



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

**Land Optimization – Central Illinois
District**

Audit Report

September 19, 2012

Report Number DA-AR-12-001



BACKGROUND:

The U.S. Postal Service is one of the largest real estate owners in the U.S. It owns more than 8,600 facilities on more than 950 million square feet (SF) of land, with the Central Illinois District owning 156 facilities with over 20 million SF of land. The Postal Service maintains this land space at facilities to accommodate operations and provide customers and employees with parking space. There have been significant reductions in mail volume and employee staffing in recent years. From fiscal years 2007 to 2010, mail volume in the Central Illinois District decreased 17 percent. The Postal Service is attempting to optimize and dispose of excess facilities.

Through optimization efforts, the Postal Service has the ability to reduce excess real property by selling property, leasing Postal Service-owned property, and subleasing or reassigning leased property. The Postal Service can also use these options to optimize land space. Our objective was to identify opportunities for the Postal Service to optimize existing land to align with the current operating environment.

WHAT THE OIG FOUND:

The Postal Service can improve the process for identifying and disposing of excess land space. We identified 4,892,583 SF of excess land space (or 49 percent of the total square footage) at the sites visited. We attributed this excess to 10 Postal Service-owned properties that have space in excess of what is needed based on current staffing and mail volume. By selling the identified excess land space, the Postal Service has a one-time opportunity to realize at least \$42,337,385 of increased revenue in the Central Illinois District.

WHAT THE OIG RECOMMENDED:

We recommended that management initiate actions to sell properties that are not needed in the Central Illinois District, review and update policies regarding land space to reflect current operational needs, and establish a program for regularly reviewing exterior land space at Postal Service facilities in the Central Illinois District.

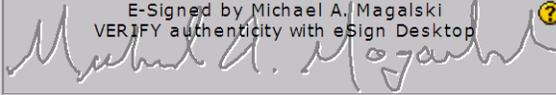
[*Link to review the entire report*](#)



September 19, 2012

MEMORANDUM FOR: JACQUELINE KRAGE STRAKO
VICE PRESIDENT, OPERATIONS, GREAT LAKES AREA

TOM A. SAMRA
VICE PRESIDENT, FACILITIES

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 – Land Optimization - Central
Illinois District
(Report Number DA-AR-12-001)

This report presents the results of our audit of Land Optimization - Central Illinois District (Project Number 11YG033DA000).

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

Attachments

cc: Megan Brennan
Peter R. Allen
Corporate Audit and Response Management

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Introduction

This report presents the results of our self-initiated audit addressing land optimization in the Central Illinois District (Project Number 11YG033DA000). Our objective was to identify opportunities for the U.S. Postal Service to optimize existing land to align with the current operating environment. This self-initiated audit addresses operational risk. See [Appendix A](#) for additional information about this audit.

Postal Service facilities officials are responsible for tracking useable excess space in the Postal Service inventory.¹ Area or other authorized personnel can approve a property as being excess to Postal Service needs and are required to submit a written recommendation to Realty Asset Management² to dispose of the property.

The Central Illinois District owns 156 facilities with more than 20 million square feet (SF) of land. From fiscal years (FYs) 2007 to 2010, mail volume in the Central Illinois District decreased 17 percent. During the same period, employee complement in the Central Illinois District decreased 16 percent.

According to the Postal Service, it realized \$180 million in revenue during FY 2010 from reviews of building and land properties no longer necessary to meet operational needs.³ Given the financial challenges the Postal Service is facing, the agency has an opportunity to reevaluate its land needs and further capitalize on revenue opportunities by reducing excess land space.

Conclusion

The Postal Service can improve procedures for identifying and disposing of excess land space. Ten properties have excess land space of 4,892,583 SF based on Postal Service policy. These properties represent 49 percent of the total square footage of the sites visited.⁴ By initiating disposal action for excess land space, the Postal Service has a one-time opportunity to realize at least \$42,337,385 in increased revenue in the Central Illinois District.

Excess Exterior Space

Ten facilities we reviewed had land space in excess of what is needed based in current staffing and mail volume, as shown in Table 1. Land space for the number of authorized

¹ *Administrative Support Manual (ASM) 13*, Section 517, dated July 1999, updated with *Postal Bulletin* revisions through April 19, 2012.

² Postal Service Headquarters National Realty Asset and Lease Management team administers programs and provides project support services for Postal Service-leased and owned properties.

³ U.S. Postal Service *2010 Comprehensive Statement on Postal Operations*. page 29.

⁴ The large amount of land square footage at these 10 sites represent the best opportunity for identifying excess space.

parking spaces⁵ is based on factors affected by mail volume, including the number of business mailers, carrier routes, and peak hour employees.⁶ Other factors considered were the number of rented Post Office (PO) Boxes and calculated earned⁷ retail workstations, which is based on mail volume.

Table 1 – Sampled Sites and Excess Land

Site	Site Total Square Footage	Total Excess Square Footage Identified	Percentage of Excess to Total Site Square Footage
Carol Stream Processing & Distribution Center (P&DC)	2,746,892	1,210,838	44%
Chicago Network Distribution Center (NDC)	2,054,000	1,005,685	49
Fox Valley P&DC	1,650,488	921,849	56
South Suburban P&DC	1,182,985	404,000	34
Hanover Carrier Annex	592,000	355,205	60
Willowbrook Carrier Annex	460,637	281,362	61
Aurora Main Post Office (MPO)	458,175	219,540	48
Naperville MPO	441,771	273,161	62
Oak Lawn Moraine Valley	382,000	190,363	50
Chicago Heights (additional parking)	30,580	30,580	100
Total	9,999,528	4,892,583	49%

Source: U.S. Postal Service Office of Inspector General (OIG).

- The Carol Stream P&DC has 1,210,838 SF of excess land space, which includes a helipad and softball field the Postal Service constructed for residents of the Village of Carol Stream (the Village). The helipad and softball field were the result of a 1989 agreement between the Postal Service and the Village to ease local community resistance to the development of the Carol Stream P&DC. However, the agreement does not prohibit the sale of this property. Management indicated the property will absorb part of the operation from the Cardiss Collins P&DC in the first phase of implementing an approved area mail processing⁸ (AMP) study.
- The Chicago NDC has 1,005,685 SF of excess land space that includes a container repair building used for storage. Chicago NDC management stated that other storage space is available at the facility. District management indicated the property

⁵ Parking is a key item in determining exterior space needs. As mail volume decreases the need for parking also decreases.

⁶ Handbooks AS-503, *Standard Design Criteria*, and AS-504, *Space Requirements*, provide for customer and employee parking spaces.

⁷ We used Customer Service Variance reports to determine the earned or optimal number of retail workstations needed for each postal facility we visited.

⁸ A process for determining whether mail processing operations can be consolidated to increase efficiency and reduce cost.

will absorb operations from the Gary and LaSalle, IN P&DCs, and the Rockford, IL P&DC if an approved AMP study is implemented.

- The Fox Valley P&DC has 921,849 SF of excess land space that includes land on the east and west sides of the property. Management plans to dispose of the property if an approved AMP study is implemented.
- The South Suburban P&DC has 404,000 SF of excess land space that includes a storage building for equipment on the east end of the property and a parking area that is used for carrier driver training. Business owners have expressed interest in purchasing the east end portion of the site. Management indicated the property will absorb part of the operation from the Cardiss Collins P&DC in the first phase of implementing an approved AMP study.
- The Hanover Carrier Annex has 355,205 SF of excess land space that includes grassland areas in the northwest and northeast sections of the site.
- The Willowbrook Carrier Annex has 281,362 SF of excess land space that includes land toward the rear of the site.
- The Aurora MPO has 219,540 SF of excess land space and management indicated the property may absorb delivery and retail from Fox Valley P&DC if a consolidation node study⁹ concept is approved.
- The Naperville MPO has 273,161 SF of excess land space that includes land on the north side of the property, which may potentially be sold to a business owner. Also, management indicated the property may absorb delivery and retail operations from the Fox Valley P&DC if a consolidation node study is approved.
- The Oak Lawn Moraine Valley location has 190,363 SF of excess land space that includes a car wash station in the employee parking area.
- The Chicago Heights site is an unused property that includes a vacant building. The entire site of 30,580 SF is excess land space. Management indicated the district is waiting for funding to demolish the building and use the space as an additional parking lot for the Chicago Heights MPO. However, the Post Office already has adequate parking for its facility based on its own policies.

To highlight excess land space in the Central Illinois District, Figure 1 depicts two Postal Service site locations with excess land and parking space.

⁹ Postal Service studies to optimize facilities such as carrier and retail stations in a geographic area.

Figure 1 – Examples of Excess Land and Parking Space



Source: Google Map.

Fox Valley P&DC: The site has 921,849 SF of excess land space.



Source: Google Map.

South Suburban P&DC: The site has 404,000 SF of excess land space.

Figure 3 depicts the Carol Stream P&DC location that has significant excess land, some of which is used for non-operational purposes.

Figure 2 – Carol Stream P&DC Helipad and Softball Field



Source: Google Map.

Carol Stream P&DC: The site has excess land space of 1,210,838 SF that includes a helipad and softball field for residents of the Village of Carol Stream.

Excess land space continues to exist in the Central Illinois District in part because optimization efforts are pending implementation or approval. In addition, Postal Service officials did not always know their responsibility to perform reviews of owned property as required.¹⁰

Management maintains land space at facilities to provide customers and employees with adequate parking space; however, they have experienced significant reductions in mail volume and employee staffing in recent years. From FYs 2007 to 2010, mail volume in the Central Illinois District decreased 17 percent. During the same period, employee complement in the Central Illinois District decreased 16 percent. Postal Service policies do not reflect current parking space needs that align with current mail volume. The policies provide for customer parking spaces based on the number of installed retail workstations and PO Boxes instead of the number of retail workstations earned according to current mail volume and the number of rented PO Boxes.

Without implementing optimization, updating policies, and enhancing knowledge of responsibilities, the Postal Service will not have the information needed to identify and reduce excess land space. Updating policies to provide parking space based on earned retail workstations and rented PO Boxes would better align parking space needs with decreasing mail volume. If the Postal Service initiated disposal action for the 10 affected properties, it would have an opportunity to realize a monetary impact of at least \$42,337,385. See [Appendix B](#) for details.

Postal Service officials expressed concern over their ability to optimize small amounts of excess space at facilities; however, we found that the Postal Service has optimized excess exterior land space in the past through partial land sales, easement sales, and parking lot sales. In the 1st 3 quarters of FY 2011, the Postal Service realized \$3,064,347 in partial land sales. As an example, it recorded \$939,145 in net proceeds from the partial land sale at the Boston Spa PO in September 2011. It also recorded \$750,935 in net proceeds from a partial land sale at the Fresno, CA Woodward Park Station in May 2011. Finally, the Postal Service also realized \$208,910 in easement sales and \$1,435,000 in parking lot sales. These sales total \$4,708,257 and demonstrate the Postal Service's ability to find value in partial pieces of excess exterior space at facilities.

¹⁰ Per ASM 13, Section 517.34, updated April 19, 2012, postmasters, district managers, plant managers, and vice presidents of area operations should report all excess space in Postal Service-owned or leased buildings or undeveloped Postal Service-owned or leased sites.

Recommendations

We recommend the vice president of operations, Great Lakes Area, coordinate with Facilities Headquarters officials to:

1. Assess excess land space and initiate actions to sell properties that are not needed.

We recommend the vice president, Facilities:

2. Revise policies regarding land space requirements to reflect current operational needs based on earned workstations and Post Office Boxes.
3. Amend *Administrative Support Manual* 13, Section 517.34 to include an annual review for conducting excess space, building, and land evaluations.

Management's Comments

Management disagreed with recommendations 1 and 2 and stated that they have a process for identifying potential land that is no longer needed and marketable. Management viewed the process as adequate, and they intend to continue following this process. Management agreed with recommendation 3 and stated that instead of Postal Service Operations being responsible for the implementation of the policy, Facilities will take the responsibility of identifying excess land. Management plans to implement this change by December 1, 2012.

Management disagreed with the methodology used to calculate the amount of excess land and the potential revenue that could be generated. Their major concern was that the formula used to calculate excess space assumed that all property is alike. Management stated that each property must be evaluated individually, taking into consideration actual restrictions and limitations. Management stated that only two of the 10 properties identified have land that could be available for disposal, having about 170,000 SF and a market value of about \$251,000.

Management also disagreed with the computation of the weighted value of land per square foot at the sampled facilities. They stated that a third-party appraisal is the commercially acceptable methodology for determining the value of land. Management stated a wide variety of land uses were used for a large sampling area, not necessarily in the area of the subject property. They also stated no adjustment appears to have been made as to the contributing value of the improvements to determine the value of the land. Management pointed out that there needs to be a market for potential buyers of land. They stated that environmental issues or zoning restrictions may cause the land to be unmarketable and the Postal Service should hold on to some land until the economic outlook become more favorable.

Management also expressed concern that the audit did not take in consideration the need for future flexibility as it relates to optimization and the potential for consolidations.

They state that any and all excess land at gaining facilities needs to be kept to provide that flexibility. For example, they stated that a large portion of the square footage questioned was associated with the Carol Stream plant that is targeted as a receiving site. They stated that in order for optimization to be successful, the receiving property must allow for the incoming operations that will create a need for additional parking and plant expansion. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG does not consider management's comments responsive to the findings and recommendations in this report. The OIG considers recommendation 1 significant and, therefore, requires OIG concurrence before closure. We view the disagreement with this recommendation as unresolved but do not plan to pursue it through the formal audit resolution process and are closing recommendation 1 with the issuance of this report.

Management also disagreed with recommendation 2 to revise policies regarding land space requirements to reflect current operational needs based on earned workstations and Post Office Boxes. We appreciate that management has established a process to identify potential land that is no longer needed. However, there was no assessment of several properties in our sample until after we discussed the properties with management. The intent of these recommendations was to emphasize the need to expedite the assessment and disposal of excess land and to take into account declining operational needs for land space requirements

Management agreed to recommendation 3 but their planned actions are not responsive to the issue identified in the finding. We agree that the ASM should be updated to reflect that Facilities should be the identifier of excess space, because they have the experience and knowledge. However, Facilities is not planning on performing an annual review of excess space and will perform these reviews when major operational changes occur. We agree this will help in the identifying excess space; however, we have concerns that this evaluation of space will not be done regularly. We plan on reviewing the changes in this policy at a future date.

In response to management's concerns with our methodology, we used existing Postal Service policy in handbooks AS-503, *Standard Design Criteria*, and AS-504, *Space Requirements*, to develop a formula for determining the earned land space, which was then subtracted from the total land space. Management stated that there was no consideration for uniqueness of individual facilities. However, we visited each facility to take into account all unique features. We also researched each facility individually and took into account unique zoning codes, ordinances, setbacks, deed restriction, and bodies of water. For example, at Carol Stream, Fox Valley, Naperville, Aurora, and Hannover Park facilities we subtracted ten percent of the total excess land to account for retention ponds. In addition, after reviewing local zoning restrictions unique to each facility, we subtracted over 750,000 SF of excess land including over 200,000 SF at Carol Stream facility and over 125,000 SF at Fox Valley.

Management also disagreed with how we computed the weighted value of land per square foot at the sampled facilities. While we agree that third party appraisals are a tool to evaluate the value of the land, we believe that evaluating comparables with a very conservative approach to the value of the land is also a valid tool. We found sales of land and the price of land near the location of each of the facilities in our sample. Our search for comparable land property did not include land improved with buildings. In some cases, comparable property was not found in the same town. In those cases, we used nearby communities for comparison. The intent of the weighted average computation of the values was to provide a conservative estimate of potential revenue. For example, we removed the comparable properties at two locations because the value per square foot was so much higher than the rest of the sample. For those two facilities, we used a more conservative figure of averaging the other location values in our sample.

Management stated much of the excess land in our finding was not marketable. The intent of the audit was to identify the total excess land based on current Postal Service policy. We considered the legality for the sale of excess land at individual facilities and found no restrictions. We do agree that there may be some difficulty marketing some of the excess land. As a result, we removed all properties in our report that contained less than 10,000 SF of excess space. Management insisted there should be flexibility with the facilities targeted for expansion. We understand the need to have room for expansion and took into account all approved consolidation efforts in our computations and adjusted the totals accordingly. For example, we adjusted our computations to account for 18 additional employees at the Carol Stream P&DC from the consolidation of operations at Cardiss Collins P&DC. We also added 116 employees, 5 routes, and 5 trailers to South Suburban P&DC because they gained operations from Fox Valley, Cardiss Collins, and Gary P&DCs.

Appendix A: Additional Information

Background

The Postal Service is one of the largest real estate owners in the U.S. It owns over 8,600 facilities with more than 950 million SF of land.¹¹ Data for these properties are maintained in the electronic Facility Management System (eFMS).

In April 2008, the vice president, Facilities, initiated the Facility Optimization Program to balance the portfolio of existing delivery facilities with the Postal Service's current and projected space needs. The process entails identifying, investigating, analyzing, and approving interior and exterior space before executing the optimization action.

Established in May 2009, the Station and Branch Optimization and Consolidation Initiative Program provides tools and strategies for evaluating the effectiveness of Postal Service retail placement. This supports the 2006-2010 *Strategic Transformation Plan's* goal of improved service and increased revenue. In addition, the Postal Service initiated the Delivery Unit Optimization process in December 2010 for relocating delivery operations into larger offices with excess space to increase operational efficiencies.

In October 2010, the Postal Service consolidated optimization efforts to manage excess space. The goal was to manage the excess space portfolio in one overall initiative. This integrated effort between Facilities Headquarters and field offices used computer modeling, analyzed equipment, and assessed local needs for space.

In June 2011, the Postal Service began the DRIVE (Delivering Results, Innovation, Value, and Efficiency) initiative. DRIVE is a management process the Postal Service is using to improve business strategy development and execution and is broken down into eight priorities. The Infrastructure and Operations Optimization strategic priority includes an initiative related to facilities management and disposal. The objectives of the Facilities DRIVE initiative are to:¹²

- Generate revenue and reduce expenses by selling owned buildings, terminating leases, and eliminating facility operating costs.
- Reduce the inventory square footage of facilities.

In September 2011, the Postal Service announced it would initiate various AMP feasibility studies in Illinois. Postal Service officials are considering closing or consolidating the Fox Valley P&DC, the South Suburban P&DC, and the Chicago NDC mail processing facilities that were included in the sites we visited. As of April 2012, none of the delivery or retail sites in our sample were approved for consolidation. The mail processing facilities in our sample would all be affected by approved consolidation

¹¹ U.S. Postal Service 2010 *Comprehensive Statement on Postal Operations*, page 29.

¹² U.S. Postal Service, *Delivering Results, Innovation, Value and Efficiency (DRIVE)*, pages 1 and 4, 2011.

efforts. However, on December 13, 2011, the Postal Service announced that no PO or mail processing facility would be closed or consolidated before May 15, 2012. This delay was designed to allow Congress sufficient time to enact comprehensive postal legislation. The Postal Service announced on May 17, 2012, plans to move ahead with a modified plan to consolidate its network of 461 mail processing locations. The first phase of activities will result in up to 140 consolidations through February 2013. Unless the circumstances of the Postal Service change in the interim, a second and final phase of 89 consolidations is currently scheduled to begin in February 2014. According to the chief operating officer of the Postal Service, consolidation activities will begin this summer at only 48 locations. Additionally, due to the volume of high-priority mail predicted for the election and holiday mailing seasons, there will be no consolidating activities from September through December 2012.

Through optimization efforts of land and building space, the Postal Service has the ability to reduce excess real property by:

- Disposing of or selling property.
- Outleasing (leasing Postal Service-owned property).
- Subleasing/reassigning leased property.
- Developing/investing in real estate projects.

Management can use the same options to optimize exterior space.

Objective, Scope, and Methodology

Our objective was to identify opportunities for the Postal Service to optimize existing land to align with the current operating environment. We judgmentally selected 10 of 156 Postal Service-owned sites in the Central Illinois District, representing about 47 percent of potential excess land space in the district. We selected nine sites, because they were listed in the eFMS as having the most potential excess land space after subtracting facility square footage. We selected the remaining site, because it provided additional parking for the Chicago Heights MPO.

To accomplish our objective, we reviewed applicable policies and procedures, visited selected sites, conducted interviews, and examined other relevant materials (such as property records and proposed legislation). The audit team developed a questionnaire to obtain the following data:

- Site parking and land space square footage.
- Number of carriers and delivery routes.
- Number of postal vehicles assigned.
- Number of self-service units.
- Number of official parking spaces.
- Number of retail workstations.
- Number of PO Boxes.

- Number of firm callers¹³ and large firm mailers¹⁴ mailing at the same time.
- Number of peak hour employees.¹⁵

We requested copies of the site's Web Box Activity Tracking System (WebBATS) *Monthly Summary Report* to confirm the number of rented PO Boxes. We verified the number of retail workstations, PO Boxes, carrier routes, self-service units, firm callers, philatelic sales centers, Express Mail® acceptance units, and Express Mail pick-up points during site visits against data from various Postal Service databases. If there were discrepancies, we used a conservative approach by subtracting the calculated earned customer parking from total customer parking. All earned customer parking was based on earned retail workstations; rented PO Boxes; and Postal Service policy.¹⁶

We verified the number of postal vehicles assigned and peak hour on-duty employees, additional employees used during tour turnover, and the number of carrier routes and large volume firm mailers that mail at the same time during site visits against data from various Postal Service databases. When there were differences, we used a conservative approach by subtracting calculated earned employee parking from total employee parking. All earned employee parking was based on Postal Service policy.¹⁷

After determining the square footage of excess parking spaces (employee and customer), we calculated excess land by deducting the square footage of facilities and platform docks, designated vehicle maintenance facility areas, earned parking, and local government required setbacks and landscaping from total site square footage. We also reduced excess land by 10 percent of each site's square footage for facilities that have retention ponds and determined the remaining square footage as excess land.

We conducted this performance audit from June 2011 through August 2012 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 July 31, 2012, and included their comments where appropriate.

We assessed the reliability of eFMS data by comparing them to county records, deeds, lease documents, and on-site measurements. While we noted discrepancies between the data sources, we determined the data were sufficiently reliable for the purposes of

¹³ Firms that receive large volumes of mail and pick it up at a delivery unit.

¹⁴ Firms that send large volumes of mail and drop it off at an acceptance unit.

¹⁵ The greatest possible number of employees on duty at a facility.

¹⁶ Handbook AS-503, Section 1-2.4, Parking and Drives (July 17, 2010); Handbook AS-504, Section 324; and Handbook RE-4, *Standards for Facility Accessibility*, Section 502, Parking Spaces (March 2005).

¹⁷ Handbook AS-503, Section 1-2.4; Handbook AS-504, Section 324; and Handbook RE-4, Section 502.

this report. We assessed the reliability of WebBATS data by comparing them to the number of PO Boxes rented during site visits.

[Prior Audit Coverage](#)

No audits were conducted examining excess land space within the past 3 years.

Appendix B: Monetary Impacts

Recommendation	Impact Category	Amount
1	Increased Revenue ¹⁸	\$42,337,385

We based the monetary impact calculations on the weighted averages of the prices per square foot and excess land space for the sampled locations (see Table 2). The audit team used the final sale price for sold land sites and the asking price of land sites for sale to develop the value of the weighted average price per square foot for each city in the sample. In cases where little or no land was listed as sold or for sale in the sampled cities, the audit team used neighboring cities to provide data elements. To calculate the weighted average of excess land space for each sample location the audit team divided the identified excess land space at each location by the overall identified excess land space. The final monetary impact was developed by multiplying the weighted average price per square foot for each city by the excess land for each of the sampled locations.

Table 2 – Calculation of Monetary Impact

Property Name	Site Square Footage	Dollar Value Per Square Foot	Excess Space	Monetary Impact Rounded
Carol Stream P&DC	2,746,892	\$9.75	1,210,838	\$11,805,671
Chicago NDC	2,054,000	\$16.30	1,005,685	16,392,666
Fox Valley P&DC	1,650,488	\$6.18	921,849	5,697,027
South Suburban P&DC	1,182,985	\$6.60	404,000	2,666,400
Hanover Carrier Annex	592,000	\$6.72	355,205	2,386,978
Willowbrook Carrier Annex	460,637	\$11.51	281,362	3,238,477
Aurora MPO	458,175	\$6.18	219,540	1,356,757
Naperville MPO	441,771	\$8.54	273,161	2,332,795
Oak Lawn Moraine Valley	382,000	\$16.30	190,363	3,102,917
Chicago Heights (Additional Parking)	30,580	\$6.30	30,580	192,654
Total	9,999,528		4,892,583	\$49,172,340
Less National Industrial Vacancy Rate of 13.9%				\$6,834,955
Final Monetary Impact				\$42,337,385

Source: OIG.

¹⁸ Increased revenue from existing functions or revenue generated from new sources. Recommendations for the Postal Service to expand a current service or develop a new revenue-generating product line or service would be examples of increased revenue.

The monetary impact for the Chicago NDC and Oaklawn Moraine facilities were calculated separately, because their averages inflated the combined average price. The weighted average values of those locations were lowered from \$43.46 and \$33.48, respectively, to \$16.30. This is the average value per square foot of all 10 sites.

Before calculating the total monetary impact, we reduced the identified excess land space by 753,553 SF to account for local government requirements, such as setbacks and landscaping. Additionally, we deducted 10 percent of the total monetary impact to account for unusable land, such as sidewalks and retention ponds. We obtained the square footage of the retention ponds from two sample locations. The retention ponds' size compared to the total site square footage of the Carol Stream and Fox Valley sites was 8.5 percent and 12.1 percent, respectively. We used the average size (10 percent) of the two sites' retention ponds to reduce the monetary impact for those facilities with retention ponds. Finally, the audit team deducted an additional 13.9 percent — the National Realty Association's national industrial commercial property vacancy rate — to account for a non-success factor.

Appendix C: Management's Comments



September 4, 2012

Lucine M. Willis, Director - Audit Operations
Office of Inspector General, United States Postal Service
1734 North Lynn Street
Arlington, VA 22209-2020

Subject: Land Optimization – Central Illinois District
Draft Audit Report (Report Number DA-AR-12-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) has taken in regards to land optimization in the Great Lakes Area. We agree that optimization of land is a critical and important initiative within the Postal Service and believe we have been proactive in implementing a process to identify parcels that are no longer needed by the Postal Service and that have value on the open market in an effort to generate revenue. The following is in response to the above subject audit and management's comments with respect to the findings of such audit.

Management disagrees with the amount of excess land, as well as, the revenue that potentially could be generated. The excess land identified in the amount of 4,892,583 square feet is based on the evaluation of ten properties with an estimated value of \$42,337,385. Management believes that most of these properties do not have land that could be available for disposal. After carefully assessing actual needs and restrictions, only two were identified, having approximately 170,000 sf with a market value of roughly \$251,000 as further indicated by Exhibit A.

Methodology: Management disagrees with the methodology OIG used to calculate excess space. This disagreement has been raised consistently in discussions with the OIG prior to the release of this audit. The major concern is that the methodology uses a general formula that assumes all property is alike. However, every property is unique based on numerous contributing factors including size, zoning, local codes and ordinances, topography, easements, deed restrictions, setbacks, natural and man-made barriers to entry (i.e., bodies of water, railroad tracks, mountains), etc. Therefore, each property must be evaluated individually, taking into consideration actual restrictions and limitations.

Secondly, monetary impact was derived based on weighted averages of the prices per square foot for the sampled locations. Actual sales of properties within a specific community were identified along with asking prices. In specific communities where actual sales or properties currently on the market were not available, the preferred areas were expanded. However, this is not a commercially acceptable methodology for determining value. The correct approach for establishing value is by obtaining a 3rd party appraisal that uses the Sales Comparison Approach, defined as:

*"The process of deriving a value indication for the subject property is by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to sales prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison."*¹

After reviewing land value comparables, it was apparent that a wide variety of land uses (commercial, retail, industrial) were used for a large sampling area, not necessarily in the area of the subject property. Additionally, some of the properties identified as comparable were improved with buildings; however, no adjustment appears to have been made as to the contributing value of the improvements to determine the value of the land. Of the comparables provided, the cost per square foot was averaged to determine a cost per square foot for land. In turn, the monetary impact was calculated by multiplying the excess square footage by the average of the comparables. In order to develop an accurate valuation based on true comparables, the Sales Comparison Approach should be used as stated above.

Marketability: Regardless of the amount of excess space, there needs to be a market for which potential buyers are interested in acquiring such land. If the land has significant issues (i.e., environmental, ingress and egress, topography, deed and/or zoning restrictions, etc.) the land may not be marketable. Additionally, if the location of the land is economically depressed, evidenced by high vacancy rates and low velocity, conditions as such are not conducive for listing a property for sale. Management believes that in cases where the property is determined to be unmarketable, that the property should be maintained in the portfolio until a time when such issues are remediated and/or the economic outlook becomes more favorable.

Operational Need for Future Flexibility: Management is concerned that the audit did not take into consideration the need for future flexibility as it relates to optimization and the potential for consolidation. This issue was reviewed with the COO and VP, Network Operations, both of whom concur with managements' concern and agree that at the gaining Network facilities, we need to keep any and all excess land to provide flexibility to carry out future optimization.

Specific to the audit, a large portion of the square footage questioned by the OIG is associated with a plant (Carol Stream) that is targeted as a receiving site. In order for optimization to be successful, the receiving property must allow for the incoming operations that will create the need for additional parking and possible plant expansion. This is not possible if management proceeds with OIG's recommendation to sell the land.

¹ Fifth Edition of "The Dictionary of Real Estate Appraisal" (2010, Page 175), published by the Appraisal Institute.

Audit Recommendations. Management's comments with respect to the recommendations outlined in the audit report are noted below:

Recommendation 1: Assess excess land space and initiate actions to sell properties that are not needed.

Management Response: Facilities has implemented a process for identifying potential land that is deemed to be no longer needed and is determined to be marketable. This process is adequate as evidenced by the ten properties currently listed for sale, and one that management intends to continue following.

Recommendation 2: Revise policies regarding land space requirements to reflect current operational needs based on earned workstations and Post Office Boxes.

Management Response: Management does not agree that we need to revise policies regarding land space requirements to reflect current operational needs based on earned workstations and post office boxes because the current process is adequate for identifying land that is no longer needed and that is marketable, as indicated in management's response above.

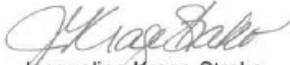
Recommendation 3: Amend *Administrative Support Manual 13*, Section 517.34 to include an annual review for conducting excess space, building, and land evaluations which states:

"Postmasters, district managers, plant managers, and vice presidents of Area Operations should report all excess space in Postal Service-owned or leased buildings or undeveloped Postal Service-owned and leased sites. Submit a Form 7437, Facilities Service Request, through regular channels to Realty Asset Management requesting that excess space be leased. The facility finance number is credited for the rental income for leasing of excess property or space to federal and nonfederal tenants."

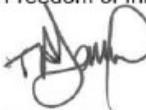
Management Response: We agree with the recommendation that the ASM be updated with the current process. Management believes the postmaster, district managers, plant manager and vice presidents of area operations are not the appropriate entities to report excess space and therefore, we intend to remove such language. Facilities will take ownership. Whenever major operational changes occur, Facilities will perform an analysis accordingly.

In conclusion, Management believes the current land optimization process, allows Facilities to effectively identify marketable excess land within the portfolio. Once identified and approved for sale, Facilities, in collaboration with its national real estate services provider, CBRE, develops and initiates marketing strategies tailored to the uniqueness of each property in an effort to maximize value.

Please note, Management does not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act.



Jacqueline Krage Strako
Vice President, Operations
Great Lakes Area



Tom A. Samra
Vice President
Facilities

Attachment: Exhibit A

cc: Megan Brennan, Chief Operating Officer and Executive Vice President
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Sally K. Haring, Manager, Corporate Audit and Response Management
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