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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20540

B-197235

December 31, 1979

The Honorable William F. Bolger
Postmaster General
United States Postal Service

Dear Mr. Bolger:

On November 7, 1979, you requested our views on the action proposed in a task force study report called "Alternatives for Establishing Equity in Postal Leases". The report was prepared in response to an internal directive for an issue paper outlining a series of options, recommendations and policy changes that could be considered for alleviating current financial situations confronting owners of leased postal facilities. The study produced alternative program proposals to address the problems of lessors caught with fixed incomes under long term leases and experiencing a substantial increase in expenses caused by a rapidly increasing rate of inflation, taxes, and utilities.

The recommended alternative would have the Postal Service assume, after making appropriate rent reductions, all maintenance expenses, except those relating to structural components and roof coverings, plus payment obligations for real estate taxes and charges for metered utilities. The owners of the leased facilities would be required to accept a reduced rental amount and to correct deferred maintenance problems before the Postal Service would modify the lease terms to assume the above expenses. The recommended alternative would be applicable to about

- 17,500 leases where the lessor is responsible for maintenance;
- 11,900 leases where the lessor pays all real estate taxes; and
- 2,700 leases where the lessor pays for heat or electricity.

The report estimates an additional first year cost to the Postal Service of about \$35 million.

To respond to your request, we reviewed the report issued by the task force and discussed the contents with an Assistant Commissioner, Office of Space Management, Public Buildings Service, General Services Administration (GSA) and with the Director of the Postal Service's Office of Real Estate. We did not attempt to validate the data supporting the report's conclusion that terms and rental amounts prescribed in Postal Service leases have, when combined with circumstances of increasing expenses, created situations which justify the proposed lease modification.

We recognize the plight of a lessor caught between a fixed-price lease and spiralling costs and are in agreement with your objective of finding a way to make long term leases more equitable. Our concern, however, is that lessors not be unduly enriched by modification of enforceable lease terms. Under long term lease-construction transactions, periodic payments by the Government are usually established by the lessor at an amount sufficient to (1) amortize his investment in the property over the initial period of the lease, (2) cover mortgage principal and interest payments and (3) provide for operating costs and taxes. To the extent practicable, the lessor should consider the instability of operating costs and taxes in computing his offer and also assume some element of risk. Therefore, if leases are to be renegotiated, consideration should be given to the lessor's or the Postal Service's estimate of maintenance, taxes and utility costs made at the time of his offer. The lessor should only be compensated for reasonably unanticipated costs and, in no event, should assumption of operating costs and taxes by the Postal Service result in a total cost to the Postal Service which is more than current appraised fair rental value for the lease term involved.

It should be recognized that assumption by the Postal Service of lessors' obligation to pay for maintenance, taxes and utilities greatly reduces their financial risk. In return for the reduced financial risk, we recommend that the Postal Service consider including in the lease agreement, as renegotiated, an option to purchase the facility at today's current appraised fair market value. During our meeting, you mentioned that the Postal Service has, to the extent possible, been purchasing leased facilities. As a general rule, we favor ownership over long-term leasing and securing purchase options would provide additional consideration for granting more favorable lease terms and might enable the Postal Service to expand its purchasing program.

We trust the above satisfies the purpose of your inquiry and we appreciate the opportunity to comment on this matter.

Sincerely yours,

Milton J. Ford

For The Comptroller General
of the United States