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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

... 5 1973

B-114874

Dear Mr. Chairman:

Your letter of June 19, 1972, requested that we study the U.S. Postal Service's purchase of a new headquarters building and its selection of sites for bulk mail facilities in Memphis, Tennessee, and Philadelphia, Pennsylvania. This report deals with our study of the Postal Service's decision to purchase the L'Enfant Plaza West Building for its headquarters. We shall report separately on the Memphis and Philadelphia site selections.

The Postal Service made two economic analyses of the proposed relocation of its headquarters to the West Building. Both analyses showed that the proposed relocation would be more economical than the continued occupancy of the present headquarters building. The Postal Service also indicated that other benefits from the relocation include (1) faster consolidation of headquarters staff into one building, (2) more flexibility to meet future space requirements, and (3) more pleasant and productive working conditions for the staff.

On the basis of its last economic analysis dated April 29, 1972, and noneconomic factors--such as the desirability of consolidating its headquarters operations in one building--the Postal Service recommended to its Board of Governors that the West Building be purchased. The Board approved the recommendation on June 6, 1972. The Postal Service purchased the building on June 14, 1972, and plans to move by July 1973.

The Postal Service's last economic analysis, which was based on a comparison for a 10-year period of the cost of occupying its present headquarters building and of the cost of occupying the West Building, indicated that the relocation would provide a 31-percent rate of return on its investment.

Our evaluation of that analysis indicated a need for certain adjustments--a decrease of about $1.7 million in the present building occupancy costs and an increase of about $600,000 in the West Building occupancy costs. The enclosure to this report explains these adjustments. On the basis of

090522

the adjusted costs we concluded that the Postal Service's decision to purchase the West Building would result in savings during the 10-year period.

We used the present value method to estimate the savings from the relocation. Under this method, we stated all future costs and income in terms of their present value. Our comparison for the 10-year period of the cost of occupying the present building and of the cost of occupying the West Building showed that, at discount rates of 7 and 10 percent, there was a difference in costs of $7.6 million and $6.3 million, respectively, in favor of relocating to the West Building.

The following table shows the Postal Service's estimated costs for a 10-year period, the estimated costs as adjusted by us, and our estimates of the benefits of purchasing the West Building.

		Postal Service costs used in computing the rate of return
Headquarters building occupancy costs:		
Investment	$31,323,500	
Maintenance, utilities, and operations	12,831,100	
Lease expenses	3,408,000	
Gross costs		$47,562,600
Less residual value of land and building		-17,847,600[a]
Net costs		$29,715,000
West Building occupancy costs:		
Investment	34,258,000	
Maintenance, utilities, and operations	11,300,000	
Gross costs		$45,558,000
Less lease income	-9,302,100	
Less residual value of land, building, and furniture	-18,629,000	-27,931,100[a]
Net costs		$17,626,900
Difference in favor of purchasing the West Building		

[a] Computed in accordance with Postal Service criteria. (Land ε
renovation costs for the headquarters building assumed to be

[b] Computed in accordance with the method prescribed by the Offi
percent a year, and buildings' values decreased by an obsoles

e Benefits
West Building
eriod)

l Service as adjusted y us	GAO-estimated benefits on basis of present values			
	7-percent discount rate		10-percent discount rate	
	$33,996,266		$33,262,933	
	8,949,423		7,817,554	
	2,981,205		2,825,118	
$52,196,400		$45,926,894		$43,905,605
-24,200,000[a]		-17,142,781[b]		-13,001,263[b]
$27,996,400		$28,784,113		$30,904,342
	33,891,200		33,891,200	
	8,039,985		7,033,785	
$45,338,300		$41,931,185		$40,924,985
	-5,406,292		-4,726,967	
-27,154,600	-15,320,932[b]	-20,727,224	-11,619,554[b]	-16,346,521
$18,183,700		$21,203,961		$24,578,464
		$ 7,580,152		$ 6,325,878

e equal to its market value and buildings costs, including
on a 20-year, straight-line basis.)

ement and Budget in June 1972. (Land values increased by 1.5
ecay factor of 1.7 percent a year.)

We made our computation of the estimated benefits on the basis of (1) the 7-percent discount rate because it was about the same as the interest rate on the 25-year bonds issued by the Postal Service in January 1972 and because it was the rate specified by the Office of Management and Budget for use by other Federal agencies in lease-purchase analyses and (2) the 10-percent discount rate to show that the benefits would be significant even if interest rates were increased to that level.

Because the West Building allows for allocating space more efficiently, the Postal Service will be able to consolidate all headquarters staff into 421,000 square feet of assignable office space--15,000 square feet less than is currently available at the headquarters building.

The headquarters staff is presently located in the headquarters building and in leased space at 1100 L Street, NW., Washington, D.C. Postal officials told us that, although the staff at L Street could be moved into the headquarters building, the extensive renovations that would be needed would delay such a move for about 3 years. They also said that, by purchasing the West Building, the Postal Service would be able to consolidate its staff into one building by July 1973.

At the West Building the Postal Service should be able to meet future space requirements. The West Building contains, in addition to the space to be occupied by the Postal Service, 122,000 square feet of assignable office space which is currently leased for periods of 3 to 10 years. When these leases expire, the Postal Service will have the option of using the space.

Postal officials also told us that the West Building would provide the staff with more pleasant and productive working conditions and that it was (1) accessible by public transportation, (2) near to dining facilities, and (3) close to other parts of the metropolitan area.

We do not plan to distribute this report further unless copies are specifically requested and then only after you agree or publicly announce its contents.

Sincerely yours,

Comptroller General
of the United States

Enclosure

The Honorable Robert N. C. Nix, Chairman
Subcommittee on Postal Facilities and Mail
Committee on Post Office and Civil Service
House of Representatives

GAO ADJUSTMENTS TO THE POSTAL SERVICE'S COST ESTIMATES

HEADQUARTERS BUILDING OCCUPANCY COSTS

Our adjustments to the Postal Service's April 1972 analysis resulted in a net decrease of about \$1.7 million in the headquarters building occupancy costs, from \$29.7 million to \$28 million.

Investment

We increased the headquarters building investment costs from \$31.3 million to \$36 million. The increase of \$4.7 million consisted of (1) a reduction of \$2.7 million in the estimated costs to renovate the headquarters building and (2) an increase of \$7.4 million in the current market value of the headquarters property.

We adjusted the estimated renovation costs of \$18.7 million to (1) delete \$5.1 million worth of work which the Postal Service could not document and which the General Services Administration (GSA) did not consider necessary for continued occupancy of the headquarters building and (2) increase the estimated costs of the remaining work from \$13.6 million to \$16 million on the basis of an estimate which GSA provided to the Postal Service after the Service had made its analysis.

The Postal Service considered the market value of the headquarters property to be \$12.6 million, the book value of the property when it was transferred to the Postal Service on June 30, 1971. We adjusted this market value on the basis of an agreement reached between the Postal Service and GSA after the Service had made its analysis. This agreement provided that GSA would exchange properties, appraised at about \$20 million, for the headquarters property; therefore we used this amount as the market value.

Maintenance, utilities, and operations

We reduced the estimated cost of maintenance, utilities, and operations by about \$42,700 over the 10-year period.

First we revised the estimated cost per square foot for maintenance and utilities from \$2.47 to \$2.67 on the basis of updated information provided by the Postal Service. Second, to compute costs for only assignable office space, we deducted the square footage of certain space, such as cafeteria and storage, from the square footage shown in the analysis. This adjustment, made on the basis of information which the Service furnished to the Board of Governors, reduced the space to be maintained from 510,900 square feet to 436,000 square feet for the first 3 years and to 486,000 square feet for the last 7 years. The space to be maintained after the third year was increased because the renovations would make more space available.

Residual value

Our adjustments of the building investment costs resulted in an increase in the estimated residual value of the headquarters property of $6.4 million.

WEST BUILDING OCCUPANCY COSTS

Our adjustments increased the West Building occupancy costs from $17.6 million to $18.2 million.

Investment

We reduced the investment costs of the West Building by $366,800 on the basis of a clause in the purchase contract which limited the purchase price of the building. This limitation had not been considered in the analysis because the contract was entered into after the analysis was made.

Maintenance, utilities, and operations

We increased the estimated costs of maintenance, utilities, and operations at the West Building by $147,100 over the 10-year period.

We increased the estimated cost per square foot for maintenance and utilities from $1.70 to $1.97 on the basis of updated information provided by the Postal Service. To compute costs for only assignable office space, we deducted the square footage of certain space, such as utility closets and internal corridors, from the square footage shown in the analysis. This adjustment, made on the basis of information which the Service furnished to the Board of Governors, reduced the space to be maintained from 630,000 square feet to 543,000 square feet. We also reduced the costs for a computational error in the analysis which had resulted in increasing the costs by about $160,000 over the 10-year period.

Lease income

We made two adjustments which reduced lease income by about $1.6 million over the 10-year period.

First we reduced the lease income by $1.2 million, representing the real estate taxes included in the payments of the lessees. Although this amount still will be payable by the lessees under Postal Service ownership, treating it as income would be inconsistent with the current treatment of real estate taxes in economic analyses by the Postal Service and other Federal agencies. The rationale for reducing the lease income is that the Government's purchase of property results in the loss of tax revenues to a local community, which could ultimately necessitate some form of Federal assistance to compensate for the taxes. Second we reduced the lease income by $441,100 to correct a mathematical error in the analysis.

Residual value

We made two adjustments which increased the estimated residual value of the property by $816,000--from $18.6 million to $19.4 million. We considered (1) the estimated $2 million cost of furniture which the Postal Service included in its investment costs but did not include in its computation of residual value and (2) our $366,800 reduction in investment costs.