March 31, 2003

KEITH STRANGE VICE PRESIDENT, SUPPLY MANAGEMENT

DAVID L. SOLOMON VICE PRESIDENT, NEW YORK METRO AREA OPERATIONS

SUBJECT: Audit Report – New York Metro Area Trailer Acquisition – Lease versus Buy (Report Number TD-AR-03-009)

This report presents results from our New York Metro Area Trailer Acquisition audit (Project Number 02YG019TD002).

Background

In September 2000, Postal Service Headquarters signed a National Trailer Lease to acquire 4,475 trailers nationwide. The lease term plus renewal option was 12 years. In March 2002, Postal Service New York Metro Area officials requested 1,500 trailers

Tractor trailer departing from a New York Metro Area facility.

under Phase II of the National Trailer Lease. The lease term plus renewal option was again 12 years. The anticipated cost exceeded $40 million. On March 27, 2002, the Office of Inspector General (OIG) received a congressional request asking the OIG to determine if the requested New York acquisition was in the best interests of the Postal Service. This report is one in a series of reports. Its purpose is to notify Postal Service officials of our conclusions regarding lease versus buy alternatives, the requirements to develop a Decision Analysis Report, and obtain Board of Governors approval.

Prior Report Coverage

Our report, Trailer Lease Justification (Report Number TD-AR-02-002, dated March 29, 2002), analyzed the National Trailer Lease and concluded the Postal Service could achieve significant monetary savings by purchasing the 4,475 trailers instead of leasing them. The report also concluded Postal Service management entered into the National Trailer Lease without properly evaluating the decision in accordance with procedures required by Postal Service investment policy–and without obtaining required approval from the Postal Service Board of Governors. We recommended management prepare a Decision Analysis Report and submit it to the Governors for approval. Management disagreed. We considered our recommendations significant and pursued the matter through formal audit resolution. On July 22, 2002, the deputy postmaster general directed management to analyze the National Trailer Lease in accordance with the procedures specified by Postal Service investment policy, and stated that Postal Service Finance would independently verify the analysis in accordance with the same procedures they use for capital projects. For other related prior report coverage see Appendix A.

Objective, Scope, and Methodology

The objective of the audit was to determine whether the proposed acquisition of 1,500 trailers for the New York Metro Area would provide operational or financial benefit to the Postal Service.

During our work, we interviewed Postal Service officials at headquarters, visited Postal Service facilities in the New York Metro Area, interviewed area and local officials, and observed and photographed operations. We examined Postal Service acquisition policies and procedures, National Trailer Lease contract provisions, and the proposed New York Metro Area trailer acquisition request. We also conducted an economic analysis of the requested acquisition using discounted cash flow methods to evaluate lease versus buy financing alternatives. Details of our economic analysis methodology are contained in Appendices B and C.

Work associated with this report was conducted from April 2002 through March 2003 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our findings with appropriate management officials, and included their comments, where appropriate.

Results

Lease versus Buy

Our audit of the New York Metro Area trailer acquisition request concluded the Postal Service could save $4 million over the 12-year lease term, including renewal option, by purchasing the 1,500 trailers instead of leasing them. The New York Metro Area requested headquarters lease the trailers instead of buying them because they did not follow Postal Service investment policy or specified analytical procedures. Consequently they did not adequately consider the acquisition alternatives. Postal Service Handbook F-66, General Investment Policies and Procedures, dated February 2002, requires all equipment acquisition exceeding $10 million to be:

- Supported by a Decision Analysis Report developed in accordance with specified analytical procedures–including lease versus buy analysis.
- Reviewed and approved by the Postal Service Board of Governors.

The New York request stated that it was a planned phase of the National Trailer Lease. Postal Service policy requires related acquisitions be presented as a single plan, and stipulates that related acquisitions may not be split to circumvent required policies or approval levels. Nonetheless, whether the New York request is a “stand alone” transaction, or part of the larger National Trailer Lease, investment policy still requires a Decision Analysis Report and Governors’ approval.

Decision Analysis Report -Because Postal Service officials did not prepare a Decision Analysis Report in compliance with required analytical procedures, officials did not adequately consider financing alternatives. Handbook F-66 explains that the “investment decision” to acquire equipment is separate and distinct from the subsequent “financing decision” to lease or to buy. The policy states that “whenever leasing is presented as the preferred method of acquiring equipment,” the Decision Analysis Report must include a lease versus buy analysis. The handbook also specifies that the analysis must adhere to rigorous quantitative and economic procedures, including sensitivity analysis and discounted cash flow methods. As indicated below, our analysis revealed the Postal Service could save more than $4 million by purchasing, rather than leasing, the trailers New York requested. For more detailed information, see Appendices B and C.

LEASE VERSUS BUY ANALYSIS

	LEASE (millions)	BUY (millions)
PURCHASE COST		$32.7
DISCOUNTED CASH FLOW OF LEASE PAYMENTS INCLUDING THE COST OF PREVENTATIVE MAINTENANCE PROVIDED BY THE LEASE CONTRACTOR	$41.7	
DISCOUNTED CASH FLOW OF SEPARATELY CONTRACTED PREVENTATIVE MAINTENANCE SERVICE		$5.8
TRAILER SALVAGE VALUE AT THE END OF USEFUL ECONOMIC LIFE		($0.8)
TOTAL	$41.7	$37.7
SAVINGS		$4.0

Decision Approval -Handbook F-66 states that Board of Governors' approval is required when discounted lease costs, including all renewal options, is $10 million. It further requires Board of Governors notification whenever undiscounted costs exceed $10 million. We calculated lease discounted costs at $41.7 million, or more than 4 times the Governors' threshold, and undiscounted costs as $62.6 million, or more than 6 times the Governors' threshold. Because a Decision Analysis Report was not presented to the Board of Governors for approval as required, the Governors were not provided an opportunity to review and approve a 12-year, $40 million investment–or consider whether viable financing alternatives existed.

Recommendations

We recommend the vice president, Supply Management:

1. 1. Prepare a Decision Analysis Report in accordance with Postal Service investment policy to support acquisition of trailers for the New York Metro Area.
2. 2. Submit the Decision Analysis Report to the Board of Governors for approval.

Management's Comments

Management disagreed with all of our findings and recommendations. However:

- They acknowledged the New York trailer acquisition was part of the National Trailer Lease.

- Stipulated that issues raised in this report were the same as issues raised in our National Trailer Lease audit (Trailer Lease Justification, Report Number TD-AR-02-002, dated March 29, 2002).
- Reiterated their nonoccurrence with national report findings and recommendations.

- Used the same rationale to nonconcur with this report, reiterated their position that the National Trailer Lease was not a lease, but a service, and consequently, exempt from Postal Service leasing policy.
- Stated they were changing Postal Service policy to clarify what constituted supplies and services.
- Acknowledged their nonconcurrence with our national report was in formal audit resolution.
- Conceded that as part of the resolution, they were completing additional analysis, and promised that when their additional analysis was complete, they would share the results with the OIG.

Management did not support their nonconcurrence with an analysis performed in accordance with analytical standards specified by Postal Service policy. Management's comments, in their entirety, are included in Appendix D of this report.

<u>Evaluation of Management's Comments</u>

Management's comments are not responsive to our recommendations. We view the disagreement on these recommendations as unresolved, and plan to pursue the recommendations through the formal audit resolution process.

During resolution associated with our national report, the deputy postmaster general instructed Postal Service Operations to analyze the trailer leasing plan in a manner comparable to a Decision Analysis Report, and instructed Finance to independently verify the analysis just as they would a capital project. We welcomed that step and considered it responsive to our Decision Analysis Report recommendation. We then explained that since we considered the recommendation significant, when the analysis was prepared and verified, we would review it as part of our standard process for closing significant recommendations.

The deputy postmaster general also indicated management would proceed immediately to modify Postal Service policy to clarify what constituted ongoing core business supplies and services. We again welcomed that step and explained that when the supplies and services policy modification was proposed, we would review it as part of our standard process for reviewing and commenting on proposed policy revisions.

However with regard to our recommendation concerning the Governors' approval, we pointed out that in the context of the National Trailer Lease, we did not consider trailers to be a supply or a service. We considered trailers to be equipment acquired principally for the purpose of transporting mail—a core Postal Service function—and consequently, felt existing Postal Service policy concerning leases applied. We also explained that in any case, financial commitments like the National Trailer Lease merited the Governors' attention. The anticipated cost of National Trailer Lease excluding the New York acquisition, exceeded $250 million. The anticipated cost of the New York acquisition exceeded $40 million. Consequently, the total cost of the trailer acquisition plan is almost $300 million.

This report is one in a series of reports. Other reports have repeatedly identified shortcomings in the analysis of the trailer acquisition. For example, we pointed out that management did not properly analyze operations for which trailers were required; link trailer sizes to differing operating conditions like load density or maneuverability; properly evaluate alternative financing strategies like leasing or buying; or consider the actual useful life of trailers instead of their depreciable life for accounting purposes. Considerations of this type are all required by Postal Service analytical policy when they impact decision making. Specifically, policy stipulates that analysis must be documented in sufficient detail to enable approving officials to make informed decisions. In response to our findings and recommendations, management routinely agreed to perform such analyses, and to provide results for our independent review.

Management acknowledged that the New York acquisition was a planned phase of the National Trailer Lease and Postal Service policy requires related acquisitions be presented as a single plan. Consequently, the analysis directed by the deputy postmaster general during National Trailer Lease resolution should include the New York acquisition and an analysis supporting the entire 12 year $300 million commitment of Postal Service funds.

Management pointed out that the issues raised during the New York audit, were substantially the same as the issues raised during the national audit. We concur. Accordingly, we will join our resolution effort concerning New York, with our efforts concerning the national acquisition, and defer further decision on how to proceed with resolution until we have had an opportunity to review the validated analysis directed by the deputy postmaster general last year, on July 22, 2002.

The OIG considers recommendations 1 and 2 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 during the review. If you have any questions, or need additional information please contact Joe Oliva, director, Transportation and Delivery, at 703-248-2100, or me at (703) 248-2300

B. Wayne Goleski
Assistant Inspector General for
Core Operations

Attachment

cc: John M. Nolan Richard J. Strasser,
Jr. John A. Rapp
J. Dwight Young
Hector M. Martinez
Susan M. Duchek

APPENDIX A. PRIOR REPORT COVERAGE

Our report, Safety and Security of the Postal Service Leased Trailer Fleet (Report Number TR-AR-01-002, dated March 30, 2001), involved a statistical sample, randomly selected from a universe of 74 contracts and 8,715 trailers, inspected at 28 locations nationwide. We projected that 25 percent–or almost 2,200 of the 8,715 trailers–did not meet minimum federal safety standards, including such deficiencies as bald tires, damaged or missing lights, reflectors, mud flaps, doors, load restraint systems, and bumpers. We also found that 1,515 trailers–or more than 68 percent of the trailers we projected as failing safety standards–did not have current safety inspections. In addition, many had missing or incomplete inspection, repair, and maintenance records. We made three recommendations to management to address the safety issues we identified in our report. Management agreed with all of our recommendations.

Our report, Leased Trailer Deficiencies in the New York Metro Area (Report Number TR-MA-01-001, dated March 30, 2001), identified deficiencies we noted while visiting the New York Metro Area to inspect the statistically selected trailers included in the national audit referenced above. The trailers we observed were not within our

Leased trailers in unsafe, substandard condition photographed at a New York Metro Area mail facility in October 2000.

randomly selected statistical sample. However, because the trailers appeared to be old and in substandard condition, we conducted a limited inquiry. Government auditing standards require that auditors report, in writing, all significant instances of noncompliance found in conjunction with an audit. In addition, it is the OIG's practice to immediately advise management of significant deficiencies we observe, particularly if they involve health or safety issues. In response to our inquiry, the contractor was unable to provide maintenance history files or safety compliance records as required by the contract. Our report recommended management require the contractor to meet contract provisions regarding safety, maintenance, and appearance; and that if the provisions were not met, consider contract cancellation. Management agreed with all of our recommendations.

Our report, New York Metro Area Trailer Acquisition Requirements (Report Number TD-MA-02-003, dated July 10, 2002), concluded the New York Metro Area purchase request for trailers, submitted as Phase II of the National Trailer Lease, did not properly analyze the requested acquisition. We recommended the New York Metro Area analyze the acquisition in accordance with Postal Service investment policy, and headquarters not approve the request until proper analysis and supporting documentation were submitted and reviewed. Management agreed with our recommendations.

Our report, New York Metro Area Trailer Acquisition – Safety and Length (Report Number TD-AR-03-001, dated October 28, 2002), addressed the age, maintenance, and safety of the old 40-foot trailers the New York Metro Area wanted to replace with the newer and longer trailers they requested. Our report concluded the old trailers were not maintained in accordance with federal or contract safety standards, and many trailers should have been taken out of service. Our report also concluded that Postal Service management did not properly analyze the requirement for longer trailers and that there was a need for some 40-foot trailers in constrained urban areas. We recommended the New York Metro Area enforce compliance with federal and contract safety standards and properly analyze the requirement for trailers of varying length before submitting their acquisition request to Postal Service Headquarters. Management agreed with our recommendations.

The shredded tire cap on this leased trailer is an out of service deficiency.

Leased 40-foot and 45-foot trailers parked at the James A. Farley building in Manhattan.

Our report, New York Metro Area – Operational Use of Trailers (Report Number TD-MA-03-001, dated January 29, 2003), concluded that the Postal Service could save $4.4 million over a 2-year period by reducing the size of the New York Metro Area trailer fleet by 700 trailers and developing cheaper alternatives for equipment storage. The report concluded the New York Metro Area leased too many trailers because they did not properly analyze transportation or storage requirements or alternatives. For example, the report pointed out that New York continued to lease trailers for storage while at the same time, selling old trailers they already owned for $500 each. We recommended the New York Metro Area properly analyze

Leased trailers parked at the New Jersey International Bulk Mail Center used for storing mail transport equipment.

equipment storage requirements, explore alternative methods for storing equipment, and analyze trailer requirements based on transportation needs. Management agreed with our recommendations.

APPENDIX B

LEASE VERSUS BUY ANALYSIS - NEW YORK METRO AREA TRAILER ACQUISITION

To evaluate the lease versus buy financing alternatives of the New York Metro Area trailer acquisition, we compared the net present value of the lease versus buy financing alternatives considered over a 12-year period. The 12 years represented both:

- The 6-year lease period plus the 6-year renewal option specified by Postal Service investment policy.
- Trailer depreciable life for accounting purposes.

Lease – To establish the net present value of the lease payments, we considered expected annual contracted lease costs during the initial 6-year lease term, and then escalated those costs for inflation by the 1 percent inflation factor published by Postal Service Headquarters Finance for analyses of this type. We then discounted all costs by the 6.75 percent discount factor also published by headquarters Finance.

Purchase – To establish the net present value of the purchase financing option, we estimated the immediate cash outlay for 1,500 trailers by considering the last major purchase of trailers by the Postal Service, and escalating that cost by inflation factors published by headquarters Finance. We then considered annual costs for trailers over their 12-year life. These costs included the cost of contracting out preventive maintenance, including parts and labor, based on data collected during our Trailer Lease Justification audit, (Report Number TD-AR-02-002, dated March 29, 2002. We also considered salvage value. As we did with the leasing analysis, we used inflation and discount factors published by headquarters Finance.

A detailed cash flow analysis is presented in Appendix C.

APPENDIX C
LEASE VERSUS BUY ANALYSIS
NEW YORK METRO AREA TRAILER ACQUISITION

	ALTERNATIVES	Fiscal Year	2004	2005	2006	2007	2008	2009
		Project Year	1	2	3	4	5	6
1	Discounted	Purchase	$33,340,838	$574,245	$551,586	$529,873	$509,063	$489,118
		Lease	$4,744,145	$4,444,164	$4,163,151	$3,899,908	$3,653,309	$3,422,304
2	Undiscounted	Purchase	$35,591,345	$654,384	$670,991	$688,087	$705,686	$723,803
		Lease	$5,064,375	5,064,375	$5,064,375	$5,064,375	$5,064,375	$5,064,375

	ALTERNATIVES	Fiscal Year	2010	2011	2012	2013	2014	2015
		Project Year	7	8	9	10	11	12
1	Discounted	Purchase	$469,998	$451,667	$434,092	$417,239	$401,076	$(412,496)
		Lease	$3,403,133	$3,187,947	$2,986,367	$2,797,533	2,620,640	$2,454,932
2	Undiscounted	Purchase	$742,456	$761,661	$781,435	$801,795	$822,761	$(903,305)
		Lease	$5,375,936	$5,375,936	$5,375,936	$5,375,936	$5,375,936	$5,375,936

	Discounted	Undiscounted
1 Purchase price plus preventive maintenance costs minus salvage value	$37,756,299	$42,041,099
2 Lease Cost Includes preventive maintenance	$41,777,533	$62,641,866
Excess Lease Cost	$4,021,234	$20,600,767

SUPPLY MANAGEMENT

UNITED STATES
POSTAL SERVICE

March 20, 2003

B. WAYNE GOLESKI

THRU: KEITH STRANGE KS

SUBJECT: Draft Audit report – New York Metro Area Trailer Acquisition – Lease versus Buy (Report Number TD-AR-03-DRAFT)

We have completed our review of the above-referenced draft audit, and the previous audits, which raised some of the same issues related to the leasing versus buying of trailers. As we stated in our response to the March 29, 2002, Office of Inspector General (OIG) report TD-AR-02-002, Trailer Lease Justification, we did not agree with the report finding that the Postal Service could save $85 million over 12 years by purchasing trailers versus leasing. Further, we did not agree with the finding that a Decision Analysis Report (DAR) or Board approval was required for the subject trailer service contract. And, finally, we did not agree with the recommendations made in the audit report. This report is now in the formal audit resolution process and the ultimate resolution of those issues may affect the issues included in this report.

With regard to this latest draft report, we do not agree with the report finding that the Postal Service could save $4 million over 12 years by purchasing trailers versus leasing. Therefore, we cannot concur with the OIG characterizing $4 million dollars as "funds put to better use" in a future Semiannual Report to Congress. Further, we do not agree with the recommendations that a Decision Analysis Report (DAR) or Board approval is required for the subject trailer service contract.

Attached you will find our detailed reply to the subject audit report which was coordinated with the New York Metro Area. We believe this report contains proprietary or business information (report text and Appendix B covering lease versus buy analysis) that should not be disclosed pursuant to the Freedom of Information Act (FOIA). [redacted]

J. Dwight Young

J. Dwight Young
Manager
Transportation Portfolio

Attachments

cc: John M. Nolan (all with attachments)
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Introduction

As with the Trailer Lease Justification audit, this draft audit report places a great deal of emphasis on the lease versus buy issue; however, the purpose of the proposed acquisition of 1500 trailers through a service contract is to replace a number of smaller trailer service contracts. The contract administration for the new contract(s) will be more efficient and less complicated, for both the supplier and the Postal Service. This method of purchasing allows the Postal Service to take advantage of leverage leasing, which results in the lease of quality equipment at a reasonable price. In addition, the New York Metro Area will also benefit from an advantageous option written into the National Trailer Services contract that allows for the securing of additional trailers at the same price to respond to peak volume periods, such as Proxy, Fall, or Christmas mailing seasons.

Additionally, the proposed trailer service contract would support the Postal Service's Processing and Distribution Centers/Facilities (P&DC/Fs) and the NJ International Bulk Mail Center (NJI& BMC) in the New York Metro Area. It would provide the means for the P&DC/Fs and the BMCs to make daily management decisions in processing and in the transportation of the mails by having at it disposal safe and reliable trailers. The OIG concluded in its February 26, 2001 report, TR-MA-01-001, that a large majority of the trailers in the New York Metro Area had greatly surpassed their expected service life, appeared to be unsafe, in substandard condition, and need to be replaced as soon as possible.

The new contract would continue to maintain and provide for more efficient operations and be cost effective for leased trailer equipment through the procurement of longer length trailers. Also, as recommended by the OIG in report TR-MA-03-001, there will also be an overall reduction in the size of 218 trailers or 14% of the overall fleet size.

Comments on Findings

Management does not agree with the OIG finding that the Postal Service could save $4 million over the 12 year lease term, including renewal option, by purchasing the 1500 trailers instead of leasing them.

As noted in the Attachment 2, the Postal Service determined that the net present value (NPV) benefit of trailer service contracting versus purchase is over $10 million for a 12 year contract term for the New York Metro Area. Additionally, as outlined in our previous response to Trailer Lease Justification (Report Number TD-AR-02-002), the reference material used by the OIG to support the financial projections for the cost of serviced equipment, were made on a series of assumptions and data that currently are not verified. The Postal Service currently is completing an additional financial analysis on the Trailer Lease Justification audit, as part of the audit resolution process. The results of this review will be shared with the OIG.

OIG Recommendations and Management Responses

Recommendation 1:
We recommend the vice president, Supply Management: Prepare a Decision Analysis Report in accordance with Postal Service investment policy to support acquisition of trailers for the New York Metro Area.

Management does not agree with this recommendation. As we have previously advised, the OIG statement that a DAR is required for the subject service is inconsistent with postal policy as it relates to transportation contracts. As you will note in section 4.4.5.d.6 of the *Purchasing Manual*, trailer contracts are, by definition, transportation contracts. The fact that many of these contracts have a total value in excess of $10 million does not mean that a DAR and/or Board of Governors approval is required. The Postal Service has a continual need for both serviced and owned trailers.

Also please note, that as a result of the audit resolution process on the Trailer Lease Justification audit, the Postal Service is changing the F-66 handbook to clarify what constitutes ongoing core business supplies and services.

Recommendation 2:
We recommend the vice president, Supply Management: Submit the Decision Analysis Report to the Board of Governors for approval.

Management does not agree with this recommendation. As we have previously stated, requiring a DAR for the subject service is inconsistent with postal policy as it relates to transportation contracts. Section 2-6.1 of the F-66 handbook states the following:

> *"Supplies and services include expensed repairs and alterations and the renewal of ongoing or recurring service contracts. Throughout all levels of the organization, authority is granted to approve purchases of expense items contained in an approved budget. Managers listed in the Delegations of Approval Authority may redelegate, in writing, portions of this authority."*

The Delegations of Approval Authority (F-66, exhibit 2-1) states for Supplies and Services that "*...Unless otherwise covered by these instructions, authority is granted to approve projects contained in approved budget. Contracting/purchase subject to Purchasing (ASM) policies...*" Since the trailer leasing is a renewal of the existing ongoing or recurring supplies/services contracts, Board approval is not required.

As indicated in the response to OIG recommendation 1, the Postal Service is changing the F-66 handbook to clarify what constitutes ongoing core business supplies and services, as a result of the audit resolution process on the Trailer Lease Justification audit.

	Comments for Original Analysis
1	Used USPS estimate of maintenance costs for year one of Service Contract evaluation. Escalated into out-years using same factors as OIG. Ratio of labor vs parts taken from OIG spreadsheet
2	Cost of service contract is reduced by 7% in years 7 through 12 in USPS evaluation.
3	OIG spreadsheet values used in purchase evaluation for both six-year and twelve-year scenarios.
4	(This comment in Original Analysis concerned a six-year contract and is unused in the NYC Analysis)
5	Contract termination value excluded. This number appears in the audit report draft, but could not be located in the OIG spreadsheet.
6	Important note: OIG purchase evaluation assumes contract labor will be used to service purchased trailers. This work has always been performed by USPS employees on owned vehicles. The analysis should have quantified all costs for in-house maintenance such as labor, training, repair equipment, parts inventory, shuttle time build-out of VMFs,etc.

	Comments for NYC Analysis
A	Used Original Analysis values for year 2003 amounts to account for escalation from time that analysis was conducted to present. Used proportionate dollars for new quantity of vehicles for all items.
B	NYC Analysis uses current cost of borrowing and escalation factors for NPV calculation and all operating variances.
C	Used same 5% salvage value as Original Analysis.
D	Used 7% decrease in contract costs at renewal as did Original Analysis
E	Please note that relative benefit of contracting is even greater in NYC Analysis due to changes in cost of borrowing and escalation factors.
F	Important note: OIG purchase evaluation assumes contract labor will be used to service purchased trailers. This work has always been performed by USPS employees on owned vehicles. The analysis should have quantified all costs for in-house maintenance such as labor, training, repair equipment, parts inventory, shuttle time,

TWELVE-YEAR ANALYSIS SERVICE CONTRACT															
Year		0	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
USPS			-$5,678,498	-$5,681,167	-$5,704,246	-$5,717,744	-$5,731,878	-$5,746,063	-$5,396,828	-$5,412,159	-$5,427,998	-$5,444,336	-$5,461,215	-$5,478,846	-$66,890,664
Net Present Value @ 6.5%	-45,668,806														
OIG			-$5,064,375	-$5,064,375	-$5,064,375	-$5,064,375	-$5,064,375	-$5,064,376	-$5,375,938	-$5,375,938	-$5,375,938	-$5,375,938	-$5,375,938	-$5,375,938	-$62,641,886
Net Present Value as shown in Draft memo	-41,777,633														
Actual Net Present Value @ 6.5%	-42,352,514														
Difference			-$614,121	-$626,792	-$639,870	-$653,369	-$667,303	-$661,638	-$20,890	-$36,223	-$52,063	-$68,400	-$85,279	-$102,710	-$4,248,698
NPV of Difference	-3,313,[illegible]														

TWELVE-YEAR ANALYSIS PURCHASE															
Year		0	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
USPS		-$33,104,729	-$2,386,488	-$2,484,486	-$2,576,573	-$2,672,898	-$2,773,689	-$2,879,109	-$2,989,440	-$3,104,902	-$3,225,741	-$3,352,220	-$3,484,813	-$1,967,988	-$67,512,823
Net Present Value @ 6.5%	-56,838,846														
OIG			-$36,591,345	-$654,384	-$670,891	-$688,087	-$705,689	-$723,863	-$742,456	-$761,661	-$781,485	-$801,795	-$822,761	$903,306	-$42,041,099
Net Present Value as shown in Draft memo	-49,041,099														
Actual Net Present Value @ 6.5%	-37,894,278														
Difference		-$33,104,729	$33,184,679	-$1,830,111	-$1,905,592	-$1,984,809	-$2,067,883	-$2,155,306	-$2,246,984	-$2,343,241	-$2,444,306	-$2,550,425	-$2,661,862	-$2,871,274	-$24,871,724
NPV of Difference	-17,943,871														

To compute NPV OIG showed the purchase amount in Year One and discounted it. Capital must be shown in
Point Zero and not discounted.
DAR Factors/Cost of Borrowing was updated on November 30, 2002; OIG used an older version.
To determine renewal price of contract, OIG used an increase of 6.15%

Source doc: DAR Factors/Cost of Borrowing dated 11/18/2002

ESCALATION FACTORS	
BUILDING/VEHICLES MECHANIZATION, SUSTAINING	6.50%
MAINTENANCE LABOR (NON-USPS LABOR)	3.50%
MAINTENANCE PARTS (ALL OTHER COSTS)	0.90%
MAINTENANCE USPS LABOR	4.90%

Maintenance breakout using OIG ratios for labor and parts		Ratio		
NON-PREVENTIVE MAINTENANCE LABOR	-$2,997,474	0.6659	$888,125.97	$1,348,648
NON-PREVENTIVE MAINTENANCE PARTS	-$1,503,600	0.3341	$460,520.03	
TOTAL	-$4,501,074		$1,348,648	

	Original	NYC	Ratio
Ratio of NYC # of trailers to original contract number	4,506	1,500	0.3329

TWELVE-YEAR ANALYSIS

SERVICE CONTRACT

Year		0	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
Contract			-$5 201 250	-$5,201,250	-$5,201,250	-$5,201 250	-$5 201,250	-$5 201,250	-$4,837.163	-$4,837,163	-$4,837,163	-$4,837 163	-$4 837,163	-$4 837,163	-$60,220,475
Non-Preventive Maint. Labor			-$322,131	-$333,405	-$346,074	-$357 152	-$369 652	-$382,630	-$395,981	-$409 840	-$424,185	-$439 031	-$454,197	-$470,301	-$4,708,739
Non-Preventive Maint. Parts			-$155,116	-$155 512	-$157,820	-$158,342	-$160 776	-$162,223	-$163,663	-$155 165	-$166,542	-$168,142	-$169,686	-$171,182	-$1,956 350
TOTAL			-$5,678,496	-$5 651 167	-$5,704,245	-$5,717,744	-$5,731 678	-$5,746,083	-$5,396,926	-$5,412 158	-$5,427,889	-$5,444,336	-$5,461,216	-$5,478,646	-$66,880,564
Net Present Value @ 6.5%	-45,660,800														

TWELVE-YEAR ANALYSIS

PURCHASE

		0	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
Trailers		-$33,104,728	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$1 655 236	-$31,449 492
Preventive Maintenance Labor		$0	-$596,423	-$616,155	-$645 287	-$676,917	-$710,086	-$744,880	-$781,379	-$815,667	-$859 830	-$901,867	-$946,150	-$992 520	-$9,280 270
Preventive Maintenance Parts		$0	-$217,247	-$219,202	-$221.175	-$223,166	-$225,174	-$227,201	-$229,246	-$251,309	-$233 391	-$235,491	-$237,911	-$239 746	-$2,739 862
Non-Preventive Maintenance Labor		$0	-$1,075,103	-$1 127,794	-$1,183 645	-$1,241,014	-$1 301,824	-$1,365 610	-$1,432,825	-$1 502,722	-$1,576 355	-$1 653,587	-$1 734,623	-$1,819 620	-$17,013 828
Non-Preventive Maintenance Parts		$0	-$517,695	-$522,356	-$527,060	-$531,788	-$536,556	-$541,416	-$546,288	-$551,204	-$556 165	-$561,170	-$566,221	-$571 317	-$6,529 271
Total Variance		$0	-$2,386,468	-$2,484,495	-$2 579 673	-$2,672,896	-$2 773,989	-$2,879,106	-$2,989,440	-$3,104,802	-$3 225,741	-$3,352,220	-$3 484,613	-$3,623 206	-$36,583 581
Net Cash Flow		-$33,104,726	-$2,386,468	-$2,484,495	-$2 579 673	-$2,672,895	-$2 773,989	-$2,879,106	-$2,989,440	-$3,104,802	-$3 225,741	-$3,352 220	-$3 484,613	-$1 967,969	-$67,072,928
Net Present Value @ 6.5%	-35,836,846														

NPV Benefit of Contracting	10,171,046

Source doc: CAR Factors/Cost of Borrowing, dated 11/18/2002

ESCALATION FACTORS	
BUILDING/VEHICLES MECHANIZATION, SUSTAINING	0.50%
MAINTENANCE LABOR (NON-USPS LABOR)	3.50%
MAINTENANCE PARTS (ALL OTHER COSTS)	0.90%
MAINTENANCE USPS LABOR	4.50%

Maintenance breakout using CIG ratios for labor and parts		Ratio		
NON-PREVENTIVE MAINTENANCE LABOR	-$2,997,474	0.6659	$896,125.97	$1,346,849
NON-PREVENTIVE MAINTENANCE PARTS	-$1,503,600	0.3341	$450,520.03	
TOTAL	-$4,501,074		$1,346,646	

	Original	NYC	Ratio
Ratio of NYC # of trailers to original contract number	4,500	1,500	0.3329

VI. RETURN ON INVESTMENT N/A

TWELVE-YEAR ANALYSIS

			2001	2002	2003										
SERVICE CONTRACT															
Year		0	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
Contract			-$16,792,286	-$16,792,285	-$16,792,285	-$16,792,286	-$16,792,285	-$16,792,285	-$15,816,826	-$15,818,625	-$15,816,826	-$15,816,826	-$15,816,825	-$15,816,825	-$194,464,859
Non-Preventive Maint. Labor			-$888,126	-$932,255	-$967,860	-$1,004,452	-$1,042,621	-$1,082,241	-$1,123,286	-$1,166,054	-$1,210,864	-$1,256,368	-$1,304,100	-$1,353,866	-$13,341,274
Non-Preventive Maint. Parts			-$450,520	-$459,179	-$466,968	-$475,889	-$481,945	-$490,139	-$498,471	-$506,848	-$516,663	-$524,329	-$533,241	-$542,308	-$5,941,494
TOTAL			-$18,140,931	-$18,182,719	-$18,225,983	-$18,270,627	-$18,316,852	-$18,364,665	-$17,238,682	-$17,289,824	-$17,342,752	-$17,397,511	-$17,454,106	-$17,512,787	-$213,737,427
Net Present Value @ 8.0%	-134,896,910														

TWELVE-YEAR ANALYSIS

PURCHASE															
Trailers		-$99,446,806	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$4,972,330	-$94,474,276
Preventive Maintenance Labor		$0	-$1,634,986	-$1,697,115	-$1,761,609	-$1,828,647	-$1,898,032	-$1,970,167	-$2,045,023	-$2,122,734	-$2,203,388	-$2,287,127	-$2,374,037	-$2,464,251	-$24,287,612
Preventive Maintenance Parts		$0	-$630,975	-$641,702	-$652,611	-$663,705	-$674,988	-$686,463	-$698,133	-$710,001	-$722,071	-$734,348	-$746,830	-$759,526	-$8,321,348
Non-Preventive Maintenance Labor		$0	-$2,997,474	-$3,111,376	-$3,229,611	-$3,352,336	-$3,479,726	-$3,611,954	-$3,749,208	-$3,891,678	-$4,039,562	-$4,193,066	-$4,352,402	-$4,517,793	-$44,526,168
Non-Preventive Maintenance Parts		$0	-$1,503,630	-$1,529,161	-$1,555,157	-$1,581,595	-$1,608,482	-$1,635,825	-$1,663,635	-$1,691,917	-$1,720,679	-$1,749,931	-$1,779,680	-$1,809,934	-$19,829,598
Total Variance		$0	-$6,767,036	-$6,979,357	-$7,198,984	-$7,429,182	-$7,661,228	-$7,904,400	-$8,155,999	-$8,416,330	-$8,685,710	-$8,964,469	-$9,252,949	-$9,551,505	-$96,954,145
Net Cash Flow		-$99,446,806	-$6,767,036	-$6,979,357	-$7,198,984	-$7,429,182	-$7,661,228	-$7,904,400	-$8,155,999	-$8,416,330	-$8,685,710	-$8,964,459	-$9,252,949	-$4,579,174	-$191,428,421
Net Present Value @ 8.0%	-156,664,732														
NPV Benefit of Contracting	21,767,822														

Source doc : DAR Factors/Cost of Borrowing, dated 3/16/2000					
BUILDING/VEHICLES MECHANIZATION, SUSTAINING	8.00%				
ESCALATION FACTORS					
MAINTENANCE LABOR (NON-USPS LABOR)	2.80%				
MAINTENANCE PARTS (ALL OTHER COSTS)	1.70%				
Maintenance breakout using OIG ratios for labor and parts		Ratio			
NON-PREVENTIVE MAINTENANCE LABOR	-$2,997,474	0.6659	$898,125.97	$1,348,648	
NON-PREVENTIVE MAINTENANCE PARTS	-$1,503,600	0.3341	$450,520.03		
TOTAL	-$4,501,074		$1,348,648		