



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

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# **Lease Risk Model Analysis in the Northeast Area**

## **Audit Report**

October 23, 2013

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**Report Number SM-AR-14-001**



OFFICE OF  
**INSPECTOR  
GENERAL**  
UNITED STATES POSTAL SERVICE

# HIGHLIGHTS

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October 23, 2013

## Lease Risk Model Analysis in the Northeast Area

Report Number SM-AR-14-001

### **BACKGROUND:**

The U.S. Postal Service spends more than \$805 million annually leasing about 24,000 facilities nationwide. The Northeast Area spends more than \$184 million annually to lease more than 3,300 facilities.

Area officials begin the lease renewal process 12 to 24 months before a lease ends by reviewing lease information provided by the Postal Service's Facilities organization. In conjunction with Facilities, area officials balance their portfolio of existing facilities with current and projected space needs by conducting facility operational analyses called node studies.

During fiscal year 2012, the U.S. Postal Service Office of Inspector General (OIG) developed a predictive risk model, which analyzes whether the Postal Service is renewing leases at a fair price and whether it needs leased space that is due for renewal. Our objective was to assess opportunities for potential cost savings in Northeast Area facility leases.

### **WHAT THE OIG FOUND:**

The Northeast Area could potentially realize cost savings in 52 percent of its facility lease renewals. Of those, the risk model indicated above-market rates for 250 leases that are expiring within 2 years, which represents \$6.6 million in potential savings over the duration of the leases. Thirty-nine of these leases

were for significantly underused facilities based on decreases in revenue, mail volume, and hours worked. The Northeast Area and Facilities could also use model results to further target their node studies on underused facilities.

While Postal Service policy directs Facilities personnel to determine and provide fair market value for expiring leases, the Northeast Area lacked the resources to verify whether this data was accurate. Additionally, Facilities' node study criteria excluded some facilities for review due to their lease expiration date or annual lease value.

Given the financial challenges facing the Postal Service, the Northeast Area and Facilities could use OIG model results to potentially save money on lease payments and better target resources to determine facility optimization.

### **WHAT THE OIG RECOMMENDED:**

We recommended the vice president, Northeast Area, in coordination with the vice president, Facilities, use the OIG risk model results to assist in the decision making and negotiation of lease rates and future node studies.

[Link to review the entire report](#)



October 23, 2013

**MEMORANDUM FOR:** RICHARD P. ULUSKI  
VICE PRESIDENT, NORTHEAST AREA

TOM A. SAMRA  
VICE PRESIDENT, FACILITIES

An e-signature block showing a handwritten signature in grey ink. Above the signature, it says "E-Signed by Michael A. Magalski" and "VERIFY authenticity with eSign Desktop". A small yellow question mark icon is in the top right corner of the block.

E-Signed by Michael A. Magalski  
VERIFY authenticity with eSign Desktop

**FROM:** Michael A. Magalski  
Deputy Assistant Inspector General  
for Support Operations

**SUBJECT:** Audit Report – Lease Risk Model Analysis in the Northeast  
Area (Report Number SM-AR-14-001)

This report presents the results of our audit of the Lease Risk Model Analysis in the Northeast Area (Project Number 13YG009SM000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Monique Colter, director, Supply Management and Facilities, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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## Introduction

This report presents the results of our self-initiated audit of Lease Risk Model Analysis in the Northeast Area (Project Number 13YG009SM000). Our objective was to assess opportunities for potential cost savings in Northeast Area facility leases. See [Appendix A](#) for additional information about this audit.

The U.S. Postal Service spends more than \$805 million annually leasing about 24,000 facilities nationwide. The Northeast Area spends more than \$184 million each year to lease more than 3,300 facilities. Area officials begin the lease renewal process 12 to 24 months before a lease ends by reviewing lease information provided by the Postal Service's Facilities organization. In conjunction with Facilities, area officials balance their portfolio of existing facilities with current and projected space needs by conducting facility operational analyses called node studies.<sup>1</sup>

During fiscal year (FY) 2012, the U.S. Postal Service Office of Inspector General (OIG) developed a predictive risk model, the Lease Building Renewal Risk Model (LBRRM), to analyze leased properties. The LBRRM analyzes whether the Postal Service is renewing leases at a fair price and whether it needs the leased space that is due for renewal. The model evaluates each Postal Service lease and uses five risk metrics related to safety, fraud, facility worth, facility lease rate, and facility capacity.

## Conclusion

The Northeast Area could potentially realize cost savings in 52 percent of its facility lease renewals. Of those, the risk model indicated above-market rates for 250 leases that are expiring within 2 years, which represents \$6.6 million in potential savings over the duration of the leases. Thirty-nine of these leases were for significantly underutilized facilities based on decreases in revenue, mail volume, and hours worked. The Northeast Area and Facilities could also use OIG model results to further target the Northeast Area's node study resources on underutilized facilities.

## Above-Market and High Capacity Risk Leases

The Northeast Area could potentially realize cost savings in 52 percent of its facility lease renewals. Specifically, the LBRRM identified 1,762 of 3,389 leases in which the

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<sup>1</sup> An operational analysis performed on a plant, retail, or delivery facility. The analysis may reveal a 'rightsizing' possibility at an existing facility or the opportunity to sell a vacated existing owned building or terminate an existing leased facility. The studies also identify changes that are needed to the existing facility or new construction that may be required. The area of study is determined by transportation network data and available facilities within a 10-mile radius typical.

area is possibly paying rent above the market rate. Of those, 250 leases are expiring within 2 years and were identified as high risk for lease rate,<sup>2</sup> which represents \$6.6 million in potential savings — or funds put to better use — over the duration of the leases. In addition, 39 of these leases were identified as high risk for capacity. While the lease rate metric results are indications of potential above-market leases, we understand that the model does not address specific Postal Service facility considerations such as unique facility types, locations, and traffic patterns. See [Appendix B](#) for monetary impact and [Appendix C](#) for expiring leases representing potential savings.

For example, the LBRRM identified the West Lynn Station in Lynn, MA as high risk for both lease rate and capacity due to an above-market rent and a decline in revenue and mail volume. However, the Postal Service recently renewed the lease for a 5-year term, without a decrease in rent or leased space, earning the West Lynn Station an even higher lease rate risk score.

Postal Service policy<sup>3</sup> directs real estate specialists to determine fair market value for expiring leases. The Northeast Area relied on these fair market values as the basis for its decision making to renew leases; however, according to an area official, they did not have the resources to verify whether the lease rates were at market value. In some cases, Facilities presented the area with above-market leases for renewal because it lacked negotiating leverage because of the absence of viable facility alternatives. Also, according to Facilities personnel, Facilities has experienced a backlog of lease renewals, creating time constraints and further decreasing negotiating leverage.

### Focusing Node Studies

The Northeast Area and Facilities have an opportunity to use LBRRM results to pinpoint optimal locations for their node studies and focus resources on leases that are high risk for both capacity and lease rate. Forty of the 50 riskiest leases reviewed for high capacity were not considered for node studies. Five of the riskiest high capacity leases were also identified as high risk for lease rate. See [Appendix D](#) for Top 50 Riskiest Leases for Capacity.

The Postal Service identifies facilities for node studies based on leases that expire within the current fiscal year, primarily having an annual rent greater than \$400,000 and containing excess space. The 40 leases that were not considered for node studies did not meet these criteria; however, the LBRRM results would allow the Postal Service to take into account high-risk leases for capacity when determining areas for possible optimization efforts.

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<sup>2</sup> We assigned lease rate scores to each facility based on their annual savings potential, which we calculated by comparing the current lease amount to the projected lease amount. High-risk lease rate scores indicate facilities that have the greatest savings potential and consequently should be negotiated to market rates. Scores range from 1 to 20, with 20 representing the riskiest leases. These leases scored 10 or greater.

<sup>3</sup> Postal Service Standard Operating Procedures for Levels 1, 2, and 3 leasing.

Given the financial challenges facing the Postal Service, the Northeast Area and Facilities can use LBRRM results to help mitigate the Postal Service's financial and operational risk. Specifically, the area could renegotiate above-market lease rates to lower rates and further target resources to determine facility optimization. Although the LBRRM does not include potential facility relocation costs or the political ramifications associated with facility closures, the model does provide additional information to assist with operational decision making.

## Recommendations

We recommend the vice president, Northeast Area, in coordination with the vice president, Facilities:

1. Use the Lease Building Renewal Risk Model lease rate and capacity metric results to assist in the decision making and negotiation of lease rates.
2. Use the Lease Building Renewal Risk Model capacity metric results to consider facilities with high capacity risk scores for future node studies.

## Management's Comments

Management disagreed with our findings, recommendations, and monetary impact. Management based their disagreement on the incorrect application of CoStar data used by the LBRRM to estimate potential savings. Management's areas of concerns are the usage of CoStar data, inaccurate potential savings, ability to reduce square footage based on drop in retail revenue and work hours and inaccurate data in the report.

Management stated CoStar provides a substantial amount of information to determine fair market value that the LBRRM does not take into consideration. The model database only consists of rental rates that are listed in a given area (which excludes a substantial number of properties that have rents withheld<sup>4</sup>). In addition, the LBRRM takes all the rentals in a given area, which in many cases is a 3-digit ZIP Code area, averages them together and says the average is the projected lease amount that we should pay.

Management stated that based on the model, the total projected lease rate for all 3,389 properties in the report should be \$275,305,397 (those over and under market rate). Therefore, according to the model and how it applies CoStar data, they are paying a total of \$91 million under the LBRRM projected lease rate or 33 percent less than what the audit states. Management does not believe that is the case and stated that this proves that the CoStar data was inaccurately applied.

Management stated that declines in revenue and mail volume or no revenue or volume do not translate into the ability to lower lease rates. Management also noted inaccuracies in six of the top 25 highest claimed potential savings facilities; six had the wrong current lease and three had the wrong current square footage.

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<sup>4</sup> Rents withheld are when rent data was not available for that property.

Management stated that they would continue to utilize the robust optimization and leasing program. They are always open to new and improved methodologies to pinpoint realistically capture savings. However, they do not believe the model allows them to accurately achieve those results. See [Appendix E](#) for management's comments, in their entirety.

### Evaluation of Management's Comments

The OIG considers management's comments nonresponsive to our recommendations. We disagree with their assessment of the LBRRM and our usage of its results. Regarding management's concern with the usage of CoStar data, our model did take into consideration asking rents, market trends, and vacancy rates — the primary factors in establishing fair market lease rates. Also, in the interest of reasonableness, we included facilities comparable to Postal Service facilities to avoid wildly unrepresentative figures. We searched comparable facilities in 5-digit ZIP Code areas and only resorted to 3-digit ZIP Code areas when we could not obtain sufficient data.

In regards to our potential monetary savings, our model was not intended to 'average' out below and above market rates but to focus on opportunities to realize cost savings on leases for which the Postal Service is paying above market rates. Our model was designed to identify areas of risk on lease rates and to focus resources on these opportunities.

We disagree with the Postal Service's stance that revenue and work hours could not result in lease rate savings. Reductions in revenue and work hours are considered in the calculations used to determine 'needed' space. Therefore, when renegotiating a lease, a reduction of the 'needed' space could result in lease savings. This may not apply to every property; but our risk model is designed to present an overall view of opportunities for savings.

In regards to management's statement that we used inaccurate data, our risk model pulled the current lease rate and square footage information from the Postal Service's electronic Facilities Management System (eFMS). Two of the inaccurate lease rates that management mentioned are due to periodic increases in rent during the lease recorded in eFMS, which our model duplicated. The incorrect square footage data could be due to incorrect data recorded in eFMS or revisions that were made after we downloaded data for our audit.

We appreciate management's assessment and will continue to work with them to improve the LBRRM and make it a more valuable tool.



## Appendix A: Additional Information

### Background

During FY 2012, the OIG developed a predictive risk model, the LBRRM, to analyze leased properties. The purpose of the LBRRM is to assist the Postal Service in renewing leases at a fair price and identifying whether it needs the leased space that is due for renewal. The model evaluates each Postal Service lease, using five risk metrics related to safety, fraud, facility worth, facility lease rate, and facility capacity. The facility lease rate and capacity metrics were significant to our audit objective.

### Lease Rate

The lease rate metric has four parts:

- Current lease rate.
- Projected lease rate.
- ZIP Code.
- Interior square footage.

We assigned lease rate scores to each facility based on their annual savings potential and calculated potential savings by comparing current lease amounts to projected lease amounts. For each facility, the risk model accessed retail market data<sup>5</sup> for the facility's submarket (determined by ZIP Code) and, using historical growth figures for that submarket, calculated the market lease rate for 2 years in the future.<sup>6</sup>

While the lease rate metric results indicate potential above-market leases, we understand that the model does not address specific Postal Service facility considerations such as unique facility types, locations, and traffic patterns. The resulting weighted lease rate scores range from 1 to 20, with 20 representing the riskiest leases. High lease rate scores indicate facilities that have the greatest savings potential and, consequently, should be negotiated to market rates.

### Capacity

The capacity metric has four parts:

- Revenue.
- Volume.
- Hours worked.
- Interior square footage.

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<sup>5</sup> Market rate and growth rate data were provided by CoStar, a commercial real estate information company.

<sup>6</sup> The reason for using projected market rates 2 years in the future is that leases take about 2 to 3 years to investigate; therefore, the lease would also be negotiated 2 to 3 years in the future, and thus, the potential savings would be more accurate by using the future predicted market rates.

The capacity metric is calculated based on the change of revenue, volume, and hours worked over time on a per interior square foot basis. Based on these trends, each facility was given a capacity score of 1 through 10, with 10 being the highest risk capacity. A high capacity score indicates facilities that are dropping in revenue, volume, or hours worked over time.

A total of 3,389 leases existed in the Northeast Area as of June 2012. The LBRRM indicated overpayment of rent in 1,762 of those leases. Of those, 250 are expiring within the next 2 years, between October 1, 2013, and September 30, 2015, and are considered high risk for lease rate.<sup>7</sup> In addition, 39 of the expiring risky lease rate leases also have high capacity scores.<sup>8</sup>

As part of the Facilities optimization program to address excess space, Facilities created node studies. A node study is an operational analysis performed on a plant, retail, or delivery facility. The study may reveal a 'rightsizing' possibility at an existing facility or the opportunity to sell a vacated existing owned building or terminate an existing leased facility. The studies also identify changes needed to the existing facility or new construction that may be required. The area of study is determined by transportation network data and available facilities within a 10-mile radius typical.

The LBRRM identified the top 50 riskiest leases for capacity in the Northeast Area. Of those 50 leases, only 10 were associated with node studies. As illustrated in [Appendix D](#) the 40 remaining leases were not considered because they did not meet Facilities node study criteria of leases that are expiring within the fiscal year with annual rent greater than \$400,000 and containing excess space.

A Facilities official explained that, during the initial phase of the optimization program, each Facilities Service Office, being familiar with the area, identified high-profile facilities with excess space. Facilities has since refined the process to its current criteria. However, the model identified leases risky for capacity and, in some cases, lease rate that could also be considered for node studies.

### [Objective, Scope, and Methodology](#)

Our objective was to assess opportunities for cost savings in facility leases in the Northeast Area. Specifically, we identified potential savings in facility lease renewals and identified facilities with underutilized facility capacity.

To accomplish our objective, we:

- Obtained the universe of leases in the Northeast Area from the LBRRM as of June 30, 2012, which provided 2,946 finance numbers that translated to 3,389 leases.

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<sup>7</sup> Expiring leases with positive potential savings and lease rate metric scores of 10 or greater.

<sup>8</sup> Expiring leases with positive potential savings, lease rate metric scores of 10 or greater, and capacity scores of 5 or greater.

- Validated the accuracy of the LBRRM lease rate and capacity metric calculations using trend analysis and lease market data. We worked with the Postal Service and OIG Countermeasures and Performance Evaluations team to obtain source data and model input data to resolve discrepancies when validating the metrics.
- We reviewed the lease rate and capacity metrics results for the Northeast Area in their entirety and compared the top 50 riskiest leases to the approved and pending node studies in the Northeast Area.
- We interviewed Northeast Area officials regarding the area's involvement in the lease renewal process and the manager of Facilities Requirements to discuss the methodology and criteria used to prioritize node studies.

We conducted this performance audit from December 2012 through August 2013 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 August 26, 2013, and included their comments where appropriate.

We assessed the reliability of LBRRM data by comparing model results to Postal Service and public rental market data. We determined that the data were sufficiently reliable for the purposes of this report.

### Prior Audit Coverage

The OIG issued *Nationwide Facility Optimization* (Report Number [DA-AR-11-009](#), dated August 26, 2011) and projected that, of the 284 million square feet of interior space it owns or leases nationwide, the Postal Service maintains 67 million square feet (or 24 percent) of excess square feet of interior space, representing \$1.9 billion in funds put to better use. This level of excess is more than the current commercial vacancy rate of 13.4 percent. Management stated they are using a comparable standard based on operational need and Facility Planning standards to calculate excess space. Management also stated they will incorporate the reduction of interior square footage as a measurement into their report card beginning in FY 2012 and will pursue the possibility of incorporating optimization goals into the National Performance Assessment. Management did not agree with the amount of excess space or the potential monetary impact reported.

## Appendix B: Monetary Impact

Recommendation	Impact Category	Amount
1	Funds put to better use <sup>9</sup>	\$6,629,831

We calculated \$6.6 million in funds put to better use by identifying expiring leases with positive potential savings and high lease rate metric scores (10 or greater). We further excluded potential savings related to leases in Puerto Rico.<sup>10</sup> See [Appendix C](#) for detailed calculations for each lease.

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<sup>9</sup> Funds that could be used more efficiently by implementing recommended actions.

<sup>10</sup> The LBRRM does not contain lease market data for the territory of Puerto Rico. Consequently, we did not rely on lease rate metrics and potential savings identified for Puerto Rico.

## Appendix C: Potential Savings

Count	Facility Name	Facility Address	Interior Square Footage	Lease Expiration Date	Lease Amount	Projected Lease Amount	Potential Savings
1	Jamaica Plain Station	Jamaica Plain, MA	20,076	4/30/15	\$991,750	██████	██████
2	Cherokee Finance Station	New York, NY	3,800	11/30/13	\$551,000	██████	██████
3	Milk Street Station	Boston, MA	6,620	12/31/13	\$354,973	██████	██████
4	Main Office	Far Hills, NJ	2,078	3/31/15	\$210,450	██████	██████
5	Station C	Flushing, NY	6,890	6/30/15	\$310,640	██████	██████
6	Bay Terrace Finance Station	Bayside, NY	2,244	8/31/15	\$174,074	██████	██████
7	Main Office	Acton, MA	13,438	4/30/15	\$275,910	██████	██████
8	North Quincy Carrier Annex	Quincy, MA	3,145	2/28/15	\$151,250	██████	██████
9	Main Office	Carlisle, MA	4,901	5/31/14	\$153,834	██████	██████
10	Lafayette Station	Boston, MA	3,846	6/30/14	\$177,600	██████	██████
11	Main Office	Somers, NY	8,034	7/31/14	\$237,000	██████	██████
12	Bushwick Station	Brooklyn, NY	14,600	11/30/13	\$394,200	██████	██████
13	Kingsbridge Station	Bronx, NY	11,303	9/30/14	\$319,304	██████	██████
14	Main Office	Mohegan, Lake, NY	6,000	8/20/14	\$174,570	██████	██████
15	Roessleville Branch - Colonie	Albany, NY	4,737	11/30/13	\$123,162	██████	██████
16*	Kingsway Finance Station	Brooklyn, NY	3,750	7/31/14	\$160,000	██████	██████
17	Port Authority Finance Station	New York, NY	5,320	5/31/14	\$274,380	██████	██████
18	Main Office	Chelmsford, MA	3,975	3/31/15	\$119,592	██████	██████
19	Uptown Station	Hoboken, NJ	1,101	4/30/15	\$86,658	██████	██████
20	South Station - Finance Station	Nashua, NH	3,617	7/31/15	\$101,276	██████	██████
21	Main Office	Goldens Bridge, NY	3,810	3/31/14	\$133,343	██████	██████
22	Charlestown	Charlestown, MA	3,800	12/31/13	\$132,100	██████	██████
23	Downtown Station	Portland, ME	7,412	7/14/14	\$143,992	██████	██████
24	Main Office	Kittery, ME	8,393	6/30/15	\$135,000	██████	██████
25	Main Office	Bolton, MA	4,899	9/30/14	\$111,115	██████	██████
26	Main Office	Duxbury, MA	6,370	2/28/15	\$131,350	██████	██████
27	Main Office	Ardsley, NY	3,018	6/30/14	\$106,470	██████	██████
28	Main Office	Bedford, NY	2,526	3/31/15	\$96,800	██████	██████
29	Newton Highlands	Newton Highlands, MA	3,071	4/30/14	\$103,000	██████	██████

Count	Facility Name	Facility Address	Interior Square Footage	Lease Expiration Date	Lease Amount	Projected Lease Amount	Potential Savings
30	Melrose	Melrose, MA	4,882	6/30/15	\$108,970	██████	██████
31*	Brighton Finance Station	Brooklyn, NY	1,643	6/30/15	\$85,000	██████	██████
32*	Mosholu Finance Station	Bronx, NY	2,499	12/31/14	\$96,600	██████	██████
33	Main Office	Succasunna, NJ	5,040	7/31/15	\$149,950	██████	██████
34	Main Office	Ho Ho Kus, NJ	3,945	11/30/13	\$120,000	██████	██████
35	Retail Station	Springfield, NJ	4,720	3/31/14	\$141,600	██████	██████
36	Bayside Station	Bayside, NY	8,342	7/31/14	\$274,884	██████	██████
37*	Swampscott Branch	Swampscott, MA	4,434	1/31/15	\$99,600	██████	██████
38	North Babylon Branch	North Babylon, NY	6,015	8/31/15	\$183,000	██████	██████
39	West Concord Station	Concord, MA	2,354	8/5/14	\$66,675	██████	██████
40	Stadium Station	Bronx, NY	1,806	6/30/15	\$76,544	██████	██████
41	Whitestone Station	Whitestone, NY	8,470	1/31/14	\$275,240	██████	██████
42	Haledon, N. Haledon Branch	Haledon, NJ	4,963	12/31/14	\$105,000	██████	██████
43	Main Office	Glenmont, NY	4,150	9/13/14	\$93,873	██████	██████
44*	Main Office	Sagaponack, NY	252	6/30/15	\$39,600	██████	██████
45*	Main Office	Peapack, NJ	710	10/31/14	\$50,000	██████	██████
46	Main Office	Ogunquit, ME	3,228	10/31/13	\$64,560	██████	██████
47*	Clason Point Finance Station	Bronx, NY	1,918	6/30/15	\$73,500	██████	██████
48	Main Office	Yarmouth, ME	6,566	9/21/15	\$106,066	██████	██████
49	Main Post Office	Averill Park, NY	3,823	11/30/14	\$72,860	██████	██████
50	Cathedral	Boston, MA	2,990	7/31/14	\$84,780	██████	██████
51	Newton Center	Newton Center, MA	5,960	1/31/15	\$143,026	██████	██████
52	Charles St. Station	Boston, MA	914	3/31/14	\$50,000	██████	██████
53*	Plaza Finance Station	Long Island City, NY	1,728	8/31/14	\$68,000	██████	██████
54	Palisade Station	Fort Lee, NJ	2,134	9/30/14	\$75,000	██████	██████
55*	Rotterdam Square Mall Station	Schenectady, NY	225	10/31/14	\$30,600	██████	██████
56	Lake Branch Ronkonkoma	Ronkonkoma, NY	3,256	1/31/15	\$87,000	██████	██████
57	Main Office	Eliot, ME	4,514	12/31/14	\$72,000	██████	██████
58*	Georgetown Branch	Georgetown, MA	5,200	2/28/15	\$98,800	██████	██████
59	Main Office	Pelham, NH	4,507	8/31/15	\$79,807	██████	██████
60	Main Office	Taftville, CT	3,232	10/31/13	\$65,652	██████	██████

Count	Facility Name	Facility Address	Interior Square Footage	Lease Expiration Date	Lease Amount	Projected Lease Amount	Potential Savings
61	Main Office	Hopatcong, NJ	4,704	8/31/15	\$103,488	██████	██████
62	Main Office	Katonah, NY	4,899	10/31/13	\$122,160	██████	██████
63	Main Office	Essex, CT	1,856	2/28/15	\$47,967	██████	██████
64	Main Office	Remsenburg, NY	1,380	9/30/14	\$54,000	██████	██████
65	Main Office	Ringwood, NJ	5,351	9/30/15	\$100,109	██████	██████
66	Main Office	Hampton, NJ	3,062	10/18/14	\$81,750	██████	██████
67	Methuen Branch	Methuen, MA	4,177	5/31/14	\$80,198	██████	██████
68*	Brookline Village Branch	Brookline, MA	1,691	11/30/14	\$56,000	██████	██████
69*	Main Office	Sherill, NY	3,489	11/24/14	\$49,000	██████	██████
70*	Homecrest Finance Station	Brooklyn, NY	3,820	8/31/15	\$121,248	██████	██████
71	Annex	Ballston Spa, NY	5,000	1/31/14	\$89,600	██████	██████
72	Carrier Annex	Washington, NJ	3,066	1/31/15	\$60,000	██████	██████
73*	New Springville Station	Staten Island, NY	1,968	9/30/14	\$68,950	██████	██████
74	Amity Finance Station	New Haven, CT	2,396	10/31/13	\$56,197	██████	██████
75	Van Brunt Station	Brooklyn, NY	18,560	8/22/14	\$427,000	██████	██████
76*	Retail Station	Emerson, NJ	1,630	3/31/15	\$55,290	██████	██████
77	Main Office	Phoenix, NY	3,884	6/30/14	\$54,376	██████	██████
78	Main Office	Dumont, NJ	6,032	2/28/15	\$122,230	██████	██████
79	Main Office	York Harbor, ME	2,961	6/30/14	\$51,600	██████	██████
80	Loiza Street Station	San Juan, PR	14,635	8/31/15	\$411,400	██████	██████
81	N. Hackensack Station	River Edge, NJ	1,190	12/31/14	\$45,666	██████	██████
82	Station 'A'	Montclair, NJ	1,800	9/30/15	\$54,000	██████	██████
83	Main Office	Middleton, MA	2,970	9/30/14	\$62,073	██████	██████
84	Main Office	Terryville, CT	5,376	6/30/14	\$98,826	██████	██████
85	Siasconset Class Branch	Siasconset, MA	752	12/31/14	\$41,360	██████	██████
86	Rio Piedras Station	San Juan, PR	6,244	9/30/15	\$205,000	██████	██████
87	Main Office	Southborough MA	5,554	5/18/14	\$92,080	██████	██████
88	Main Office	Kinderhook, NY	2,065	2/28/14	\$55,755	██████	██████
89	Main Office	Piermont, NY	1,124	10/31/14	\$39,900	██████	██████
90*	Finance Station	Hartford, CT	2,000	2/28/15	\$47,015	██████	██████
91	East End Station	St. Thomas, VI	3,490	4/30/14	\$134,029	██████	██████
92*	Main Office	Great Meadows, NJ	1,970	4/30/15	\$43,800	██████	██████

Count	Facility Name	Facility Address	Interior Square Footage	Lease Expiration Date	Lease Amount	Projected Lease Amount	Potential Savings
93	Main Office	Deep River, CT	4,300	6/30/15	\$74,071	██████	██████
94	Main Office	Kent, CT	3,934	3/31/15	\$77,303	██████	██████
95	Roosevelt Field Finance Station	Garden City, NY	1,530	7/31/14	\$61,200	██████	██████
96	Main Office	North Dighton, MA	3,000	4/20/15	\$63,000	██████	██████
97	Junction Blvd. Finance Station	Jackson Heights, NY	821	6/30/14	\$42,000	██████	██████
98	Main Office	Blauvelt, NY	4,169	11/30/14	\$90,445	██████	██████
99	South Paterson Branch	Paterson, NJ	3,390	6/30/15	\$66,000	██████	██████
100*	Westwood Rivervale	Rivervale, NJ	3,942	1/31/15	\$84,000	██████	██████
101	Carlstadt Branch	Carlstadt, NJ	2,325	10/31/13	\$70,000	██████	██████
102	Old Bethpage Station	Old Bethpage, NY	4,253	11/30/14	\$123,000	██████	██████
103	Hudson Mall Station	Hudson, NH	2,315	12/31/14	\$44,911	██████	██████
104	Main Office	Cazenovia, NY	4,408	6/30/14	\$54,000	██████	██████
105	East End Finance Unit	Washington Depot, CT	3,062	5/31/15	\$54,000	██████	██████
106	Nahant Branch	Nahant, MA	1,455	11/30/14	\$37,200	██████	██████
107	Plaza Carolina Station	Carolina, PR	2,398	12/31/13	\$87,980	██████	██████
108	Woodcliff Lake Station	Woodcliff Lake, NJ	1,204	4/30/14	\$42,570	██████	██████
109	Main Office	Hawthorne, NY	4,350	8/31/14	\$101,370	██████	██████
110	Airport Finance Station	Carolina, PR	1,400	11/30/14	\$65,800	██████	██████
111*	Melcourt Finance Station	Bronx, NY	840	11/30/14	\$34,320	██████	██████
112	Main Office	North Falmouth, MA	3,603	9/30/14	\$72,000	██████	██████
113	Main Office	Antrim, NH	3,140	1/31/15	\$52,532	██████	██████
114	Longmeadow Branch	Longmeadow, MA	2,158	8/9/15	\$45,334	██████	██████
115	Main Office	Sterling, MA	2,784	6/30/14	\$47,251	██████	██████
116	Main Office	Washington Depot, CT	1,244	10/31/14	\$37,724	██████	██████
117	Mount Carmel Fin Station	Bronx, NY	1,500	10/31/14	\$48,000	██████	██████
118	Main Office	De Ruyter, NY	2,256	9/30/15	\$33,840	██████	██████
119	Main Office	Jefferson Valley, NY	1,603	3/31/15	\$46,900	██████	██████
120	Main Office	Belvidere, NJ	4,255	3/31/14	\$66,000	██████	██████
121	Readville	Hyde Park, MA	1,032	4/30/14	\$31,499	██████	██████
122	Main Office	Hewitt, NJ	4,376	4/30/14	\$76,500	██████	██████



Count	Facility Name	Facility Address	Interior Square Footage	Lease Expiration Date	Lease Amount	Projected Lease Amount	Potential Savings
123	Main Office	West Tisbury, MA	1,305	10/31/13	\$38,870	██████	██████
124	Winthrop	Winthrop, MA	2,016	4/23/14	\$44,850	██████	██████
125	Main Office	Highland Falls, NY	2,312	8/31/14	\$50,967	██████	██████
126	Trujillo Alto Station	Trujillo Alto, PR	4,209	2/28/15	\$107,750	██████	██████
127	Main Office	Sharon, MA	6,608	6/30/15	\$99,620	██████	██████
128	Main Post Office	Goshen, CT	3,112	8/31/15	\$58,330	██████	██████
129*	Main Office	Ashfield, MA	1,984	8/31/14	\$34,000	██████	██████
130	Main Office	Mahopac Falls, NY	759	12/31/14	\$23,876	██████	██████
131	Pilgrim Finance Station	Bronx, NY	2,100	4/30/15	\$58,800	██████	██████
132	Bedford Station	Bedford, NH	1,800	7/31/14	\$34,200	██████	██████
133*	Walnut Hill Station	Woonsocket, RI	2,017	11/30/13	\$34,672	██████	██████
134	Main Office	Jamesville, NY	3,414	8/27/15	\$51,300	██████	██████
135	Main Office	Patterson, NY	1,480	3/31/14	\$32,250	██████	██████
136	Main Office	Mashpee, MA	6,795	11/30/13	\$137,970	██████	██████
137	Preakness Station	Wayne, NJ	1,950	11/30/14	\$48,264	██████	██████
138	Main Office	Warwick, NY	5,116	11/30/13	\$94,317	██████	██████
139*	Huntington Station	Shelton, CT	1,330	6/30/15	\$35,195	██████	██████
140	Main Post Office	South Glastonbury, CT	3,732	12/31/14	\$68,072	██████	██████
141	Main Office	Earlville, NY	1,656	7/31/15	\$25,800	██████	██████
142	Ledyard Station	Ledyard, CT	5,538	4/30/15	\$81,200	██████	██████
143	Main Office	Berkeley Heights, NJ	6,600	3/31/15	\$198,273	██████	██████
144	Hooksett Branch	Hooksett, NH	9,110	8/13/15	\$123,656	██████	██████
145	Main Office	Sandwich, MA	5,600	11/30/13	\$94,000	██████	██████
146	Main Office	Norfolk, MA	2,959	1/31/14	\$50,232	██████	██████
147	Main Office	Vernon, NY	3,262	12/29/14	\$35,138	██████	██████
148	Main Office	East Wareham, MA	2,500	6/30/15	\$43,750	██████	██████
149*	Main Office*	East Berlin, CT	1,193	6/30/15	\$25,344	██████	██████
150	Main Office	Harmony, RI	1,408	3/31/15	\$26,465	██████	██████
151	Main Office	Blossvale, NY	2,015	10/14/14	\$25,716	██████	██████
152*	Main Office*	Mansfield Center, CT	1,627	7/31/15	\$29,147	██████	██████
153	Main Office	Westwood, MA	2,560	6/30/14	\$53,000	██████	██████
154	Main Office	Wanaque, NJ	1,500	6/30/14	\$31,900	██████	██████
155*	Main Office	Greenfield	2,140	6/30/14	\$39,060	██████	██████

Count	Facility Name	Facility Address	Interior Square Footage	Lease Expiration Date	Lease Amount	Projected Lease Amount	Potential Savings
		Center, NY					
156	Main Office	Newcastle, ME	4,389	11/8/14	\$72,370		
157	Hudson Valley Mall-Kiosk	Kingston, NY	220	7/31/14	\$18,975		
158	Main Office	Sharon Springs, NY	1,955	4/30/14	\$35,874		
159	Main Office	Berwick, ME	4,000	6/15/15	\$49,610		
160	Main Office	Sharon, CT	2,784	10/31/13	\$49,500		
161*	Main Office	Parish, NY	2,004	8/31/14	\$26,568		
162	Main Office	Holden, MA	4,698	8/31/15	\$63,422		
163	Main Office	Auburn, MA	7,573	3/31/15	\$96,000		
164	Barnum Station	Bridgeport, CT	10,772	2/28/15	\$220,000		
165	Main Office	Middlefield, CT	1,582	5/31/14	\$30,000		
166*	Park Station	Paterson, NJ	1,930	8/31/14	\$36,626		
167	Great Northern Mall Self-Service Postal Center	Clay, NY	420	10/31/13	\$15,000		
168*	Delawanna Station	Clifton, NJ	1,318	4/30/14	\$33,750		
169	Fleetwood Station	Mount Vernon, NY	4,382	2/28/15	\$91,126		
170	Main Office	Chester, CT	2,780	2/28/14	\$44,400		
171*	Great Kills Station	Staten Island, NY	1,834	9/30/15	\$52,272		
172	Eastwood Finance Station	Syracuse, NY	2,950	12/31/14	\$42,500		
173	Noank Station	Groton, CT	528	5/31/14	\$15,600		
174	Main Office	Memphis, NY	1,602	11/30/14	\$28,100		
175	Main Office	Central Valley, NY	1,625	7/31/15	\$35,004		
176	Main Office	Shutesbury, MA	1,249	4/30/14	\$22,000		
177	Main Office	Hillsdale, NJ	3,551	2/28/15	\$79,897		
178	Main Office	South Salem, NY	1,470	11/30/14	\$38,000		
179	Cruegers Branch	Croton On Hudson, NY	689	4/28/15	\$20,985		
180	Main Office	Moodus, CT	2,320	10/31/13	\$32,000		
181	Detached Lockbox Unit	Secaucus, NJ	768	2/28/14	\$25,344		
182	Main Office	Crompond, NY	1,107	5/31/15	\$27,762		
183*	Main Office	Purdys, NY	800	12/31/14	\$24,000		
184	Fayville Station	Fayville, MA	936	12/31/13	\$20,000		
185	Main Office	Oriskany, NY	2,076	7/14/15	\$23,094		
186	Main Office	Westtown, NY	996	12/31/13	\$24,000		
187*	Esplanade Station	Bronx, NY	637	9/30/15	\$21,600		

Count	Facility Name	Facility Address	Interior Square Footage	Lease Expiration Date	Lease Amount	Projected Lease Amount	Potential Savings
188	Main Office	Wolfeboro Falls, NH	1,600	7/31/15	\$34,690	██████	██████
189	Main Office	Bryantville, MA	1,185	12/31/13	\$23,100	██████	██████
190*	Highlawn Station	Brooklyn, NY	1,323	9/30/14	\$41,588	██████	██████
191	Main Office	East Falmouth, MA	3,515	8/31/14	\$60,375	██████	██████
192	Main Office	Salt Point, NY	1,199	9/6/14	\$26,890	██████	██████
193	Main Office	Gillette, NJ	1,605	2/28/15	\$51,000	██████	██████
194	South Station	Yonkers, NY	5,912	3/31/15	\$100,000	██████	██████
195	Main Office	High Falls, NY	854	12/31/13	\$24,000	██████	██████
196	Main Office	West Bridgewater, MA	1,656	4/30/15	\$28,854	██████	██████
197	Salem - Museum Place	Salem, MA	525	10/31/13	\$15,000	██████	██████
198	Main Office	Meriden, NH	262	8/31/15	\$22,980	██████	██████
199	Main Office	Highland Mills, NY	3,000	6/14/15	\$54,840	██████	██████
200	Main Office	Yorkville, NY	2,716	9/30/14	\$27,000	██████	██████
201	North Plymouth Station	Plymouth, MA	1,131	12/31/13	\$21,900	██████	██████
202	Main Office	Cos Cob, CT	2,576	2/28/15	\$136,305	██████	██████
203	Main Office	Ashaway, RI	2,322	10/31/13	\$38,000	██████	██████
204	Bayside Carrier Annex	Bayside, NY	10,975	2/28/14	\$315,000	██████	██████
205	Montague Finance Unit	Montague, NJ	960	5/31/15	\$23,000	██████	██████
206	Main Office	West Rutland, VT	4,166	2/28/15	\$74,988	██████	██████
207	Main Office	Monument Beach, MA	1,840	10/31/14	\$36,500	██████	██████
208	Main Office	Brooklyn, CT	3,471	2/28/14	\$50,000	██████	██████
209*	Main Office	Hoosick, NY	360	7/4/14	\$10,800	██████	██████
210	Main Office	Feeding Hills, MA	2,530	5/31/15	\$41,400	██████	██████
211	Main Office	Bingham, ME	3,000	11/30/14	\$53,460	██████	██████
212*	Main Office	Pottersville, NJ	358	2/28/15	\$13,000	██████	██████
213	Main Office	Broad Brook, CT	1,600	4/30/14	\$25,600	██████	██████
214	Detach Lock Box Unit	West Babylon, NY	906	11/30/13	\$24,000	██████	██████
215	Main Office	Green Harbor, MA	1,584	4/30/15	\$27,185	██████	██████
216	Newton Upper Falls	Newton Upper Falls, MA	1,650	2/28/15	\$37,950	██████	██████
217	Setauket Branch	Setauket, NY	1,457	10/31/14	\$33,000	██████	██████
218	Teaticket Station	Teaticket, MA	1,519	9/30/14	\$31,775	██████	██████
219	Main Office	Cobalt, CT	539	5/31/14	\$12,000	██████	██████

Count	Facility Name	Facility Address	Interior Square Footage	Lease Expiration Date	Lease Amount	Projected Lease Amount	Potential Savings
220	Main Office	Maybrook, NY	1,892	12/31/14	\$36,500	██████	██████
221	Main Office	Raritan, NJ	4,207	1/31/15	\$86,000	██████	██████
222	Astor	Boston, MA	4,107	4/6/15	\$71,196	██████	██████
223	Main Office	Delaware, NJ	270	9/30/15	\$9,600	██████	██████
224*	Main Office	Lafayette, NJ	1,118	9/30/15	\$25,000	██████	██████
225	Main Office	Sheldonville, MA	596	10/31/14	\$14,000	██████	██████
226	Main Office	Brookfield, MA	2,175	7/31/14	\$30,890	██████	██████
227	Main Office	New Woodstock, NY	1,540	12/31/14	\$18,737	██████	██████
228	Main Office	Lacona, NY	2,160	4/30/14	\$23,760	██████	██████
229	Main Office	Farmington, NH	6,500	4/30/15	\$84,650	██████	██████
230	Main Office	West Suffield, CT	1,451	3/31/15	\$23,216	██████	██████
231	West Acton Station	Acton, MA	2,204	8/31/14	\$33,000	██████	██████
232	Main Office	Mount Desert, ME	2,002	11/30/14	\$40,231	██████	██████
233	Main Office	Henniker, NH	5,173	3/8/15	\$81,855	██████	██████
234	Main Office	West Eaton, NY	1,133	6/30/14	\$15,000	██████	██████
235	Main Office	Byfield, MA	2,146	9/30/14	\$35,088	██████	██████
236	Main Office	Hubbardsville, NY	333	2/28/15	\$8,400	██████	██████
237	Guttenburg	West New York, NJ	1,565	6/30/15	\$44,500	██████	██████
238	Ernstson Finance Station	Parlin, NJ	1,659	6/30/15	\$35,505	██████	██████
239	Main Office	Waterford, NY	4,851	11/30/13	\$69,734	██████	██████
240	Main Office	Brownville, NY	1,656	1/31/15	\$30,700	██████	██████
241*	Ovington Finance Station	Brooklyn, NY	1,625	3/31/15	\$47,004	██████	██████
242	Main Office	Rock City Falls, NY	598	10/31/14	\$13,252	██████	██████
243*	Main Office	Fultonham, NY	148	6/30/14	\$7,200	██████	██████
244*	Easton Branch*	Easton, CT	747	8/31/15	\$20,756	██████	██████
245*	Main Office	Clayville, NY	800	4/11/15	\$10,367	██████	██████
246	Bank Plaza Finance Station	Merrick, NY	1,771	6/30/15	\$44,709	██████	██████
247	Main Office	West Wareham, MA	2,463	5/31/14	\$44,264	██████	██████
248	Main Office	Ivoryton, CT	2,908	8/31/15	\$41,734	██████	██████
249	Main Office	New Milford, NY	729	3/31/15	\$16,872	██████	██████
250	Main Office	Poquonock, CT	893	10/31/14	\$15,181	██████	██████

Count	Facility Name	Facility Address	Interior Square Footage	Lease Expiration Date	Lease Amount	Projected Lease Amount	Potential Savings
<b>Total</b>							<b>\$6,629,831<sup>11</sup></b>

Source: OIG analysis. LBRRM, as of April 30, 2013.

\* Also high risk for capacity.

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<sup>11</sup> The lease risk model does not contain lease market data for the territory of Puerto Rico. Consequently, we did not rely on potential savings identified for Puerto Rico. However, we did believe these leases warrant inclusion in this list as requiring closer scrutiny upon renewal. We subtracted savings related to leases in Puerto Rico (\$355,037) and arrived at potential savings of \$6,629,831.

## Appendix D: Top 50 Riskiest Leases for Capacity Compared to Node Studies

	Finance Unit	Facility City and State	Lease Amount	Lease Expiration Date	Node Study	Reason for High Capacity Score
1	Springfield Logistics & Distribution Center* <sup>12</sup>	Springfield, MA	\$2,600,000	7/31/13	Y	Declining revenue, mail volume, and hours worked
2	Bryant Finance Station*	New York, NY	\$545,401	8/31/16	Y	Declining revenue and mail volume
3	New Jersey Surface Transportation Center	Carteret, NJ	\$498,429	2/28/14	N	Declining hours worked
4	Rockland Mail Processing Center	Monsey, NY	\$322,989	9/30/14	N	No revenue, mail volume, or hours worked
5	Whitehall Station*	New York, NY	\$322,500	5/31/25	N	Declining revenue and mail volume
6	Palisades Center Station*	West Nyack, NY	\$290,651	12/31/18	N	Declining revenue
7	Hanover Finance Station*	New York, NY	\$233,602	11/30/25	Y	Declining revenue and mail volume
8	Plaza Las America	San Juan, PR	\$185,000	9/30/17	Y	Declining revenue
9	Patchin Finance Station	New York, NY	\$174,840	10/31/16	Y	Declining revenue and mail volume
10	Boston-Winthrop	Winthrop, MA	\$174,240	5/31/19	N	No revenue, mail volume, or hours worked
11	West Lynn Station	Lynn, MA	\$105,000	7/31/17	Y	No revenue, mail volume, or hours worked
12	Appraisers Store	New York, NY	\$100,000	12/31/13	N	Declining revenue
13	Swampscott Station	Swampscott, MA	\$99,600	1/31/15	Y	No revenue, mail volume, or hours worked
14	Georgetown Station	Georgetown, MA	\$98,800	2/28/15	N	No revenue, mail volume, or hours worked
15	Battery Park Station	New York, NY	\$83,305	4/30/15	N	No revenue, mail volume, or hours worked
16	Clason Point Finance Station	Bronx, NY	\$73,500	6/30/15	N	Declining revenue
17	Beach Branch	Revere, MA	\$66,700	10/31/15	N	Declining revenue
18	Ogdensburg Post Office	Ogdensburg, NJ	\$60,000	7/31/18	N	Declining revenue and mail volume
19	Bradford Station	Haverhill, MA	\$54,849	6/30/18	N	No revenue, mail volume, or hours worked
20	Pitt Finance Station	New York, NY	\$50,000	5/31/15	Y	Declining revenue and mail volume
21	Landing Post Office	Landing, NJ	\$46,525	2/29/16	N	Declining revenue and mail volume
22	Fieldston Finance Station	Bronx, NY	\$44,000	12/31/16	N	Declining revenue
23	Cranford Finance Station	Bronx, NY	\$38,250	3/31/17	N	Declining revenue
24	Alpha Branch	Phillipsburg, NJ	\$36,000	8/31/13	N	No revenue, mail volume, or hours worked
25	Melcourt Finance Station	Bronx, NY	\$34,320	11/30/14	N	Declining revenue
26	Botanical Finance Station	Bronx, NY	\$33,678	6/30/2016	N	Declining revenue
27	Tudor City Finance Station	New York, NY	\$31,800	1/31/16	Y	Declining mail volume
28	Castle Hill Finance Station	Bronx, NY	\$29,328	12/31/16	N	Declining revenue
29	East Watertown Branch	Watertown, MA	\$24,900	6/30/16	N	Declining revenue and mail volume
30	Esplanade Finance Station	Bronx, NY	\$21,600	9/30/15	N	Declining revenue
31	South Waltham Branch	Waltham, MA	\$19,728	9/30/14	N	Declining revenue

<sup>12</sup> Leases with an asterisk are also high risk for lease rate.

	Finance Unit	Facility City and State	Lease Amount	Lease Expiration Date	Node Study	Reason for High Capacity Score
32	Hurleyville Post Office	Hurleyville, NY	\$18,000	7/31/15	N	Declining revenue and mail volume
33	Drieser Loop Finance Station	Bronx, NY	\$16,800	M2M <sup>13</sup>	N	Declining revenue
34	Charleston Post Office	Charleston, ME	\$11,140	12/31/16	N	Declining revenue and mail volume
35	Pequabuck Post Office	Pequabuck, CT	\$8,100	6/30/17	N	Declining revenue and mail volume
36	Tioga Center Post Office	Tioga Center, NY	\$7,200	6/30/13	N	Declining revenue and mail volume
37	Northern New England Customer Service & Distribution	Manchester, NH	\$7,116	5/31/13	N	Terminated
38	Sterling Forest Post Office	Sterling Forest, NY	\$7,000	10/31/14	N	Declining revenue
39	South Harwich Post Office	South Harwich, MA	\$6,388	7/31/17	N	Declining revenue and mail volume
40	Websterville Post Office	Websterville, VT	\$6,300	2/28/13	N	Declining mail volume
41	North Hoosick Post Office	North Hoosick, NY	\$5,400	3/31/15	N	Declining revenue and mail volume
42	Hoffmeister Post Office	Hoffmeister, NY	\$3,800	6/30/16	N	Declining revenue
43	Yantic Post Office	Yantic, CT	\$3,600	M2M	N	Declining revenue and mail volume
44	Crouseville Post Office	Crouseville, ME	\$2,820	Y2Y <sup>14</sup>	N	Declining revenue and mail volume
45	Clockville Post Office	Clockville, NY	\$2,795	8/31/14	N	Declining revenue and mail volume
46	Brunswick Post Office	Brunswick, ME	\$1,980	Y2Y	N	Declining revenue and mail volume
47	Boston College Branch	Chestnut Hill, MA	\$1	12/31/14	N	Declining revenue
48	Babson Park Branch	Wellesley Hills, MA	\$1	4/30/18	N	Declining revenue
49	Macys Finance Station	New York, NY	\$1	Y2Y	N	Declining revenue
50	United Nation Finance Station	New York, NY	\$0	M2M	Y	Declining mail volume and revenue

Source: OIG analysis. LRRM, as of April 30, 2013.

<sup>13</sup> Month to month.

<sup>14</sup> Year to year.

## Appendix E: Management's Comments

September 27, 2013

LUCINE M. WILLIS, DIRECTOR – AUDIT OPERATIONS  
OFFICE OF INSPECTOR GENERAL, UNITED STATES POSTAL SERVICE

SUBJECT: Lease Risk Model Analysis in the Northeast Area  
Draft Audit Report (Report Number SM-AR-13-DRAFT)

Thank you for the opportunity to review and comment on the subject draft audit report. Management appreciates the efforts the Office of Inspector General (OIG) regarding the Lease Risk Model Analysis in the Northeast Area.

The Vice President, Northeast Area Operations in coordination with the Vice President, Facilities has reviewed the audit and does not agree with the recommendations nor the potential savings stated at over \$6.6million.

The following are the two recommendations in the audit:

### Recommendations:

We recommend the vice president, Northeast Area, in coordination with the vice president, Facilities:

1. Use the Lease Building Renewal Risk Model lease rate and capacity metric results to assist in the decision making and negotiation of lease rates.
2. Use the Lease Building Renewal Risk Model capacity metric results to consider facilities with high capacity risk scores for future node studies.

### Response

Managements disagreement with the audit is based on the incorrect application of CoStar data which drives the Lease Building Renewal Risk Model (LBRRM) to arrive at potential savings. These inaccurate results lead to inaccurate assumptions used by the OIG in the model. Management previously expressed these concerns prior to the release of this report. The following are management's areas of concern:

- Utilization of CoStar
- Inaccurate Potential Savings
- Ability to reduce square footage based on drop in retail revenue and work hours
- Inaccurate data in the report

### Utilization of CoStar:

CoStar is a generally accepted real estate market tool to assist in determining what space is available in the market and what the asking price is for specific properties. In fact, it is utilized by both our department and our national real estate service provider, CBRE, to help determine market rates for leases coming up for renewal with annual lease rates between \$25K and \$250K per year



(over \$250K per year require full appraisals to establish market lease rate). However, with any tool there are limits and it must be properly utilized. To properly utilize the tool, one must also take into consideration the following factors:

- Location
- Condition for the building
- Age of the building
- Who pays taxes
- Who is responsible for maintenance
- Vacancy rates
- Market trends
- Asking rents

Each property in CoStar attempts to provide a base rent that the owner is asking. However, there are many properties where the actual rental rate is "withheld" and not available through CoStar. In addition CoStar attempts to provide a substantial amount of additional information for the reader in order to determine a fair rental. The information they provide per property listing includes:

- Tax expenses
- Amenities
- Street frontage
- Parking availability
- Building type
- Building status (age)
- Building size
- Typical floor size
- Stories
- Land area
- Total available
- % leased
- Total spaces available
- Smallest space

This information must be taken into consideration when determining fair rental. Unfortunately the LBRRM does not take any of this into consideration. The model database consists of only the rental rates that are listed as asking over a given area (which a substantial number of properties have rent "withheld" so therefore are excluded from the OIG data base) and puts a growth percentage on the rate and states that is market and what the Postal Service should pay.

In addition the LBRRM utilizes averaging methodology meaning it take all the rentals in a given area, which in many cases is over a 3-digit ZIP Code area averages them all together and says the average is the projected lease amount we should pay. That means they have included everything from a "crack house to a penthouse" in the average. This is not an accurate way to determine market rent because locations from one street or neighborhood to another can vary greatly in value in addition to all the above factors.

#### **Inaccurate Potential Savings:**

The audit states:

"The Northeast Area could potentially realize savings in 52% of its facility lease renewals. Of those, the risk model indicated above-market rates for 250 leases that are expiring within 2 years, which represents \$6.6 million in potential savings over the duration of the leases."

The OIG has provided management the data they utilized to state the above. That data is a total of 3,389 leases which state 1,762 are above market – based on average CoStar data which we believe is improperly utilized. According to the audit, for the 1762 facilities, the Postal Service is paying a total of \$32,422,633 over what the LBRRM established as market. What is not stated in the audit is that 250 properties have a \$0 savings and for the remaining 1,378 properties, the Postal Service is paying \$123,488,604 below market as established by the LBRRM.

To put this in perspective, the OIG states we are currently paying \$184,239,429 in rental for these 3,389 facilities. Based on the LBRRM model the total projected lease rate should be \$275,305,397 (those over and under market). Therefore, according to the model and how it applies the CoStar data, we are paying a total of \$91 million under the LBRRM projected lease rate or 33 percent less than what the audit states is market. Unfortunately, we do not believe that is the case and it proves that the CoStar data is being inaccurately applied.

#### **Ability to reduce square footage based on drop in retail revenue and work hours**

The audit report states that specific facilities received a "high capacity score" in the LBRRM. This high capacity score was based on declining revenue, mail volume and/or no revenue.

Although we were not provided the data for how this was determined, nor the magnitude of the change, because as these factors decline, it does not translate into the ability to lower the lease rate.

- In a delivery unit, each carrier case and work space equates to 123 square feet. If this drops by 1 or 2 carriers, we cannot ask the landlord to take back 123 or 246 square feet.
- In a retail unit with revenue over the window, we allocate roughly 450 square feet per retail work station (including counter, lobby and workroom) and \$500,000 in revenue per window unit. So unless the facility was already on the borderline, the revenue would have to drop by almost \$500,000 before we could consider downsizing and then it usually cost more in construction alteration than we would achieve in rental savings.

#### **Inaccurate data in the report**

Although management disagrees with the audits report on methodology, management did review the top 25 highest claimed potential savings facilities. In that review management found errors in the data utilized. Six of the top 25 had the wrong current lease rate and three of the top 25 had the wrong current square footage. This included two of the four highest potential savings:

- The audit listed Cherokee Finance Station lease rate at \$551,000 when the actual lease rate is \$285,000.
- Far Hills NJ lease rate was stated at \$210,450 when the actual lease rate is \$80,672.

We also reviewed what appraisals we have completed on the top 25 potential lease savings that have a current lease rate over the threshold for requiring appraisals (\$250K). Because these leases are in advance of expiration only 3 appraisals have been completed to date. However, all three appraisals are far above what the LBRRM states as projected lease amount:

Facility	LBRRM Projected lease	Appraised Lease Value
Cherokee Finance Station	\$163,555	\$352,184
Boston Milk Street	\$156,972	\$359,524
Brooklyn Brunswick	\$317,951	\$495,000

#### **Summary:**

The intention of the LBRRM was for a quick and accurate method to pinpoint facilities that have a high rental rate or a potential to risk the portfolio of excess space. Management believes this tool does not achieve that result due to the variety of conditions and factors that affect the market lease rate of an individual property. The model results appear to be too far off from actual markets and the data is not accurate enough to rely upon.

Facilities will continue to utilize the robust optimization and leasing program. Working with the districts, areas and our national real estate provider management will strive to the best possible solution to excess space and cost reduction by continuing with its current program:

- Reviewing and documenting every lease before it is renewed to ensure moving out to another facility is not an economically superior solution over current rates
- All new leases and renewal options over \$25K are reviewed by our national real estate provider to determine market rates and how the lease compares to that specific changing market rates – utilizing local brokers and CoStar
- Aggressive negotiation of rates and every lease execution is tracked as "at, above or below" market
- Review through the Node Study process, excess space in customer service facilities in order to determine if other facilities can be absorbed and disposed
- Reviewing every losing AMP site to determine the amount of excess space and how best to utilize and/or dispose of it.

That being said, we are always open to new and improved methodologies to pinpoint and realistically capture savings. However, we do not believe the LBRRM model allows us to accurately achieve those results.

Please note, management does not believe that this report and management's responses contain information any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act.



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