



April 22, 2011

JO ANN FEINDT  
VICE PRESIDENT, OPERATIONS, GREAT LAKES AREA

SUBJECT: Audit Report – Facility Optimization: Great Lakes Area  
(Report Number DA-AR-11-005)

This report presents the results of our audit of facility optimization in the Great Lakes Area (Project Number 11YG001DA000). The U.S. Postal Service Office of Inspector General (OIG) initiated this audit from a random sample of districts nationwide. For the Great Lakes Area, our objective was to identify opportunities to optimize existing real estate in the Greater Michigan District. See [Appendix A](#) for additional information about this audit.

The Greater Michigan District uses 552 facilities with over 3.1 million interior square feet (SF). 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 Great Lakes Area has dropped 24 percent. This reduction in workload provides an opportunity to reevaluate space needs and identify potential excess space.

### Conclusion

The Greater Michigan District has over 700,000 SF in excess of what their workload suggests they need. The U.S. Postal Service has the option to optimize excess real estate property through:

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

With two major efforts underway, the Postal Service has begun taking action to optimize existing space. Specifically, the Great Lakes Area plans to dispose of 69,798 SF of excess space through approved optimization projects, with another seven facilities scheduled for evaluation in FY 2011. Although it has made progress, the Postal Service can do more to dispose of excess interior space more quickly.

The opportunity to optimize excess interior space in the reviewed districts exists because:

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

We estimate that if the Great Lakes Area initiates disposal<sup>1</sup> action for the excess space we identified in the Greater Michigan District, there is an opportunity to realize \$19,977,519<sup>2</sup> over typical and remaining lease terms. We consider this amount to be funds put to better use.<sup>3</sup> See [Appendix B](#) for our detailed analysis of this topic and [Appendix C](#) for our calculation of monetary impact.

Our audit also noted that the Great Lakes Area could be more aggressive in seeking opportunities to fill the space needs of federal entities. In the district reviewed, our analysis shows that excess space identified at Postal Service facilities may be able to accommodate 85 percent of current federal agencies' space needs. This opportunity exists because the Postal Service has not capitalized on the priority status it has for filling federal agencies' space needs. By capitalizing on this status, the Postal Service has another option for reducing its facility infrastructure size and generating additional revenue. See [Appendix D](#) for more information.

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

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

---

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

<sup>2</sup> Annualized savings is \$1,997,751.

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

## Management's Comments

Management agreed with our recommendations. They stated they have put in place corrective actions to address the first two recommendations and will complete corrective action to address the third recommendation by the end of Q3, FY 2011. While management agreed with our recommendations, management did not agree with the amount of excess space or the potential monetary impact reported. Specifically, they disagreed with the method we used to calculate existing excess space, in addition to the data and cost factors used to value the excess space and calculate the monetary impact.

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

1. Unusable space such as basements and corridors. The audit treats every square foot as usable and leasable.
2. Unique operational functions not included in standard designs, such as administrative, district office, training, caller service, etc.
3. Inefficiencies in current building layout due to multiple floors, stairs, elevators, columns, redundant support space required on each floor due to code requirements.
4. Historic property.
5. Parking and dock space requirements.
6. Large inflexible retail lobbies.

In reference to the data and cost factors used in our calculations, management disagreed with the findings in general as stated in responses to prior audits. Management specifically disagreed with the average build-out cost used in our calculations, citing a range of costs they deem reasonable based on actual project costs.

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

Finally, management expressed the challenges facing the Postal Service when disposing property in poor market conditions and actions they have already taken to reduce excess property. In particular, management has focused its attention on properties that have more than 10,000 interior square feet which represents 16 percent of buildings and 76 percent of interior square feet. 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

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

As it relates to the usability of basements, we note that Postal Service Headquarters and many federal agency buildings use basement space. According to commercial realty standards, basement space is counted as usable and leasable areas. Mechanical rooms are considered common areas which a proportionate share is allocated to a tenant's area. 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, and 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, such as bulk mail entry units or delivery bar code sorters, and allotted the necessary space for those functions. Additionally, we applied the non-Flats Sequencing System (FSS) rate of 123 SF per route to determine the earned delivery space, rather than the post-FSS rate of 95 SF per route. Lastly, we did not consider performance measures such as street efficiency indicator or alternate access sales in the earned space calculation.

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 area as presented in its node studies. We note that build-out costs are negotiable and lessees, at times, absorb the cost of conversion. We built in several different tolerances relating to the size of excess space at sites reviewed and considered the marketability of properties within the district. Further, the multiple

---

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

actions, such as lease terminations, disposals, and space/lease reductions, within the approved node studies were acknowledged and reflected in our monetary impact calculations. We recognized realty market conditions and discounted our excess space calculations by the national commercial vacancy rate of 14 percent. Therefore, we consider our presentation of monetary impact as fair and conservative.

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 Postal Service's 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: Tom A. Samra  
Sharad C. Shrestha  
Lee A. Thompson  
Corporate Audit and Response Management

## APPENDIX A: ADDITIONAL INFORMATION

### BACKGROUND

The Great Lakes Area leases or owns 552 facilities with over 3.1 million interior SF to move mail in the Greater Michigan 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, the Postal Service's 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. Specifically, the Great Lakes Facility Service Office (FSO) works to identify excess space in facilities that would allow for consolidation of delivery operations and movement of leased administrative functions into owned space. A complete financial analysis is done to determine if a specific consolidation provides for sufficient savings to make it worthwhile. The FSO works closely with operations to identify labor, transportation, lease, maintenance and utility costs or savings associated with potential consolidations. If the FSO identifies sufficient savings, they present the case to operations to obtain both district and area approval. The Great Lakes Area has completed two approved optimization studies in the Greater Michigan District.

Established in May 2009, the SBOC program provides tools and strategies to evaluate the effectiveness of Postal Service retail placement in support of the *Transformation Plan's* goals of improved service and increased revenue. As of October 22, 2010, management was considering closing the Orchards Mall facility in the Greater Michigan District.

In addition to the ongoing node studies<sup>5</sup> and SBOC program, the district has been working to optimize existing space. As of February 1, 2011, the Greater Michigan District has 21 facilities that sell greeting cards in their retail lobby. There are three more facilities slated to sell greeting cards in the near future.

In October 2010, the Postal Service consolidated optimization efforts to manage excess space. The goal is to manage the excess space portfolio for all space types in one overall optimization effort. 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 headquarters and district/area partnerships.

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.

---

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

The risk model measures facility performance results by district for the following nine metrics:

**Table 1 – Risk Metrics**

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

We randomly selected 17 districts to study excess interior space on a national basis; one district selected was in the Great Lakes Area.

**OBJECTIVE, SCOPE, AND METHODOLOGY**

Our objective was to identify opportunities for the Postal Service’s Great Lakes Area to optimize existing real estate. We visited 51 of 552 facilities in the Greater Michigan District representing 37 percent of the OIG-calculated excess space when actual interior space is compared to space standards. The scope of the audit primarily included main post offices, carrier annexes, stations, branches, and mail processing facilities. To accomplish our objective we visited selected facilities, conducted interviews, and examined other relevant materials.

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

We conducted this performance audit from October 2010 to April 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

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

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

<sup>8</sup> Space Requirements Matrix for Non-Flat Sequencing System (FSS) offices.

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

our findings and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on February 25, 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
<i>The Government Faces Challenges to Disposing of Unneeded Buildings</i>	GAO-11-370T	2/10/2011	None	The Government Accountability Office (GAO) identified a number of factors that impede the government’s ability to efficiently dispose of unneeded property. These include competing stakeholder interests, complex legal environment, and, specific to the General Services Administration (GSA), the lengthy disposal process. No recommendations were made.
<i>Facility Optimization: Western Area Districts</i>	DA-AR-11-001	2/7/2011	\$173,835,881	The OIG identified 4.5 million SF of excess space. Management agreed with the recommendations but disagreed with the monetary impact.
<i>Facility Optimization: Northern New Jersey District</i>	DA-AR-10-008	8/25/2010	\$157,963,990	The OIG identified 1.98 million SF of excess space. Management agreed with the recommendations but disagreed with the monetary impact.
<i>Facility Optimization: Chicago District</i>	DA-AR-10-009	8/25/2010	\$23,517,019	The OIG identified 740,529 SF of excess space. Management agreed with the recommendations but disagreed with the monetary impact.
<i>Facility Optimization : New York District</i>	DA-AR-10-010	8/25/2010	\$446,258,222	The OIG identified 2.4 million SF of excess space. Management agreed with the recommendations but disagreed with monetary impact.
<i>Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability</i>	GAO-09-937SP	7/2009	None	The GAO added the Postal Service’s financial condition to the list of high-risk areas needing Congress’ attention and the executive branch to achieve broad-based transformation. It recognized the need to reduce the facility infrastructure. There was no Postal Service response in the report.



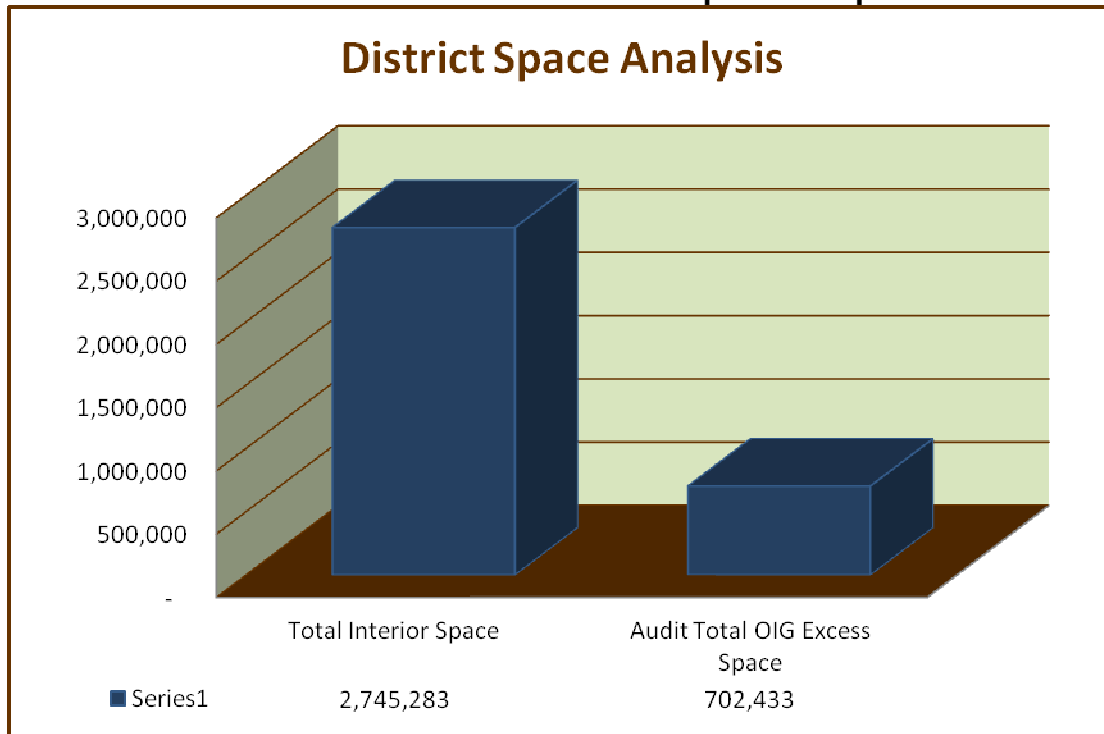
Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Federal Real Property: An Update on High-Risk Issues</i>	GAO-09-801T	7/15/2009	None	Federal agencies have taken some positive steps to address real property issues but some of the core problems that led to designation of this area as high-risk continue to persist. There was no Postal Service response in the report.
<i>Network Rightsizing Needed to Help Keep USPS Financially Viable</i>	GAO-09-674T	5/20/2009	None	The Postal Service will require action in a number of areas, such as rightsizing its retail and mail processing networks by consolidating operations and closing unnecessary facilities. The Postal Service generally agreed with the accuracy of the statements and provided technical comments, which were incorporated.

**APPENDIX B: DETAILED ANALYSIS**

**Excess Space is Significant in the Greater Michigan District**

Based on facility space requirements,<sup>10</sup> we calculated that the Greater Michigan District maintains over 700,000 SF more than what is required for current operational workload, thus can be considered potential excess space. As depicted in Chart 1, excess space was 26 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 51 visited facilities in the Greater Michigan District is represented in Table 2. Main post offices contributed 47 percent of the excess space, while stations (13 percent), carrier annexes (11 percent), and branches (12 percent) followed to a lesser degree.

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

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

Facility Type	Count	Percentage of Count	Percentage of Excess	OIG-Calculated Excess	Interior Square Footage
Main Post Office	26	50.98%	46.83%	121,304	290,582
Station	6	11.76	12.77	33,089	89,689
Carrier Annex	3	5.88	11.23	29,092	50,092
Branch	5	9.80	11.86	30,725	89,125
Plant	8	15.69	14.87	38,520	845,806
Finance Station	3	5.88	2.43	6,289	17,289
<b>Total</b>	<b>51</b>	<b>100.00%</b>	<b>100.00%</b>	<b>259,019</b>	<b>1,382,583</b>

To highlight excess space in the Greater Michigan District, Illustration 1 depicts two facilities with excess interior space. The Saginaw Mail Processing Annex is Postal Service-owned and has mail processing operations along with vacant space in the workroom. The East Paris Main Branch is another Postal Service-owned facility with delivery operations and retail operations, showing significant vacant space on the workroom floor. According to our calculations, 86 percent of the sites visited contained excess space, ranging from 200 SF to 22,832 SF.

**Illustration 1 – Examples of Excess Space**

**Saginaw Mail Processing Annex**  
 1201 South Wheeler Street  
 Saginaw, Michigan 48602  
 Interior Square Footage: 40,765  
**OIG-Calculated Excess SF: 7,625**



**East Paris Main Branch**  
 3970 South Greenbrooke Drive  
 Grand Rapids, Michigan 49512  
 Interior Square Footage: 26,615  
**OIG-Calculated Excess SF: 10,715**



## Causes for Excess Interior Space

The opportunity to optimize excess interior space in the Greater Michigan 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.
- 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 44 of the 51 Postal Service facilities we visited, none of the locations answered “yes” to the vacant leasable space survey question. Further, our interviews revealed Operations’ employees were often unaware of the method used to identify excess space at their facilities. As a result, we identified over 700,000 of excess square footage in the Greater Michigan District.

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

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

For comparison purposes, we benchmarked Postal Service facility practices against the GSA realty management practices and found that GSA “ages” its available space for tracking, monitoring, and decision-making. The Postal Service does not have the ability to age excess space as it does not collect dates on entry.

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

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

We estimate if the Great Lakes Area initiated disposal actions for the districts reviewed, there is a potential opportunity to realize \$19,977,519 over typical and remaining lease terms. This amount is considered funds that could be used more efficiently by implementing recommended actions. See [Appendix C](#) for the monetary impact calculation and assumptions.

**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), in situations when GSA-controlled space is not available, federal agencies must extend priority consideration to available space in Postal Service buildings.<sup>11</sup>

Our audit noted that the Postal Service can be more aggressive in seeking opportunities to fill the space needs of federal entities. Table 3 illustrates the potential fulfillment opportunities in the Greater Michigan District. Specifically, it shows the 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 the Postal Service space.<sup>12</sup>

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

District	GSA Leased SF	USPS Excess SF	GSA Facility Count	USPS Facility Count	Existing GSA/ Postal Service Leases	GSA Average SF Cost	USPS Average SF Value	Number of GSA Leases Excess Space May Accommodate	
Greater Michigan	777,914	702,433	103	261	0	\$24.11	\$8.57	88 of 103	85%

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 Greater Michigan District, we estimate that Postal Service excess space may accommodate 88 of 103 (or 85 percent) of current federal leases. However, we understand that more

<sup>11</sup> Title 41 CFR 102-73.20.

<sup>12</sup> We assigned Postal Service excess space a value based on historical lease rates in the same geographic areas.

information is necessary to determine whether the Postal Service's excess space would be suitable.

**APPENDIX C: MONETARY IMPACT**

Funds Put to Better Use

Project year	0	1	2	3	4	5	6	7	8	9
Fiscal year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Owned**</b>										
Sublease Value	(\$23,293,605)	\$4,853,542	\$4,853,542	\$4,853,542	\$4,853,542	\$4,853,542	\$4,853,542	\$4,853,542	\$1,213,386	
Utility Savings		\$1,325,238	\$1,355,718	\$1,386,900	\$1,418,799	\$1,451,431	\$1,484,814	\$1,518,965	\$388,475	
Custodial Savings		\$1,220,465	\$1,220,465	\$1,220,465	\$1,220,465	\$1,220,465	\$1,220,465	\$1,220,465	\$305,116	
<b>Leases Expiring FY 2011***</b>										
Sublease Value	(\$1,275,647)	\$265,799	\$265,799	\$265,799	\$265,799	\$265,799				
Utility Savings		\$72,575	\$74,244	\$75,952	\$77,699	\$79,486				
Custodial Savings		\$66,837	\$66,837	\$66,837	\$66,837	\$66,837				
<b>Leases Expiring After 10/1/2011</b>										
Sublease Value	(\$4,321,817)	\$900,510	\$649,058	\$412,680	\$134,189	\$115,986	\$106,542	\$82,066	\$82,066	\$71,911
Utility Savings		\$245,880	\$181,298	\$117,923	\$39,226	\$34,685	\$32,594	\$25,683	\$26,274	\$23,552
Custodial Savings		\$226,441	\$163,211	\$103,772	\$33,743	\$29,166	\$26,791	\$20,636	\$20,636	\$18,083
<b>Subtotal</b>	<b>(\$28,891,069)</b>	<b>\$9,177,287</b>	<b>\$8,830,173</b>	<b>\$8,503,870</b>	<b>\$8,110,299</b>	<b>\$8,117,397</b>	<b>\$7,724,748</b>	<b>\$7,721,358</b>	<b>\$2,035,954</b>	<b>\$113,546</b>
<b>Cash Flows at Sub Lease Efficiency Rate</b>	<b>(\$25,048,557)</b>	<b>\$7,956,708</b>	<b>\$7,655,760</b>	<b>\$7,372,855</b>	<b>\$7,031,629</b>	<b>\$7,037,784</b>	<b>\$6,697,357</b>	<b>\$6,694,417</b>	<b>\$1,765,172</b>	<b>\$98,444</b>
<b>Discounted at Postal Service Cost of Borrowing</b>	<b>(\$25,048,557)</b>	<b>\$7,659,887</b>	<b>\$7,095,226</b>	<b>\$6,578,132</b>	<b>\$6,039,651</b>	<b>\$5,819,434</b>	<b>\$5,331,350</b>	<b>\$5,130,215</b>	<b>\$1,302,263</b>	<b>\$69,918</b>
<b>Net Present Value</b>	<b>\$19,977,519</b>									

**Table 4 – Greater Michigan Cost Factors**

Build-out cost/square feet	\$41.13	Custodial rate/square feet	\$4.31
Lease Savings/square feet/yr	\$8.57	USPS Cost of Borrowing	3.875%
Utilities Savings/square feet/yr, FY 2010	\$2.34	Sub-lease Efficiency Rate	86.70%
Utility Cost Escalation Rate	2.30%		

**Value Assigned to the Excess Space**

Table 4 shows the value per square foot for the Greater Michigan District. Using the Facility Inventory Reports from the eFMS, we calculated this amount 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 the Greater Michigan District. Using information from line 42 of the Financial Performance Report (FPR), we calculated this amount by dividing the total annual utility expenses by the district’s total interior square footage, with a cost escalation rate of 2.3 percent.

**Maintenance Costs Associated with the Excess Space**

Table 4 shows the maintenance cost per square foot for the Greater Michigan District. We calculated this cost by dividing the total annual maintenance expenses<sup>13</sup> by the district’s total interior square footage. However, we reduced the cost by 50 percent, based on previously identified savings in a prior custodial maintenance audit.<sup>14</sup>

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

Table 4 shows the build-out cost per square foot for the Greater Michigan District. We calculated this amount by dividing the “build-out/Line 63 capital” costs for all approved optimization node studies in the Great Lakes Area by the total reduction in square footage identified in the approved node studies.

<sup>13</sup> eFlash (Labor Distribution Code 38, salary and benefits) + FPR Line 3F Contract Cleaners Costs.

<sup>14</sup> *Custodial Maintenance* (Report Number DA-AR-09-011, dated August 13, 2009).



## **Ownership of Facility and Term Years**

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

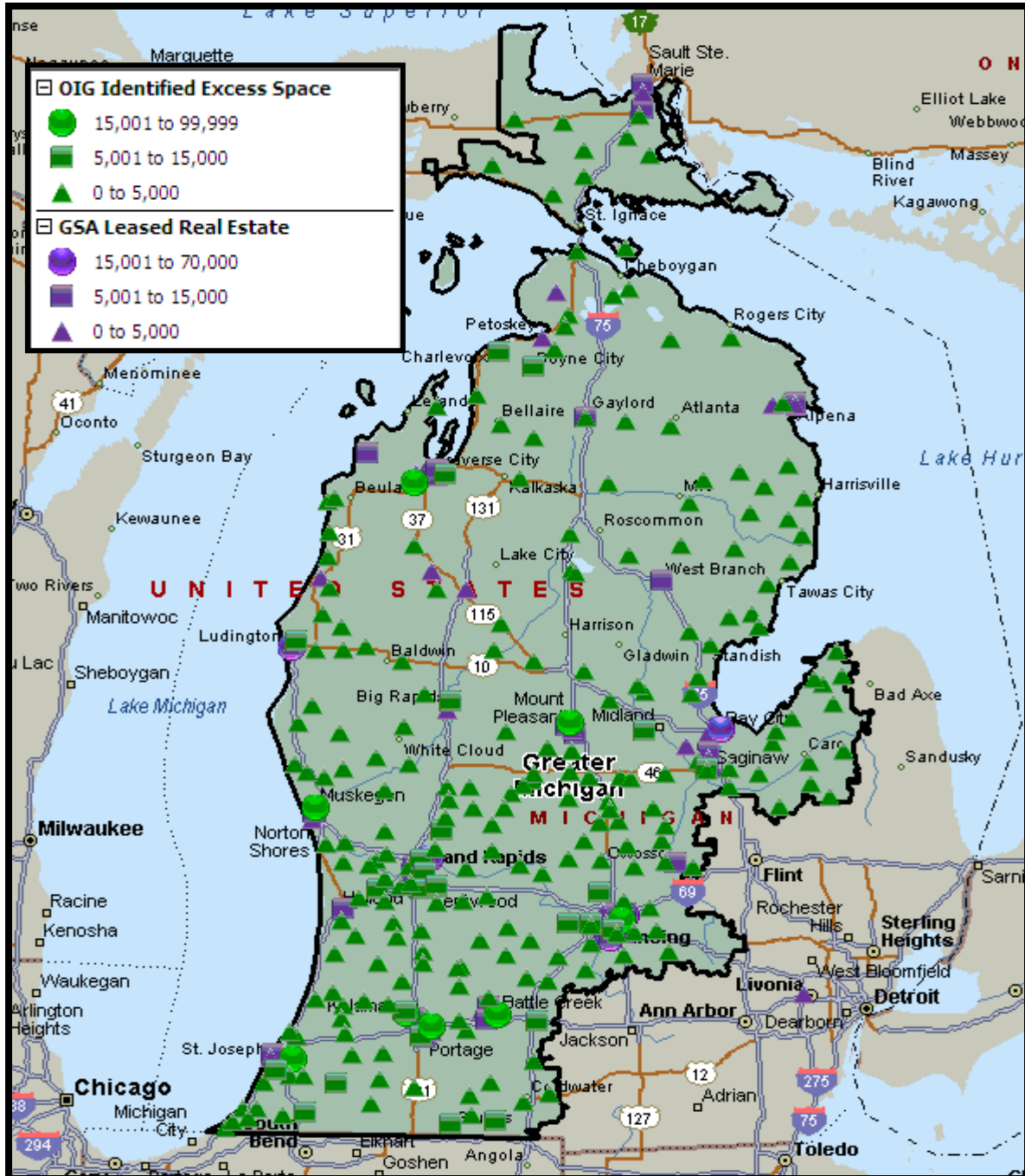
We calculated leases expiring before the end of FY 2011 based on the assumption that these lease would be renewed for the standard 5-year period. We calculated leases expiring after October 1, 2011 for the remaining lease term. We calculated Postal Service-owned facilities over a period of 7.3 years,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

## **Sublease Efficiency Rate**

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

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

**Greater Michigan District**



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



Building Size (SF)	GSA Leased Facilities	OIG Identified Excess
1,000	14	143
5,000	38	82
10,000	31	20
20,000	13	12
30,000	2	2
40,000	3	1
50,000	0	0
More	2	1
<b>Total Count</b>	<b>103</b>	<b>261</b>

**APPENDIX E: MANAGEMENT’S COMMENTS**

JO ANN FEINDT  
 VICE PRESIDENT, GREAT LAKES AREA OPERATIONS



April 19, 2011

LUCINE M. WILLIS

SUBJECT: Facility Optimization: Report Number DA-AR-11-DRAFT  
 Great Lakes Area

Management appreciates the efforts the Office of Inspector General (OIG) has taken in regards to facility optimization in the Great Lakes 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. Changes to the ASM 517 are in the final edit stage to clarify responsibility for identification of excess space. In addition, a standard operating procedure for useable excess space identification has been released. These two actions effectively address the audit recommendations.

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 square-foot, 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

244 KNOLLWOOD DRIVE FLOOR 4  
 BLOOMINGDALE, IL 60117-1000  
 630/539-5858  
 FAX: 630/539-7171

existing facilities and subtracts the overall net square footage of the SSBD (earned) and calls the delta "excess".

However, this methodology does not include the following allowances:

- 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 700,000 square feet of excess space exists in the Greater Michigan District with a potential to realize \$19,977,519 over typical and remaining lease terms. The OIG provided two specific examples of excess space; Saginaw, MI MPA and the Grand Rapids, MI East Paris Branch.

Management disagrees with these findings in general as we have stated in our previous responses.

Management agrees the Grand Rapids, MI East Paris Branch, and the Saginaw, MI MPA both contain excess space. As we have done in the past, the USPS continues to optimize utilization of space in these buildings.

In 2005 the retail from the airport was consolidated into East Paris, and in October of 2008 the Grand Rapids Patterson carriers were moved into East Paris.

There is an ongoing analysis to identify the best use of the excess space in Saginaw which includes consideration of the recent approval and planned September 2011 implementation of the AMP to move outgoing operations from Saginaw P&DC to the Michigan Metroplex.

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

Management disagrees with the OIG average build out cost of \$41.13. The cost to perform this work will vary greatly but a reasonable actual range for the Great Lakes

area would be from \$93.00 to \$151.00 a square foot depending on the type of work needed. These numbers are based upon actual project costs and include design, construction, and construction supervision.

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 sub metering
- Separate restrooms
- Segregated parking and fencing

#### **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 has developed a more accurate process and proper documentation for identifying and reporting excess space.
2. Management has included additional metrics to track dates and conditions of excess space and it is part of the national process.
3. Management will continue to make available our excess property to other federal agencies. This will be completed by the end of quarter 3, fiscal year 2011.

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

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

- a. Establish and schedule a node study to 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 eBay2 notification for disposal
- f. Establish and track disposal schedule

Generated out of optimization studies nationwide, we currently have in excess of 140 properties identified for disposal and 340 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 proprietary 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).



Jo Ann Feindt  
Vice President, Operations  
Great Lakes Area



Sharad Shrestha  
Manager, Facilities Service Office  
Great Lakes Area

cc: Sally K. Haring, Manager, CARM  
Chris Oronzio, Area Manager, Finance  
Charles Miller, District Manager, Greater Michigan (A)