February 25, 2011

DAVID C. FIELDS
ACTING VICE PRESIDENT, OPERATIONS, CAPITAL METRO AREA

SUBJECT: Audit Report – Facility Optimization: Capital Metro Area
(Report Number DA-AR-11-004)

This report presents the results of our audit of facility optimization in the Capital Metro Area (Project Number 10YG029DA000). The U.S. Postal Service Office of Inspector General (OIG) initiated this audit from a random sample of districts nationwide. For the Capital Metro Area, our objective was to identify opportunities to optimize existing real estate in the Greensboro District. See Appendix A for additional information about this audit.

The Capital Metro Area uses 2,560 facilities with over 4 million interior square feet (SF) in the Greensboro District. While the area employs these facilities, it has experienced a significant reduction in workload in recent years. From fiscal years (FYs) 2005 to 2010, mail volume in the Capital Metro Area has dropped 28 percent. Likewise, mail volume in the Greensboro District has shown a 19 percent decrease. This reduction in workload provides an opportunity to reevaluate space needs and identify potential excess space.

Conclusion

In the Capital Metro Area, the Greensboro District has over 1.17 million more SF than their workload suggests they need. The U.S. Postal Service could reduce interior space through:

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

With a major effort underway, the Postal Service has begun reducing existing space. Specifically, the Capital Metro Area plans to dispose of 466,975 SF of this excess space through approved optimization projects. Although it has made progress, the Postal Service can do more to dispose of excess interior space more quickly.

The opportunity to reduce excess interior space in the reviewed district exists because:

- Postal Service policy requires installation heads to report excess space, but does not provide the necessary guidance to effectively accomplish this task.

- The excess space reporting system does not track metrics such as dates or space conditions to allow for prioritizing disposal actions.

We estimate that if the Capital Metro Area eliminates[1] the excess space we identified in the Greensboro District, there is a potential opportunity to realize $36,312,795 over typical and remaining lease terms or $3,631,280 annually. We consider this amount to be funds put to better use[2]. See Appendix B for our detailed analysis of this topic and Appendix C for our monetary impact calculation.

Also, our audit noted that the Postal Service could more aggressively seek federal entities needing interior space. In the district reviewed, our analysis shows that excess space identified at Postal Service facilities may be able to accommodate 65 percent of current federal agencies space consumption in the district reviewed (see Appendix D). This opportunity exists because the Postal Service has not capitalized on the priority status it has for filling federal agencies' space needs, which would allow it to reduce its facility infrastructure size and generating additional revenue.

We recommend the vice president, Operations, Capital Metro Area; district managers; area managers; and the Eastern[3] Facility Service Office manager work in coordination to:

1. Clarify procedures for reporting excess space.

2. Initiate disposal actions for excess space identified.

3. Pursue rental opportunities with federal agencies as an option to optimize excess property.

[1] Disposal actions available include sale, termination of lease, consolidation, and/or subleasing. At a minimum, the Postal Service can out-lease or initiate a sublet action for owned or leased property, respectively.
[2] Funds that could be used more efficiently by implementing recommended actions. This amount does not include excess square footage that is part of an approved node study.
[3] Capital Metro Area is serviced by the Eastern Area Facility Service Office.

Management's Comments

Management agreed with the finding that excess space exists in a number of facilities, agreed to the recommendations made, and stated that corrective action to address the first two recommendations will be in place by Quarter 2, FY 2011. Corrective action to address the third recommendation will be in place by Quarter 3, FY 2011. While management agreed to develop a more accurate process to better manage excess space, they did not agree with the amount of excess space or the potential monetary impact reported. Specifically, they disagreed with the methodology used to calculate existing excess space in addition to the data and cost factors used to value the excess space and calculate monetary impact.

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

1. Unusable space such as basements and corridors.

2. Unique operational functions not included in standard designs and inefficiencies in the current building layouts.

3. Historic property.

4. Parking and dock space requirements.

5. Large inflexible retail lobbies.

In reference to the cost factors used in our calculations, management asserted that build-out costs are much higher than we considered. In addition, management believes the accurate way to calculate monetary impact is by multiplying useable excess space by sublease value less conversion cost. This calculated outcome should then be adjusted for maintenance and utility savings.

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

Evaluation of Management's Comments

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

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

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

The standard building design matrix served as the basis for determining earned space. During the on-site visits, we inquired whether there were unique operations conducted at the facility and whether they were allotted the necessary space for those functions. Conservatively, we did not consider performance measures such as street efficiency or alternate access sales channels which would decrease the earned facility size and increase excess space. We acknowledge that entrances, security, and other building considerations are factors to consider when optimizing excess space for a site-specific solution. In these cases, a comprehensive solution for excess space at sites within an acceptable radius that allows the Postal Service to vacate a property in its entirety may mitigate these challenges.

The Postal Service does not have a methodology of determining "build-out" costs at a national, area, or district level. As such, to determine build-out cost we used the average build-out costs for the district as presented in five district node studies with varying optimization actions. We note that build-out costs are negotiable and lessees, at

[4] www.boma.org.

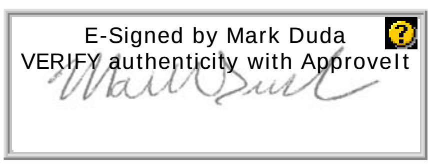
times, absorb the cost of conversion. We built in several different tolerances relating to the amount of excess space at sites reviewed and considered the marketability of properties within the districts. Further, we acknowledged multiple actions, such as lease terminations, disposals, and space/lease reductions within the approved node studies and reflected them in our monetary impact calculations. We recognized realty market conditions and discounted our excess space calculations by the national commercial vacancy rate. Therefore, we consider our presentation of the level of excess space and value to be a reasonable estimate of the opportunity loss associated with unproductive assets.

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

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

.

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



Mark W. Duda
Deputy Assistant Inspector General
for Support Operations

Attachments

cc: Megan J.Brennan.
Tom A.Samra
Thomas J.Russell
Russell D. Gardner
Jeffrey G. Bullins
Randall N. Anderson
Kathryn.M McCarty
Corporate Audit and Response Management

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The Capital Metro Area leases or owns 2,560 facilities with over 4 million interior SF to move mail in the Greensboro District. The consolidation or closure of facilities is a widely discussed topic due to declining mail volume and the resulting financial condition of the Postal Service. In response, Postal Service Facilities and Retail Management organizations have implemented initiatives to optimize space — namely, initiation of the Facility Optimization Program and the Station and Branch Optimization Consolidation (SBOC) program.

In April 2008, the vice president of Facilities initiated the Facility Optimization Program to balance the portfolio of existing delivery facilities with the Postal Service's current and projected space needs. The program's objectives are to generate revenue and reduce rent obligations and operational costs. The process entails identifying, investigating, analyzing, and approving space before executing the approved optimization action. The Capital Metro Area has a total of 35 approved optimization studies, including five in the Greensboro District.

Established in May 2009, the SBOC program provides tools and strategies to evaluate the effectiveness of Postal Service retail placement in support of the *Transformation Plan's* goals of improved service and increased revenue. Accordingly, Furnitureland Station, Ardmore Station, State University Station, Crabtree Valley Station, and Plaza Station are under consideration for closure in the Greensboro District.

In October 2010, the Postal Service consolidated optimization efforts to manage excess space. Currently, the Postal Service has a program in place to optimize carrier delivery facilities through the use of node studies.[5] However, the Postal Service will now include mail processing plants, retail facilities, small delivery units, administrative space, and carrier delivery facilities in one overall initiative. This integrated effort between Facilities Headquarters and the field offices will use computer modeling and equipment analysis along with local analysis and metro planning to form a headquarters and district/area partnership.

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

[5] Studies of consolidation for sites in a geographic radius.

Table 1 – Risk Metrics

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

We randomly selected the Greensboro District as part of the national review of excess interior space.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to identify opportunities for the Postal Service's Capital Metro Area to optimize existing real estate. We visited 30 of 515 facilities in the Greensboro District, representing 52 percent of OIG-calculated excess space when actual interior space is compared to space standards. The scope of the audit included main post offices, carrier annexes, stations, branches, and mail processing facilities. To accomplish our objective we visited selected facilities, conducted interviews, and examined other relevant materials.

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

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

[6] We used Postal Service criteria established in March of 2007 outlined in a letter issued by the senior vice president of Operations. In support of this newly established criteria, the headquarters Facility Group, Planning and Approval, designed matrices to assist with the space requirements of planned facilities.
[7] WebBATS Monthly Summary Data for issued P.O. Box information, Intelligent Mail and Address Quality (IMAQ) Delivery Statistics Summary for route information, and Retail Data Mart for earned peak modeled window staffing.
[8] Space Requirements Matrix for Non-Flat Sequencing System (FSS) offices.
[9] SBOC and Facilities Optimization program.

our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on January 4, 2011, and included their comments where appropriate.

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

PRIOR AUDIT COVERAGE

The following audit reports are relevant to the Postal Service's facility infrastructure.

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Facility Optimization: Northern New Jersey District	DA-AR-10-008	8/25/2010	$157,963,990	The OIG identified 1.98 million SF of excess space. Management agreed with recommendations but disagreed with the monetary impact.
Facility Optimization: Chicago District	DA-AR-10-009	8/25/2010	$23,517,019	The OIG identified 740,000 SF of excess space. Management agreed with recommendations but disagreed with the monetary impact.
Facility Optimization : New York District	DA-AR-10-010	8/25/2010	$446,258,222	The OIG identified 2.4 million SF of excess space. Management agreed with the recommendations but disagreed with the monetary impact.
Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability	GAO-09-937SP	7/28/2009	None	The Government Accountability Office added the U.S. Postal Service's financial condition to the list of high-risk areas needing Congress' attention and the executive branch to achieve broad-based transformation. It recognized the need to reduce the facility infrastructure. There was no management response in the report.
Federal Real Property: An Update on High Risk Issues	GAO-09-801T	7/15/2009	None	Federal agencies have taken some positive steps to address real property issues but some of the core problems that led to the designation of this area as high-risk continue to persist. There was no management response in the report.

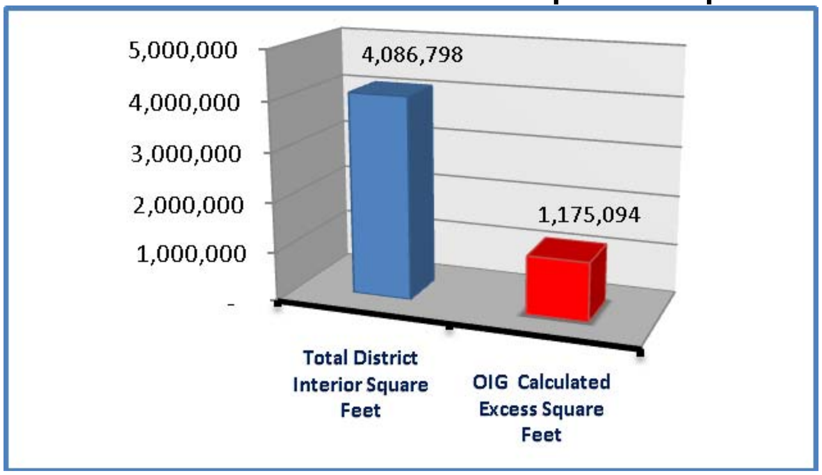
Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
Network Rightsizing Needed to Help Keep USPS Financially Viable	GAO-09-674T	6/20/2009	None	The Postal Service will require action in a number of areas, such as rightsizing its retail and mail processing networks by consolidating operations and closing unnecessary facilities. Management generally agreed with the accuracy of the statements and provided technical comments, which were incorporated.

APPENDIX B: DETAILED ANALYSIS

Excess Space is Significant in the Greensboro District

Based on facility space requirements [10], we calculated that the Greensboro District maintains 1.175 million more SF than they need for current operational workload. As depicted in Chart 1, excess space was at least 29 percent of the total interior square footage.

Chart 1 – Area Interior and Excess Space Comparison



The breakdown of interior square footage and OIG-calculated excess for the 30 visited facilities in the Greensboro District is represented in Table 2. Main post offices contributed 67 percent of the excess space, carrier annexes 9 percent, plants 10.6 percent, stations 7.9 percent, and the finance station 0.5 percent.

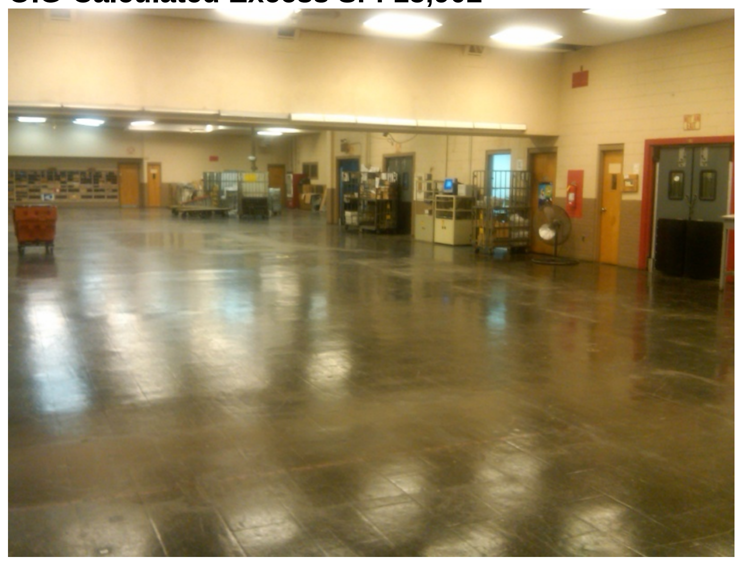
Table 2 – Excess Space by Facility Type Visited

Facility Type	Facility Type Count	Percentage of Count	Percentage of Excess	OIG - Calculated Excess SF	Interior Square Footage
Main Post Office	17	53.0%	67.0%	246,219	486,267
Station	5	16.0%	7.9%	29,021	108,669
Carrier Annex	3	9.0%	9.0%	32,531	85,384
Branch	2	6.0%	5.0%	18,447	39,607
Plant	4[11]	13.0%	10.6%	38,820	1,390,735
Finance Station	1	3.0%	0.5%	1,800	4,800
Total	**32**	**100%**	**100%**	**366,838**	**2,115,462**

[10] We used Postal Service criteria established in March of 2007 outlined in a letter issued by the senior vice president of Operations. In support of this new criteria, the headquarters Facility Group, Planning and Approval designed matrices to assist with the space requirements of planned facilities.
[11] The Rocky Mount P&DF and the Raleigh P&DC share facilities with main post offices, reducing the actual facility visited count to 30. Table represents both plants and main post offices.

To highlight excess space in the Greensboro District, Illustration 1 depicts two facilities with excess interior space. The Lenior Main Post Office is Postal Service-owned and has delivery and retail operations along with vacant space in the facility. The Greenville Main Post Office is leased facility with delivery operations and significant vacant space on the workroom floor. According to our calculations, 77 percent of the sites visited contained excess space, ranging from 1,800 to 49,235 SF.

Illustration 1 – Examples of Excess Space

Lenior Main Post Office 114 Ridge St. NW, Lenior, NC Interior Square Footage: 31,851 **OIG-Calculated Excess SF: 20,351**	**Greenville Main Post Office** 300 W 2nd St.Greenville, NC Interior Square Footage: 20,902 **OIG-Calculated Excess SF: 15,902**
	

[Causes for Excess Interior Space]

The opportunity to optimize excess interior space exists because:

- Postal Service policy requires installation heads to report excess space, but does not provide the necessary guidance to accomplish this task effectively.

- Facility systems do not track metrics such as dates or space conditions to allow effective management of excess space.

[Guidance Can Be Improved]

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

23 of the 30 Postal Service facilities we visited, only two locations answered “yes” to the vacant leasable space survey question. Further, our interviews revealed that Operations employees were unaware of the method used to identify excess space at their facilities. As a result, we calculated more than 1.1 million SF of excess interior space in the Greensboro District.

Facility Systems Do Not Allow for Effective Management of Excess Space

The Postal Service’s workload has declined, resulting in significant excess space. However, the electronic systems that manage facility space do not collect or monitor metrics such as length of time that space is underused or vacant and the condition of excess space to prioritize disposal actions efficiently.

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

The GSA’s Public Buildings Service also manages its leased portfolio by focusing on four primary areas: reducing vacancy, managing lease administration expenses, managing customer requirements, and analyzing market trends.[12] Similarly, GSA-owned facilities are monitored and analyzed using performance metrics such as revenue, funds from operations, operating costs, vacancy, net operating income, and return on equity. The Postal Service’s facility management systems are not able to manage property in this way. For example, rents from leases or subleases are tracked manually using electronic spreadsheets.

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

We estimate that if the Capital Metro Area initiated disposal actions in the Greensboro District it could realize $36,312,795 over typical and remaining lease terms. We consider this amount funds that could be used more efficiently by implementing recommended actions or $3,631,280 annually. See Appendix C for the monetary impact calculation and assumptions.

[12] State of the Portfolio FY 2008 at: http://www.gsa.gov/portal/category/22180

Opportunity to Fulfill Federal Space Needs

The GSA is the nation's largest public real estate organization. It provides workspace for more than 1 million federal workers through its Public Buildings Service. According to the Code of Federal Regulations (CFR), when GSA-controlled space is not available, federal agencies must extend priority consideration to available space in Postal Service buildings.[13]

Our audit noted that Postal Service could more aggressively seek federal entities to fill excess space. Table 3 shows that GSA leases on behalf of federal entities primarily from the commercial sector rather than the Postal Service. Space requirements were greater than the excess space identified in Postal Service facilities. The GSA paid considerably more per square foot than the value assigned to Postal Service space.[14]

Table 3 – Postal Service Excess Space Lease Opportunity – Greensboro District

District	GSA Leased SF	Postal Service[15] Excess SF	GSA Count	Postal Service Count	Existing GSA/ Postal Service Leases	GSA Average SF Cost	Postal Service Average SF Value	Number of GSA Leases Excess Space May Accommodate	
Greensboro	1,447,304	724,453	121	242	3	$20.72	$8.40	79 of 121	65%

Table 3 and Appendix D also illustrate the strong correlation between space leased by the GSA and the ability of the Postal Service to significantly accommodate federal space needs. For the districts reviewed, we estimate that Postal Service excess space may accommodate 79 of 121 (or 65 percent) of current federal leases. However, we understand that more information is needed to determine whether the Postal Service's excess space would be suitable.

[13] 41 CFR 102-73.20.
[14] Postal Service excess space was assigned a value based on historical lease rates in the same geographic areas.
[15] This figure excludes the node study credit of 59,985 SF accorded to the district.

APPENDIX C: MONETARY FUNDS PUT TO BETTER USE

Project year		0	1	2	3	4	5	6	7	8	9
Fiscal year		**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Owned**											
Sublease Value		($3,175,140)	$3,961,369	$3,961,369	$3,961,369	$3,961,369	$3,961,369	$3,961,369	$3,961,369	$990,342	
Utility Savings			$863,374	$883,231	$903,546	$924,327	$945,587	$967,335	$989,584	$253,086	
Custodial Savings			$934,142	$934,142	$934,142	$934,142	$934,142	$934,142	$934,142	$233,536	
Leases Expiring FY 2011***											
Sublease Value		($659,971)	$823,393	$823,393	$823,393	$823,393	$823,393				
Utility Savings			$179,457	$183,585	$187,807	$192,127	$196,546				
Custodial Savings			$194,167	$194,167	$194,167	$194,167	$194,167				
Leases Expiring After FY 2011***											
Sublease Value		($1,040,458)	$1,298,096	$784,164	$544,613	$302,022	$220,290	$280,770	$251,634	$172,716	$151,724
Utility Savings			$282,918	$174,838	$124,220	$70,472	$52,584	$68,562	$62,860	$44,138	$39,666
Custodial Savings			$305,808	$184,617	$128,270	$71,208	$51,935	$66,197	$59,326	$40,716	$35,779
Subtotals	$49,244,420	($4,875,569)	$8,842,724	$8,123,506	$7,801,526	$7,473,227	$7,380,012	$6,278,375	$6,258,916	$1,734,534	$227,169
Cash Flows @ Sub Lease Efficiency Rate		($4,227,118)	$7,666,642	$7,043,080	$6,763,923	$6,479,287	$6,398,470	$5,443,351	$5,426,480	$1,503,841	$196,955
Discounted at Postal Service cost of borrowing	$41,883,270	($4,875,569)	$8,512,851	$7,528,725	$6,960,597	$6,418,950	$6,102,417	$4,997,825	$4,796,471	$1,279,660	$161,343
NPV	$36,312,795										

Build-out cost/sq ft $6.73	*Custodial rate/sq ft $1.98*	*Assumptions*
Lease savings/sq ft/yr $8.40	*Postal Service cost of borrowing 3.875%*	*****Weighted Average Lease years = 7.3***
Utilities savings/sq ft/yr, FY 2010 $1.83	***Sub-lease efficiency rate 86.7%***	******Will be renewed at minimum lease term (5 years)***
Utility cost escalation rate 2.30%		

Value Assigned to the Excess Space

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

Utility Costs Associated with the Excess Space

Table 4 shows the utility cost per square foot for each district. Using the information from line 42 of the Financial Performance Report (FPR), we calculated this figure by dividing the total annual utility expenses for FY 2009 by the district's total interior square footage, with a cost escalation rate of 2.3 percent.

Maintenance Costs Associated with the Excess Space

Table 4 shows the maintenance cost per square foot for each district. We calculated this cost by dividing the total annual maintenance expenses[16] (FY 2009) by the district's total interior square footage. However, we reduced the cost by 50 percent, based on previously identified savings in a custodial maintenance audit.[17]

Build-Out Costs Associated with Implementing Optimization Actions

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

For the Greensboro District, we calculated the average build-out cost based on the district's build-out cost per square foot according to five node studies conducted for the Greensboro District. We calculated the build-out cost for the entire Greensboro District as $6.73 per square foot.

Table 4 – Square Footage Costs Greensboro District

District	Lease Cost/SF	Utility Cost/SF	Maintenance Cost/SF	Build out Cost/SF[18]
Greensboro	$8.40	$1.83	$1.98	$6.73

[16] eFlash (Labor Distribution Code 38, salary and benefits) + FPR Line 3F Contract Cleaners Costs.
[17] *Custodial Maintenance* (Report Number DA-AR-09-011, dated August 13, 2009).
[18] While build-out costs are negotiable and at times paid for by the lessor, these costs ranged from $4.80 per square foot to $8.14 per square foot in the node studies analyzed.

Ownership of Facility and Term Years

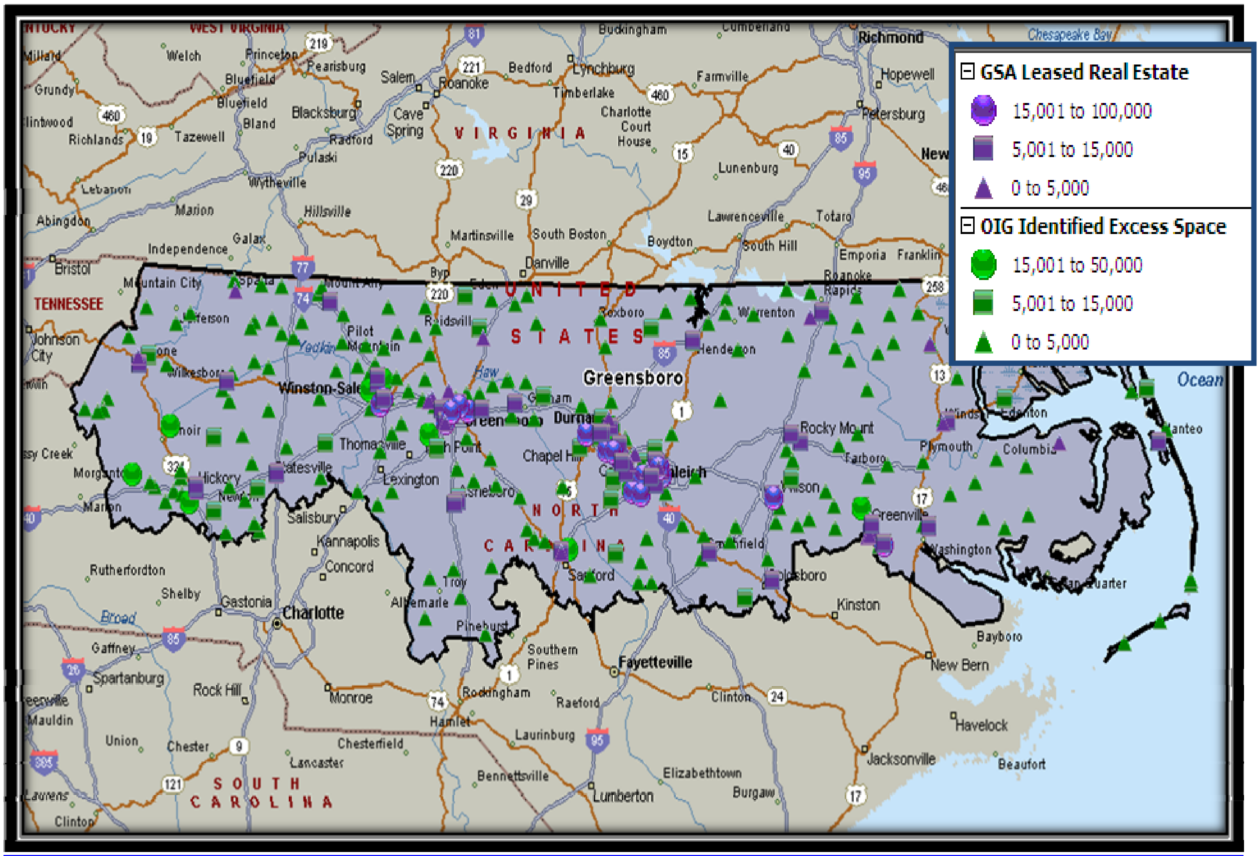
We categorized all facilities in the district by ownership – leased versus Postal Service-owned. We further grouped the leased properties by the number of term years remaining on the lease.

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

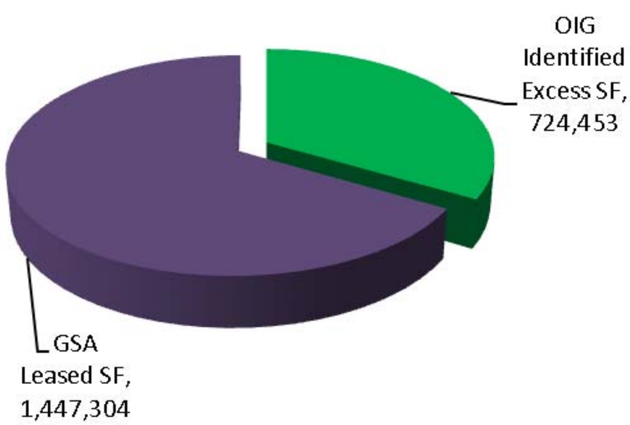
Sublease Efficiency Rate

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

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



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



Building Size	GSA Leased Facilities	OIG Identified Excess
1,000	10	104
5,000	30	97
10,000	43	19
20,000	19	11
30,000	7	5
40,000	4	1
50,000	3	3
More	5	0
Total Count	121	240

APPENDIX E: MANAGEMENT'S COMMENTS

VICE PRESIDENT
CAPITAL METRO AREA OPERATIONS

UNITED STATES
POSTAL SERVICE

February 16, 2011

LUCINE M. WILLIS, DIRECTOR
AUDIT OPERATIONS @ audittracking@uspsoig.gov

SUBJECT: Facility Optimization: Capital Metro Area
Report Number DA-AR-11-DRAFT

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

Management is in full agreement that excess space exists in a number of facilities and it is the reason why the optimization program was started by the Facilities Department almost two years ago. In addition, management agrees that the policy written in the ASM section 517 is not followed and is ineffective. This is due to the changes in organizational structure and responsibilities since it was updated in 2005, which rendered this section obsolete. A different approach other than the ASM 517 to manage excess space is needed. This section will be revised and we will adjust our systems and the ASM to align to today's structure and processes which addresses the two recommendations made by the audit.

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

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

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

1. **Methodology**

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

MAILING ADDRESS:
16501 SHADY GROVE ROAD
GAITHERSBURG, MD 20898-9998
301 548-1410
FAX: 301 548-1434

However, this methodology does not include allowances for:

A. Unusable space such as basements, corridors etc. The audit treats every square foot in the building as usable and leasable.
B. Existing functions not included in the SSBD design such as administrative district office, training, caller service etc.
C. Inefficiencies in current building layout due to multiple floors, stairs, elevators, columns, redundant support space required on each floor due to code requirements
D. Historic nature of some of the buildings that hinders the possibility of making changes
E. Parking and dock space requirements
F. Large inflexible retail lobbies

Management Recommended Methodology

Because every building is different and has a variety of the above items to contend with, Management recommends that the OIG review each specific building and determine usable excess space after making allowances for the items listed above.

2. **Inaccurate Data and Cost Factors**

The audit states that 1.17 million square feet of excess space exists in the Greensboro District with a potential to realize $36,312,795 over typical and remaining lease terms. The OIG also provides two specific examples of excess space; Lenoir, NC MPO and the Greenville, NC MPO.

Management disagrees with these findings in general as we have stated in our responses to DA-AR-10-010, DA-AR-10-011, and DA-AR-11. More specifically, in regard to the two examples, the following is provided:

The Lenoir, NC MPO is a USPS owned facility with a net interior of 31,851 sf. The OIG states it has 20,351 sf of excess space. Management agrees there is excess space in this building now that the CSBCS machines are no longer utilized. Excess useable workroom space is estimated at 7,518 sf. The CSBCS machines are still in the building and when operational just four months ago, workroom space was estimated at being insufficient by 850 sf.

Now that CSBCS is no longer needed in this facility, the FSO will begin the process of identifying opportunities to utilize this excess space.

The Greenville, NC MPO is a USPS owned facility first occupied in 1969. Management agrees there is excess space in this facility. There is a planned study to relocate the carriers from the leased Greenville carrier annex and then terminating that lease. If instituted, there would be minimal excess workroom space in this building. It should be noted, relocation of the carriers back to the MPO is only now possible that the CSBCS machines at the annex are no longer being utilized.

Build Out Costs Associated with Implementing Optimization Actions

In Table 4 of the study, the OIG estimates build out costs for the entire Greensboro District at $6.73 per square foot. This estimate is based on five approved node studies in North Carolina recently completed by the FSO. Although management agrees these costs are what is shown in these studies, the build out actions for these particular projects are in no way reflective of the costs required to convert existing space to outlease condition. These projects involved relocation of retail to existing postal space.

The cost to relocate postal operations to an existing postal facility is usually very low. In particular, when relocating retail it is sometimes possible to do so with no capital expenditure. In order to prepare space for outlease, there is considerable additional work that must be performed. Items as listed below must be evaluated and implemented as applicable:

- Separate entrance / exit
- Security walls and partitions
- Life safety upgrades driven by the new walls and egress patterns
- Separate HVAC and electric submetering
- Separate restrooms
- Segregated parking and fencing

The cost to perform this work will vary greatly but a reasonable cost would be closer to $50 per square foot in the Greensboro District.

Potential Revenue:

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

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

Then adjust for the values of maintenance and utility savings.

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

Market Conditions:

Regardless of how much excess space exists, there needs to be a market for the space. The vast majority of postal facilities fall into the industrial /commercial real estate market. Unfortunately, it is this sector that is experiencing a severe downturn. Vacancy rates are high and demand is low.

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

Conclusions:

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

Actions 1&2 will be completed by end of quarter 2, fiscal year 2011. Action 3 will be completed by end of quarter 3, fiscal year 2011. Regarding the audit recommendations:

B. Actions already taken by management:

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

National Data	# of Buildings	% of Buildings	Square footage	% of SF
Buildings under 10k SF	28,015	84%	68.1 million	24%
Buildings over 10k SF	5,327	16%	221.6 million	76%

2. This optimization process is a nationwide effort where by we segment and review our facilities for excess space. Our inventory is segmented by:
   a. Leased verses owned buildings
   b. Delivery only facilities
   c. GSA leased space
   d. Expiring leases
   e. Current market conditions

3. Buildings over 10,000 square foot were measured to ascertain the correct square footage per function within the facility. Based on this data, we are now able to determine what space is needed for the current operations in the facility and how much is potential excess space. After finding these candidates for excess space, a node study is developed to verify the feasibility.

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

Generated out of optimization studies nationwide, we currently have 180 properties identified for disposal and 326 leases that we have or will terminate.

Management believes the facilities optimization process, along with other national initiatives, will allow us to identify usable excess space in our portfolio and extract the maximum value for the postal service out of it.

Management also looks forward to working with the OIG to accomplish this very important initiative.

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

David C. Fields
A/Vice President, Capital Metro Area Operations

Don Mackey
A/Manager, FSO Greensboro

cc: Sally K. Haring, Acting Manager, A/Manager, CARM
Corporate Audit Response Management CARMManager@USPS.gov
Steve Darragh, Area Manager, Finance
Russell D. Gardner, District Manager, Greensboro