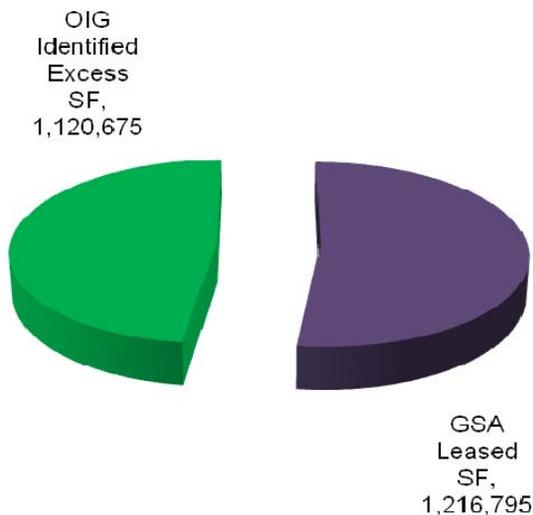


Building Size (SF)	GSA Leased Facilities	OIG Identified Excess
1,000	8	162
5,000	26	130
10,000	32	26
20,000	28	18
30,000	7	1
40,000	8	1
50,000	3	2
More	22	0
<b>Total Count</b>	<b>134</b>	<b>340</b>

Northland District

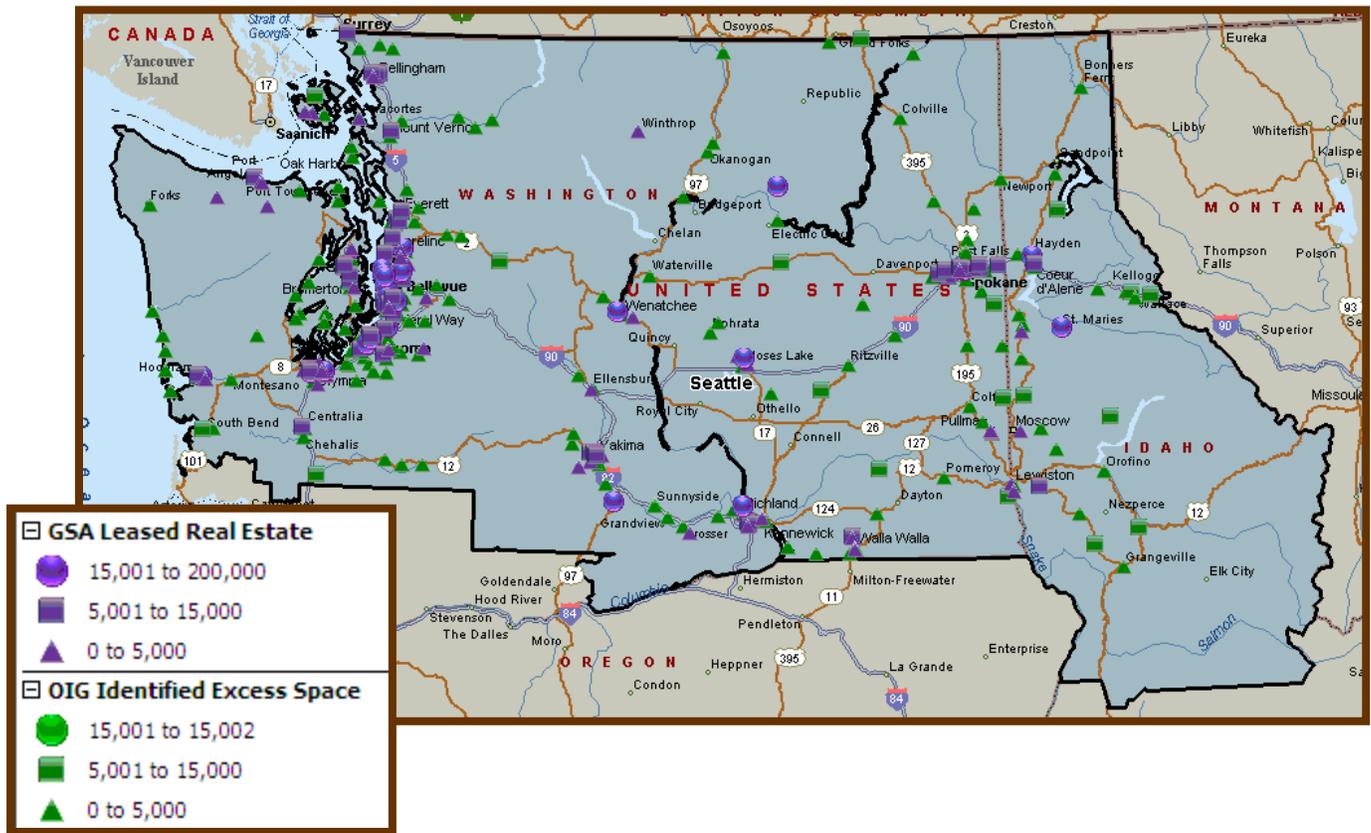


The pie chart illustrates the ratio of Postal Service excess space to GSA-leased commercial space. The table below provides additional analysis by placing the real estate into size categories to further assess supply versus demand.

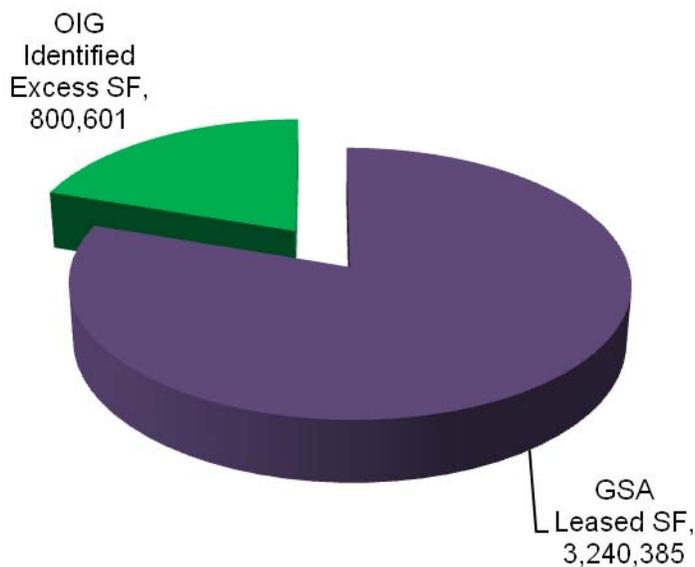


Building Size (SF)	GSA Leased Facilities	OIG Identified Excess
1,000	14	211
5,000	46	141
10,000	39	27
20,000	9	21
30,000	9	4
40,000	5	0
50,000	1	0
More	4	0
<b>Total Count</b>	<b>127</b>	<b>404</b>

Seattle District



The pie chart illustrates the ratio of Postal Service excess space to GSA-leased commercial space. The table below provides additional analysis by placing the real estate into size categories to further assess supply versus demand.



Building Size	GSA Leased Facilities	OIG Identified Excess
1,000	31	78
5,000	68	108
10,000	59	22
20,000	41	16
30,000	10	4
40,000	6	1
50,000	6	0
More	13	1
<b>Total Count</b>	<b>234</b>	<b>230</b>

**APPENDIX E: MANAGEMENT’S COMMENTS**

SILVESTER BLACK  
Vice President, Western Area Operations



January 28, 2010

Office of the Inspector General  
Attention: Lucine M. Willis  
Director, Audit Operations  
1735 N Lynn Street  
Arlington, VA 22209-2020

SUBJECT: Facility Optimization: Western Area Districts  
Report Number DA-AR-11-DRAFT

Management appreciates the efforts the Office of Inspector General (OIG) has taken in regards to facility optimization in the five Western Area Districts audited. We agree that optimization of current facility infrastructure is a critical and important initiative within the Postal Service. The following is in response to the above subject audit and management’s comments on the findings.

Management is in full agreement that excess space exists in a number of facilities and it is the reason the Optimization program was started by the Facilities Department over two years ago. In addition, management believes that the policy written in the ASM, Section 517, is not followed and is ineffective. This is due to changes in organizational structure and responsibilities since it was written in 1999, which rendered this section obsolete. A different approach to manage excess space, other than the ASM, Section 517, is needed. This section will be revised and we will adjust our systems and the ASM to align to today’s structure and processes, which addresses the two recommendations made by the audit.

Regarding the findings of the audit, management disagrees with the amount of excess space and potential revenue based on the following:

1. The methodology utilized to determine existing usable excess space in facilities.
2. Inaccurate data and cost factors utilized to calculate the potential revenue

The following are the basis of management’s disagreement as outlined.

1. Methodology

As stated in the audit, management disagrees with the methodology utilized in determining excess space. This disagreement was raised in discussions with the OIG prior to the first release of this audit and in meetings that were held with the OIG prior to the reissuance of this audit. The major concern is that the methodology utilized is based on applying the current Small Standard Building Design (SSBD), which is intended for construction of new one-story facilities under 10,000 square feet with today’s standards and efficiencies, and applying it against existing facilities constructed or leased over the past 80 years with very different standards, construction, layout and utilization. The OIG methodology takes the overall net interior square footage of the existing facilities and subtracts the overall net square footage of the SSBD (earned) and calls the delta “excess.”

This methodology, however, does not include allowances for:

- A. Unusable space such as basements, corridors, stairs, elevators, inaccessible upper floors, etc.

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- B. Unique operational functions not included in the basic SSBD design such as administrative District office, training, caller service, Sectional Center Facility (SCF) operations, Scan Where You Band (SWYB), Bulk Mail Entry Unit (BMEU) operations, Customer Service Bar Code Sorters (CSBCS), Delivery Bar Code Sorters (DBCS), or massive parcel notification sections, etc.
- C. Historic facilities and the challenges/extensive cost to make changes
- D. Enclosed parking garages
- E. Enclosed docks larger than standard plan
- F. Retail lobbies with inflexible design (i.e., Postal Stores, historic lobbies)
- G. Large notified parcel sections, varying from 200 square feet to 3,000 square feet, common to all Alaska facilities due to the 30-day Collect On Delivery (COD) hold time
- H. Unmaintained excess space that would cost more to renovate than the potential 10-year lease revenue

**Example:**



**St Paul, MN, Vadnais Heights C/A - 43,000 net square feet** (includes 19,000 square feet parking garage)



**Minneapolis, MN, Brooklyn Center - 45,666 net square feet** (includes 3,437 square feet enclosed dock and 24,278 square feet parking garage)



**Seattle Midtown - 35,395 square feet** (includes 20,362 square feet IS Admin Space)



**Seattle Queen Anne - 83,920 net square feet** (includes 24,721 square feet District Admin and 42,083 square feet enclosed parking garage)

Management Recommended Methodology

Because every building is different and has a variety of the above items to contend with, management recommends that the OIG review each specific building and determine usable excess space after making allowances for the items listed above. Additionally, if basements and upper floors without elevator or walk-out access are deemed usable by the OIG, the cost to repair should be factored into potential revenue.

2. Inaccurate Data and Cost Factors

The audit states that 4.5 million square feet of excess space exists in the five audited Western Area Districts - Alaska, Central Plains, Mid-America, Northland and Seattle - with a potential to realize \$173,835,881 over typical and remaining lease terms. The OIG also provides two specific recommendations for the \$173,835,881 whereby, "Funds could be used more efficiently by implementing recommended actions."

Management disagrees with these findings because of the following:

- A. Page 3 of the audit states that the Western FSO has 23 approved optimization studies in the five Districts reviewed. While we agree with the number of nodes approved through May 2010, the multiple actions within those nodes reflect 19 lease terminations, 17 disposals and four space/lease reductions.
- B. Several Customer Service facilities within the five Districts audited have administrative space, large notified parcel sections, mail processing equipment, training centers, FSS Casters, manual sort or dock transfer operations for SCF operations, large caller service and/or general delivery operations, and operations that have to be manually added to the Facility Planning Concept and are not part of the basic SSBD plan. The OIG only used the number of carrier routes, PO Box sections and peak window use to determine the size.
- C. Page 17 of the audit suggests the OIG believes 86.7 percent of the excess space will be successfully subleased. It appears this statement is reflective of major metropolitan areas, not rural, which is most of the Western Area. Western Area's facilities are located in more than 50 percent of the geographical area of the United States, resulting in a radically disproportionate percentage of facilities located in rural America. As a result, the referenced 86.7 percent success rate is not accurate or relevant to the sublease success rate of the Western Area's rural facilities. This distortion impacts the potential custodial and utility savings and sublease values used in the cash flow analysis for each of the Districts analyzed. Therefore, the opportunity to realize \$173.7 million is unrealistic.
- D. Build-Out Cost: To build out the excess space and make it available to sublease, the number utilized was the total line 63 budget numbers from completed node studies divided by the square footage reduction. This is not an accurate method for determining the construction cost because the node studies are based on terminating leases, selling owned buildings, and minimum renovation for the facilities gaining carriers and building alternate retail. The average square foot cost for this work cannot be used for build-out cost for subleasing buildings because the scope of work is usually different in these two scenarios. Management recommends that the OIG review each specific building to determine the following:
  - a. The total usable square footage
  - b. The practicality of capturing the usable square footage in one area(s) by moving and consolidating operations in the building and insuring the security of the mail is met
  - c. Cost to accomplish b (Attachment A)

Regarding the two facilities with excess space highlighted in your report, Independence MPO and Minneapolis West Edina C/A, we offer the following:

- Independence MPO: The Postmaster had recently reduced the number of carrier cases, clearing the 1,164 square feet space shown in the audit picture. Once he finished reducing the carrier cases in all three stations, one of the Independence Englewood delivery zones would be relocated to the MPO to relieve a crowded office.
- Minneapolis West Edina C/A: Minneapolis was not on the FSS Phase 1 deployment list in FY09 when this facility was first analyzed in a node study. Limited carrier parking would not allow us to outlease or consolidate to optimize the space. In FY10, Minneapolis was added to the FSS redirected site Phase 1 list and the West Edina C/A was placed on the FY11 node list, WE-11-018.

**Potential Revenue:**

Management believes the accurate way to calculate potential revenue is by applying the following formula we use in our node studies, which is:

Potential Revenue = (Usable excess square footage X sublease value per square foot minus total cost required to achieve this revenue.)

Then adjust for the values of maintenance and utility savings.

We described the correct method to calculate the accurate available excess square footage. When it comes to the value of subleasing the excess square footage, the only way to determine this value is by analyzing the real estate market. This must include the possibility of subleasing, the duration of subleasing, and the square foot value of such a sublease. Also, the cost of tenant improvement must be included. Further discussion of market conditions is covered in a later section of this response.

Since the \$173,835,881 over typical and remaining lease terms was not calculated according to our formula, we strongly disagree with this number.

**Market Conditions:**

Regardless of how much excess space exists, there needs to be a market for the space. The vast majority of postal facilities fall into the industrial/commercial real estate market. Unfortunately, it is this sector that is experiencing a severe downturn with vacancy rates high and demand low. In the Western Area, this is compounded by the discussion points presented in 2D above.

Facilities engaged the largest six real estate brokerage firms in the country and all have confirmed that the property values are dropping and lease rates and demand are declining. As a result in general, our landlords are not accepting early lease terminations and our excess space must compete in a saturated market. Under this scenario, it makes it impossible for us, in most cases, to achieve any positive financial results by subleasing due to the capital improvement required to make the excess space available and the high demand for tenant improvement.

**Conclusions:**

**A. Regarding the audit recommendations:**

1. Management will develop a more accurate process and proper documentation for identifying and reporting excess space.
2. Management will include additional metrics to track dates and conditions of excess space. This will be part of a national process.
3. Management will continue to make available our excess property to other federal agencies.

Actions 1&2 will be completed by end of Quarter 2, FY11.

Action 3 will be an ongoing process with results available at the end of each fiscal year.

B. Actions already taken by management include:

1. Management believes that the current facilities optimization approach of focusing on the excess workroom space is an effective method for finding potential excess square footage. By currently focusing on facilities that are 10,000 square feet and greater, as opposed to all buildings in the inventory, it allows us to capture the largest opportunities for excess space that is usable.

National Data	# of Buildings	% of Buildings	Square footage	% of SF
Buildings under 10k SF	28,015	84%	66.1 million	24%
Buildings over 10k SF	5,327	16%	221.6 million	76%

2. This optimization process is a nationwide effort whereby we segment and review our facilities for excess space. Our inventory is segmented by:
  - a. Leased verses owned buildings
  - b. Delivery only facilities
  - c. GSA leased space
  - d. Expiring leases
  - e. Current market conditions
3. Buildings over 10,000 square feet were measured to ascertain the correct square footage per function within the facility. Based on this data, we are now able to determine what space is needed for the current operations in the facility and how much is potential excess space. After finding these candidates for excess space, a node study is developed to verify the feasibility.

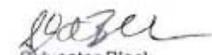
The node study standard operating procedure for the Optimization program includes:

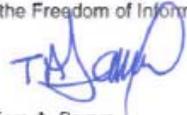
- a. Establish and schedule a node study to analyze all alternatives and associated costs/savings and complete schedule for all tasks
- b. Review all market conditions to determine financial viability of utilization of the space, disposal of the facility or sublease excess space
- c. Visit potential sites to verify all applicable costs
- d. Determine best financial alternative for utilization or disposal of the excess space and obtain all necessary management approvals
- e. Track time durations from final study approval of the action to eBuy notification for disposal
- f. Establish and track disposal schedule

Generated out of optimization studies nationwide, we currently have over 120 properties on the market for sale and have scheduled to terminate 250 leases.

Management believes the Facilities optimization process, along with other national initiatives, will allow us to identify usable excess space in our portfolio and extract the maximum value for the Postal Service out of it. Management also looks forward to working with the OIG to accomplish this very important initiative.

We do not believe this report contains any propriety or business information that should not be disclosed and do not believe there are any required exemptions pursuant to the Freedom of Information Act (FOIA)

  
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 Tom A. Samra  
 Vice President, Facilities

Attachment

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