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Postal Service Real Estate Acquisition

Statement of
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POSTAL SERVICE REAL ESTATE ACQUISITION

Summary of Statement by L. Nye Stevens
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GAO reviewed the Postal Service's real estate acquisition process at the request of the Committee on Post Office and Civil Service.

When the Postal Service constructs new post offices it projects community needs for services over a 10-year period and builds facilities large enough to meet the projected growth. GAO found that the Service routinely increases these site size requirements by a standard 50-percent growth factor to obtain enough land to meet anticipated facility expansion needs for an additional 10 years. This is done without considering whether an increase is required to accommodate community needs for postal services beyond the initial 10 years. In addition, the Service advertises for sites which are larger than the combined 20-year land requirements.

GAO also found that the Service usually purchased sites that exceeded both its projected operational needs and advertised size requirements. When alternative sites were available for purchase, the Service generally selected the larger, more costly sites without requiring documentation stating why less expensive alternative sites were less desirable; however, in cases where documentation was available valid operational reasons were given for choosing the larger and/or more costly site.

In addition, the Service had only one contending site to choose from on 26 percent of the 246 projects GAO reviewed. When there was only one contending site, the cost per square foot averaged $5.90, but averaged $2.65 when there were two or more. GAO also found that for 28 percent of the projects, the Service apparently did not attempt to negotiate with property owners for lower prices.

For the projects GAO reviewed the Service projected land requirements at 33.8 million square feet, advertised for 39.9 million square feet and purchased 51.1 million square feet--17.3 million square feet in excess of requirements. GAO is concerned that the Postal Service might be spending more than is necessary for land and accumulating an unnecessarily large real estate inventory.

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the results of our review, requested by the Committee, of how the Postal Service acquires sites for new post offices. We did our work at Postal Service headquarters and at each of the five postal regions. At Facilities Service Centers and Offices located within these five regions, we analyzed the purchase of 246 sites.

Our review focused on the extent to which the Postal Service has a choice among competing sites when buying land for a post office, purchases only the land it needs to meet operational and customer service requirements, and purchases the most economical alternative from among contending alternative sites offered. As our report title (Postal Service: Sites for New Post Offices May Be Larger Than Needed GGD-89-130) indicates, we believe that sites purchased by the Service may be larger than needed.

BACKGROUND

The Postal Service has found it cost-effective to purchase sites and construct new post offices when the building needed exceeds 5,000 square feet and to lease smaller-sized post offices. The Service currently owns about 5,200 buildings and leases another 29,000. Although ownership has grown in recent years, the

Service still needs additional sites to replace existing post offices or add new ones. Site purchases increased steadily from 113 in fiscal year 1983 to 419 in 1987. Capital expenditure reductions required by the Omnibus Budget Reconciliation Act of 1987 reduced purchases in fiscal year 1988 to 228 sites. For five years ending in 1993, the Service plans to spend about $880 million to purchase over 750 sites.

POSTAL SERVICE FREQUENTLY PURCHASED LARGER, HIGHER COST SITES THAN NEEDED

Operational land requirements for a post office site most often include standardized increases to project future land needs for 20 years--10 years beyond when the facility is projected to reach full capacity. This calculated method of determining net usable land requirements may not always be appropriate. In addition, Postal real estate offices routinely advertised for sites that were larger than the 20-year operational land requirements and then frequently purchased sites that exceeded both operational needs and advertised size. Advertising for land greater than requirements could discourage property owners from offering sites to the Service which are large enough to satisfy projected needs even though they are smaller than the advertised size, thereby limiting competition and possibly increasing costs.

When competition was available, we found that the more expensive and larger of contending sites were frequently purchased. While valid reasons may exist for each site selected, we were not always able to determine why larger, higher cost sites were necessary. The Service does not require that the basis for site selections be recorded in project files.

INCREASING SITE REQUIREMENTS BY STANDARD GROWTH FACTOR NOT ALWAYS APPROPRIATE

The Postal Service adopted a 20-year site growth factor of 50 percent in 1985 because officials said experience had shown that older mail processing facilities often did not have enough land to allow for growth that took place in the preceding decades. A 50 percent expansion was viewed as the minimum practical expansion for an existing facility. A planned study of actual experiences was not done prior to establishing the expansion factor at 50 percent. By 1986, operating divisions began routinely adding a 50-percent growth factor to almost all post office facilities when calculating 20-year site requirements even though sometimes the increases did not appear appropriate, and provided more land than needed. Before 1986 offices in four of the regions had generally used a 25-percent growth factor when calculating 20-year site requirements. The western region was using the 50-percent growth factor before 1985.

The suggested standard growth factors, pre-printed on the form in use when project requirements were set -- either 25 or 50 percent

-- were applied to 67 percent of the projects in our sample. Another 20 percent of the projects elected zero growth, an option which was available at that time when no future growth was anticipated.

It is unreasonable, in our opinion, to assume that a standard growth factor can be universally applied to postal facility projects across the country or even in the same metropolitan area. Some areas are experiencing rapid growth with expanding demands for mail services while other areas are more stable. Therefore, local community conditions should be given more consideration when buying land for future facility expansion because in some cases this standard growth factor may be too large; in others, it may be too small.

ADVERTISING FOR SITES LARGER THAN NEEDED COULD LIMIT COMPETITION

Advertising for sites larger than needed may limit competition by reducing the number of sites offered to the Service. Owners of smaller, potentially less costly sites with no site use restrictions and adequate land to satisfy 20-year requirements might not offer sites to the Service, thereby unnecessarily limiting competition.

We compared the advertising policies among the postal regions with the percent of each region's projects which had more than one contending site from which to make a selection. Although there may be other influencing factors, the availability of more than one contending site appears to follow the regions' advertising policies in that regions advertising for more land area than requirements dictate had more projects with only one contending site available. The central region had the most projects, 89 percent, with more than one contending site; the central region is the only region that did not increase its standard 20-year requirements in advertising for sites.

LARGER, MORE COSTLY PURCHASES OCCUR WHEN ONLY ONE CONTENDING SITE EXISTS

Some sites purchased are larger than net usable area requirements because the Service is able to find only one site and the site exceeds requirements. The Service's selection was limited to only one contending site in 63, or 26 percent, of the 246 projects reviewed. In 49 of these 63 sites, the site selected for purchase was larger than the Service's 20-year requirements by more than 10 percent. We found that cost per square foot for all purchases reviewed averaged $5.90 when there was only one contending site, but averaged $2.65 when there were two or more. The largest cost differences occurred in the western region where the cost per square foot for the 28 projects with only one contending site was $11.06 compared to $3.89 for the 54 projects with two or more contending sites.

PURCHASED SITES LARGER THAN DOCUMENTED REQUIREMENTS

When the Service looked for sites to build new facilities, it generally advertised for areas that were greater than its documented requirements and generally purchased a site larger than both its 20-year requirements and its advertised site needs. For the 246 projects we reviewed the Service purchased sites that were larger than its 20-year site requirements by more than 10 percent in 204 projects or 83 percent of the time. Additionally, 49 of these 204 projects had only one contending site available for purchase.

In total, for the 246 projects we sampled, the Service projected 20-year land requirements of 33.8 million square feet, generally using its standardized formula; advertised for 39.9 million square feet, and purchased 51.1 million square feet. At an average cost per square foot of $3.27, the average cost from our sample, the land purchased which exceeded documented requirements cost the Service $56.6 million.

MORE COSTLY AND LARGER OF TWO OR MORE CONTENDING SITES FREQUENTLY PURCHASED

The Service often purchased larger and more costly sites when smaller and lower cost contending sites were available. Of the 246 sites we reviewed, the Service found two or more contending sites from which to choose in 183 projects. Real estate files contained sufficient data to make site cost comparisons for 157 of these. Of the 157 projects, the Service selected for purchase a site other than the least costly one in 86 cases, or 55 percent of the time. Sixty one of the 86 sites were the most costly ones offered.

The differences in offers were often substantial. The cost difference for the 86 sites totaled about $27.3 million, averaging about $317,000 per site. The Service purchased the 86 sites after negotiations for about $65.5 million. The least costly alternatives were offered for about $38.2 million before negotiations.

Operational and customer service issues are critical to site selection and we recognize that unique site characteristics may influence selection of the most expensive site. Also, some owners may have been unwilling to sell less than their total site. However, site selection committees are not required to justify the selection of higher cost sites for operational and service needs, or document reasons for purchasing larger than required sites when other smaller contending sites are available. Lacking documentation in a number of cases where more than one contending site was available, we accepted the Postal Service real estate specialists' judgment that any one of the contending sites would meet future expansion as well as operational and customer service requirements.

PRICE NEGOTIATIONS FOR OFFERED SITES NOT ALWAYS ATTEMPTED

The Service requires that an independent appraiser estimate fair market values for all sites costing $100,000 or more. In addition, the Service requires an internal review of the site appraisal. These requirements were usually complied with.

Real estate specialists did not, however, negotiate prices for 28 percent of the sites we reviewed. For these 69 purchases, offers equalled or were less than appraised market values. According to regional real estate officials in four of the five postal regions, they did not negotiate in such cases because they believed the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (Public Law 91-646) precluded negotiations. Headquarters officials were unaware that regional real estate officials were using this law to justify the lack of price negotiations. A July 1987 change in land acquisition policy states that this law applies only to acquisitions by condemnation proceedings.

Postal Service policy says that the Service will deal fairly and equitably with the public while endeavoring to acquire real property at the best possible price. The Service currently defines "best possible price" as a price within a reasonable range of value rather than a fixed dollar estimate. This range of value is established by the appraisal process and represents what knowledgeable buyers and sellers in the market place consider fair. The policy says that negotiations are to be initiated at the low end of this range, however, donations and unsolicited offers received at a price below the range may be accepted--presumably without any negotiation.

In our opinion, the use of either a fixed price appraisal or a range of value appraisal to estimate market value of an offered property is strictly a tool to assist real estate specialists in assuring that the Postal Service is negotiating the best possible price. A property owner is free to reject or negotiate any counter offer which is unacceptable. Restricting the negotiation process when buying property from a knowledgeable seller in an open market situation could result in not obtaining the best possible price.

We were not able to estimate the potential for savings by attempting to negotiate in open market transactions lower prices for offers that equalled or were less than appraised valuations. However, we believe that neither a value established by an appraisal or by an offer below appraised value should be used by the Service to restrict negotiations. Price negotiations should be permitted to start below the appraised value or a lower offered price.

We found that when documented evidence of negotiations existed, site costs were reduced in many projects. For the 161 site acquisitions we reviewed with documented price negotiations, the total offer prices of $137.1 million were reduced by about $9.7 million, or an average of about 7.1 percent. In addition, for the 16 projects without evidence of negotiations in which the offer price exceeded appraised fair market value, the Service reduced the offers totalling $8.6 million by $516,000, or 6.3 percent, most likely through negotiation attempts. However, the Service negotiated no reductions to the 69 offers totalling $31.8 million that equalled or were less than appraised value.

RECOMMENDATIONS

Justifiable reasons for purchasing sites that are more costly and larger than documented size requirements do exist. However, to minimize purchases of larger than needed sites at a higher than necessary cost, we recommended that the Postmaster General

- -- Instruct the Operating Divisions to use judgment based on local community conditions rather than a standard 50 percent growth factor in developing 20-year site size requirements.

- -- Issue guidelines standardizing the advertising practices of the five postal regions for soliciting sites for facility projects so that managers do not advertise for more land than needed. Advertisements should identify 20-year site requirements and say that site offers should be large enough to meet the site requirements plus whatever additional land is needed to accommodate any site use restrictions.
- -- Require site selection committees to fully document the reasons for purchasing sites larger than net usable requirements and/or more costly than other contending sites.

- -- direct the Facilities Department to clarify Service policy by specifying that the negotiation process on freely offered property is not limited by the appraised value or a lower offered price, and negotiations may start below either. Further, the Department should instruct managers that acquisition files should contain complete documentation of the negotiation process in all projects.

In commenting on a draft of our report, the Postmaster General committed to implementing these recommendations. While agreeing with the report's recommendations, the Postal Service said it disagreed with the statistical approach of our analysis and with the conclusions reached which indicate that the Service may be purchasing more land than necessary. We have, responded to the Service's disagreement with our methodology on pages 27 and 32 of our report.

This concludes my statement, Mr. Chairman. My colleagues and I will be pleased to answer any questions you may have.