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GAO

Report to the Chairman, Committee on Post Office and Civil Service, House of Representatives

September 1989

POSTAL SERVICE

Sites for New Post Offices May Be Larger Than Needed

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The Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we review the U.S. Postal Service's real estate acquisition process. The report analyzes a sample of 246 sites purchased during fiscal year 1987 and makes recommendations for program improvements.

As arranged with the Committee, we plan no further distribution of this report until 30 days from its date, unless you publicly announce its contents earlier. At that time, we will send copies to the Postal Service Board of Governors, the Postmaster General, and the Director of the Office of Management and Budget. Copies will also be made available to other interested parties upon request.

The major contributors to this report are listed in appendix III. If you have any questions or would like more information, please call me on 275-8676.

Sincerely yours,

L. Nye Stevens

L. Nye Stevens
Director, Government Business
Operations Issues

Executive Summary

Purpose

To replace old post offices or add new ones, the U.S. Postal Service plans to purchase over 750 new building sites by 1993 at a total capital investment cost of over $880 million. To respond to a request from the Chairman, House Committee on Post Office and Civil Service, GAO reviewed the Postal Service's real estate acquisition process and a sample of over 200 site purchases that were made in fiscal year 1987. GAO's 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.

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 buildings for smaller-sized post offices. The Service currently owns about 5,200 buildings and leases another 29,000.

Although its real estate 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. Over the next 5 years, the Service plans to spend about $6.7 billion overall on its facilities program.

Results in Brief

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 need. GAO found that the Service routinely increases its 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 that are larger than the combined 20-year land requirements.

GAO also found that the Service usually purchased sites that exceeded both its operational needs and advertised size requirements. When alternative sites were available for purchase, the Service generally selected the larger, more costly sites without requiring site selection committees to document why less expensive alternative sites were less desirable.

However, in cases in which 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 projects GAO reviewed, and for 28 percent, 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. It is not always possible to buy only the amount of land needed. However, because of its current requirements setting, advertising, and purchasing practices, GAO is concerned that the Postal Service might be spending more than is necessary for land and accumulating an unnecessarily large real estate inventory.

GAO recognizes that sometimes larger, more costly sites may best meet the Service's operational requirements but believes that justification for such selections should be required when smaller, less costly contending sites are available.

GAO's Analysis

Several Factors Influence Site Size and Cost

GAO's analysis of 246 sample sites purchased during 1987 showed that the Service may be purchasing sites larger than needed at a higher than necessary cost for several reasons:

- To arrive at 20-year land requirements, operating divisions are routinely increasing 10-year site size needs by a standard 50-percent growth factor without considering whether this increase is needed to accommodate future demand for mail services. In some cases, this standard growth factor may be too large; in others, it may be too small.
- When advertising for sites, four of the five postal regions routinely add to 20-year land requirements in order to allow for possible site restrictions, such as building setbacks or utility easements, without knowing whether these requirements can be met without adding an allowance. The Service advertised for sites that exceeded its 20-year land requirements by more than 10 percent in 133, or 55 percent, of the projects.
- Site selection committees were not required to document reasons for selecting higher cost sites and were purchasing larger than required

sites when other smaller, less costly contending sites were available. Sites purchased exceeded 20-year land requirements by more than 10 percent in 204, or 83 percent, of the projects; and 86 sites purchased, or 55 percent, of the 157 projects with two or more contending sites to choose from were more costly than lower cost contending sites.

Documentation Needed to Justify Purchases

Because the Service does not require that the basis for site selection decisions be recorded in project files, GAO could not always determine whether the purchase of larger than required and/or more costly sites was justified. In files that contained explanations, the selection committee's decision to purchase larger and/or more costly sites was based on apparently valid operational factors. In addition, determining whether smaller, less costly sites would have been available if the Service had advertised for smaller site sizes, in line with its 20-year site size requirements, was outside the scope of GAO's review. However, GAO's analysis showed that the postal regions with advertising practices that increase size requirements were more likely to have only one contending site offered.

Only one contending site was available to choose from in 63 of the 246 projects GAO reviewed. GAO found that the cost per square foot averaged $5.90 when there was only one contending site, but averaged $2.65 when there were two or more. Purchasing higher cost sites when other, lower cost sites are available utilizes funds that could be applied toward additional projects.

Price Negotiations Not Always Attempted

The Service usually followed its procedures in appraising a site's market value before purchasing it. GAO found evidence that the Service attempted to negotiate lower prices when the offer price exceeded the appraised market value. However, in all five postal regions, offers were accepted without negotiating for lower prices when sites offered were equal to or less than appraised market values, as was the case on 28 percent of the projects GAO reviewed. Service policy permits acceptance of unsolicited offers below market value without negotiations. Four postal regions believe that Public Law 91-646 precludes real estate negotiations in these circumstances by requiring the government to pay a "fair price." This law applies only to condemnation proceedings, and neither the law nor Service policy should prevent bargaining for the lowest possible price in open market negotiations.

Recommendations

GAO is recommending several management actions to the Postmaster General that should benefit the real estate acquisition program. (See pp. 25 and 31.) These include encouraging operating divisions to use more discretion in applying a 20-year site size requirement that is based on local community conditions; issuing guidelines to preclude advertising for more land than needed; requiring written justification for purchases of sites that are larger than requirements and/or more costly than other contending sites offered; and clarifying Service policy by specifying that negotiations on freely offered property may start below appraised value or below a lower offered price.

Comments From the Postmaster General

The Postmaster General commented on a draft of this report. (See app. II.) The Postal Service accepted and is committed to implementing three of the four recommendations made to improve postal real estate acquisition practices. The Service is also considering how the fourth recommendation, regarding negotiation practices, can be implemented to ensure fair and equitable treatment of potential sellers of property.

While agreeing with the report's recommendations, the Postal Service disagreed with the statistical approach of GAO's analysis and the conclusions reached, which indicate that the Service may be purchasing more property than required. The Postmaster General's comments and GAO's responses are discussed following the recommendations in chapters 2 and 3.

Contents

Tables

Introduction

The U.S. Postal Service has found it cost effective to purchase sites and construct new facilities when buildings exceed 5,000 square feet, and to lease buildings for smaller facilities. At the end of fiscal year 1988, the Service owned about 5,200 buildings and leased another 29,000.

Ownership has grown in recent years. Site purchases have increased steadily from 113 in fiscal year 1983 to 419 in 1987. However, capital expenditure reductions required by the Omnibus Budget Reconciliation Act of 1987 slowed purchases in fiscal year 1988 to 228 sites. Between 1989 and 1993, the Service plans to spend about $880 million to purchase 758 sites. For this 5-year period, the Service's capital investment plan anticipates spending of about $6.7 billion overall for the acquisition of sites and construction of buildings.

Five-Year Plan Anticipates Increased Borrowing Authority

Funding for the purchase of capital assets including post office facilities has in recent years been financed through borrowed funds, which may soon be depleted. The Postal Reorganization Act of 1970 allows the Service to borrow funds to purchase sites and construct buildings for new facilities. The act gave the Service authority to sell up to $10 billion of obligation bonds with no more than a $1.5 billion increase in any fiscal year.

Initially, the Service generally avoided debt by using current postal revenues to acquire sites and build new facilities on a pay-as-you-go basis. However, starting in fiscal year 1985, the Service began using its borrowing authority regularly to finance its capital investments, including the purchase of land and the construction of new facilities.

At the end of fiscal year 1988, the Service had used $5.6 billion of the $10 billion authority. If it were to carry out its planned capital budget, the Service would reach its borrowing ceiling in fiscal year 1991. In order to meet capital investment plans beyond 1991, the Service would need to increase its current debt ceiling or to revert to financing its capital program from current revenues.

How Real Estate Sites Are Selected

The Postal Service is organized into five geographic regions, each with a number of operating divisions. Each of the 75 operating divisions prioritizes its facility needs over the next 5-year plan period as part of the annual capital budget planning process. Once a final plan is approved by the Postal Service Board of Governors, the Service can begin committing funds for the current plan year site acquisitions. However, each individual project must be approved for funding before funds can be committed to purchase a site. For each new facility, the operating division defines a preferred area within the community where a new post office is needed and then notifies community officials about the proposed facility change and seeks concurrence. Service guidance says that preferred area boundaries should not be so limited that they unduly restrict site offers or favor a particular site, and should not be so broad that they induce offers from operationally unacceptable sites.[1]

Next, a real estate specialist begins advertising for sites within the preferred area. In August 1987, the Service issued a policy bulletin on preferred area and site advertising.[2] This bulletin encouraged managers to broaden the area being considered and encouraged advertising for sites using a minimum to maximum acceptable size range to encourage owners of potentially acceptable properties to offer them to the Postal Service. The specialist then screens all site offers and prepares a site screening report, which provides varying amounts of information about both contending[3] and noncontending site offers.

A site selection committee is then convened to choose the most suitable site offered for purchase from among offered sites. The selecting committee for a typical division project can be made up of various postal employees, but usually includes a real estate specialist and the local postmaster or the division general manager. The committee usually visits all contending sites and may visit additional sites offered. While the real estate specialist may recommend a favored site, the decision on which site to purchase rests with the committee, which must consider both operational efficiencies and customer service standards when making a selection. A site survey memorandum is prepared showing which site the committee members selected. The selected site is controlled by an offer to sell real property to the Postal Service for a specified period or until appraisal, survey, negotiations, and purchase are complete.

[1]Policy and procedural guidelines for purchasing real estate are contained in Postal Service handbook RE-1, Realty Acquisition and Management.

[2]Facilities Bulletin No. RE-87-2, August 25, 1987, subject: advertising procedures relating to preferred area and site size.

[3]Contending sites are those identified by the real estate representative as suitable alternatives that meet operational requirements such as location, size, zoning, transportation accessibility.

Objectives, Scope, and Methodology

The Chairman of the House Committee on Post Office and Civil Service requested that we survey the Service's real estate activities and community involvement in plans to build new postal facilities. In February 1989, we reported on compliance with procedures for involving local communities in plans to build new postal facilities.[4] As agreed in our discussions with the Committee following our initial survey work, our review objectives for this report were to determine whether the Service (1) normally has a choice among competing sites when buying land, (2) purchases only the land it needs to meet operational and customer service requirements, and (3) purchases the most economical sites from among alternative sites offered. We based our findings on a sample of sites purchased during fiscal year 1987, the latest year for which data were available when we began our work.

To meet our objectives, we reviewed site acquisition files and related documents and interviewed key officials at headquarters and at each of the five postal regions to obtain information on specific sites and postal real estate procurement procedures. We obtained a listing of fiscal year 1987 site acquisitions for each postal region from the Service's computerized facilities management system data base. We used these listings to determine the universes of sites acquired only for constructing postal-owned facilities within each region. A small number of sites were dropped because the site acquisition files were incomplete or unavailable. From the universes developed, we reviewed all 82 of the western region's site purchases and a random statistical sample of 164 sites from the other four regions. We did not attempt to project our sample nationwide because cost and size differences of individual projects were too extreme. In total, we reviewed the sites purchased for 246 new facilities.

We reviewed real estate site acquisition files at Facilities Service Centers and Offices located in Chicago, Illinois; Louisville, Kentucky; Memphis, Tennessee; Philadelphia, Pennsylvania; San Bruno, California; and Windsor, Connecticut. To determine whether the Service had adequate competition for sites, we identified the number of offers the Service received for new sites and determined whether the Service considered the sites contending or noncontending.

[4]Postal Service: Community Involvement in Post Office Relocation Decisions (GAO/GGD 89-11, Feb. 17, 1989).

We compared the Service's usable site area calculations—called operational requirements[5] in this report—with both advertised solicitations and final purchases to determine whether the Service purchased only the land it needed. We analyzed the effect of varying practices each region used to calculate needs and advertise for offers. We also identified other apparently valid reasons why the Service frequently purchased more land than requirements dictated by reviewing site acquisition files.

To determine whether the Service routinely purchased the most economical sites, we compared the offers of sites chosen for purchase before negotiations with offers from other sites the Service considered contending. We limited this effort to a real estate cost comparison only. We did not determine whether the site characteristics, including possible site development and/or design costs for less expensive sites, justified purchasing the higher cost sites; however, in our analysis, we included only sites that real estate specialists classified as contending.

We did our work between October 1987 and December 1988 and in accordance with generally accepted government auditing standards.

Size and Cost of Sites Reviewed

Fifty-one of the sites cost $1 million or more, with the most expensive costing $9.72 million. Table 1.1 compares the cost of sites for the western region with our sample from the other four regions. For projects completed during fiscal year 1988, the latest year for which data were available, land costs averaged about 25 percent of total project costs, including building construction in the western region, and about 21 percent in the other four regions.

Table 1.1: Cost Distribution for 246 Sites Purchased in Fiscal Year 1987

Cost of site	Western region	Other four regions	Total	Percent
Less than $100,000	9	55	64	26
$100,000 to $399,999	19	49	68	28
$400,000 to $999,999	31	32	63	25
$1,000,000 and over	23	28	51	21
Total	**82**	**164**	**246**	**100**

[5]Throughout this report, we base our analyses on the calculated site size needs from the most recently updated requirements form available to the real estate specialists prior to their advertising for site offers.

The size of the sites ranged from 6,500 square feet to over 4.2 million square feet, or about 97 acres. As shown in table 1.2, about 80 percent of the 246 sites reviewed were 50,000 square feet and larger. The average site size was about 208,000 square feet—about 4.8 acres.

Table 1.2: Size Ranges for 246 Sites Purchased During Fiscal Year 1987

Size in square feet	Number	Percent
Up to 49,999	49	20
50,000 to 149,999	75	30
150,000 to 249,999	71	29
250,000 to 499,999	43	18
500,000 and larger	8	3
Total	**246**	**100**

Postal Service Frequently Purchased Larger, Higher Cost Sites Than Needed

Operational land requirements for a post office site most often includes 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, Service 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 that are large enough to satisfy a project's 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.

How Site Size Is Determined

Operating divisions identify the need for new Service-owned facilities and calculate the amount of land needed for sites. Their calculations are to be based on a combination of current local needs and growth projections for 10 years. In addition, two standard increases apply to the 10-year projection—one for site improvements, such as landscaping, and one for future building expansion.

The divisions are to estimate land needs on the basis of a community's current population and mail volume, with local growth rates projected for a 10-year period after the facility opens. For a typical post office, the initial 10-year land requirement includes space for a building large enough to handle any projected growth in volume for 10 years plus space to accommodate vehicle maneuvering for mail-loading activities, and postal vehicle, customer, and employee parking. In addition, land needed for driveways, sidewalks, and landscaping is estimated by increasing the land requirements an additional 40 percent.

However, since the Service's policy is to acquire enough land to allow for future facility expansion for an additional 10 years, operating divisions estimate for a 20-year period by increasing the 10-year land requirement by a standard 50 percent. This increase in site size assumes the building will reach its operating capacity after 10 years and then require further expansion. Obtaining a site 50 percent larger than needs projected 10 years into the future is assumed to be necessary to accommodate building expansion sufficient to allow continued operations through at least 20 years.

The example in table 2.1 shows how these factors contribute to the 20-year site size requirement calculations for a project from the western region.

Table 2.1: Calculation of Site Size Requirements for a New Western Region Postal Facility (In Square Feet)

	Area
Identifiable 10-year area requirements	
Building	23,643
Exterior parking, maneuvering, etc.	53,210
Subtotal	**76,853**
40 percent (driveways, sidewalks, landscaping)	30,741
Subtotal (10-year site estimate)	**107,594**
50-percent growth factor	53,797
Total (20-year net site requirement)	**161,391**

The 50-percent growth factor is currently applied regardless of the growth rate used in the initial 10-year projection and of whether growth is actually anticipated beyond a 10-year period. Furthermore, the current policy at four of the five regional Real Estate Facilities Service Centers is to advertise for areas that are larger than the calculated 20-year growth requirements. These regions add an additional percentage factor to the 20-year site requirements to compensate for possible site use restrictions, such as site-specific easements, setbacks, or other zoning requirements. Although current Service policy encourages advertising for sites using a size range, there is no requirement that this range be centered on the net usable 20-year site requirement.

The policy of increasing calculated 20-year site requirements by an additional percentage or other factor before advertising differed among four of the five regions. Table 2.2 illustrates the differences.

Table 2.2: Advertising Policies That Increase Land Size Above 20-Year Site Requirements

Region	Policy
Central	No increase—advertise net usable site requirements.
Eastern	Varies by project, averaging about 29 percent for projects we reviewed with buildings larger than 5,000 square feet.
Northeast	Defines a range of from 50 to 100 percent.
Southern	Defines a range of no increase to 10 times the 10-year building area (15 times building area in Florida where unusually high drainage requirements exist).
Western	30-percent standard factor used.

The central region's current policy is to advertise for sites that are large enough to meet 20-year net usable site requirements and have enough land to accommodate any additional site use restrictions. On the other hand, western region officials said that the standard 30-percent site size increase often used in advertisements throughout the region resulted from an analysis of about 24 projects done in 1985, but documentation has not been retained. Table 2.3 shows that the individual regional policies described above, when applied to the western region example in table 2.1, could result in advertising for up to double the 20-year site size requirements.

Table 2.3: Effects of Increasing 20-Year Site Requirements for Additional Site Use Restrictions Among Regions (In Square Feet)

Region	20-year site requirement	Amount of increase	Area to be advertised (rounded to next 000)
Central	161,391	0	162,000
Eastern	161,391	46,803	209,000
Northeast	161,391	80,696 to 161,391	243,000 to 323,000
Southern	161,391	0 to 75,039	162,000 to 237,000
Western	161,391	48,417	210,000

According to the Director, Office of Real Estate, the regions based the amount of land they consider appropriate for projects within their region on regional differences and historical experiences. He believes that the varied practices reflect an historical perspective of being unable to expand relatively new buildings in extensive growth areas such as the western and southern regions.

Site use restrictions are important considerations in planning for a post office and vary among and within localities. However, increasing 20-year site requirements by standard percentage factors in advertisements does not necessarily compensate for the unique factors associated with each site. Nor does it consider whether these restrictions could be accommodated within the calculated 20-year requirement, which already includes a 50-percent increase over 10-year projected needs. Space already included in the 20-year site requirement—for example, space for postal vehicles, employee and customer parking, sidewalks, landscaping, and driveways—may at some sites also satisfy space needed for site easements, setbacks, and other site restrictions.

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. Although a task force had been proposed to review the issue of prior deficiencies in calculating sufficient size requirements, no formal study based on actual experiences was done prior to proposing an expansion factor of 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, divisions 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.

As shown by table 2.4, the Postal Service applied the 50-percent growth factor, or a higher percentage factor, for 126 sites, or 51 percent of the 246 site purchases in our sample. The Service did not increase the 10-year land estimates for 48 sites, or 20 percent. In reviewing project files, we noted that 43 of these 48 projects involved small, standard-designed buildings of 5,000 or fewer square feet, presumably in low-growth areas that did not anticipate a need for expansion.

Our sample included projects with requirements planning that began before headquarters doubled the standard 20-year site growth factor in 1985, and we found that a 25-percent growth factor was used for 43, or 17 percent, of the sites in our sample. Six percent, in the accelerated site acquisition program,[1] were advertised on the basis of operating division initial estimates without using the formula discussed in the previous section.

[1] The accelerated site acquisition program was approved for the western region to reduce a backlog of needed projects. This program, designed to reduce the time it takes to complete a facility project, allows the region to identify priority projects, initiate a site search, and purchase sites on the basis of estimated needs ahead of the traditional acquisition cycle.

Table 2.4: Growth Factor Used in Determining 20-Year Site Requirement

	Number of projects			
Growth factor range	**Western region**	**Other four regions**	**Total**	**Percent**
0 percent	3	45	**48**	20
1 to 24 percent	2	5	**7**	3
25 percent	5	38	**43**	17
26 to 49 percent	2	3	**5**	2
50 percent	53	70	**123**	50
Over 50 percent	0	3	**3**	1
Accelerated program	16	0	**16**	6
Insufficient data	1	0	**1**	1
Total	**82**	**164**	**246**	**100**

When the Postal Service increased the growth factor to 50 percent for all projects in mid-1985, headquarters cautioned against its general use for large facility projects in areas of dense population, high land cost, and low growth rates. The Service suggested that a more appropriate, flexible approach would allow the site selection committee to make the final determination on 20-year site growth requirements for a particular project.

We noted that requirements forms dated before September 1988 footnoted instructions that the standard growth factor be used only if required and that the preparer should enter zero if local conditions show that expansion beyond 10 years is not required. However, our analysis indicates the 50-percent factor has become the accepted standard for large projects. In fact, the Service's latest size requirements forms, dated September 1988, used to calculate land area needs for customer service facilities have pre-printed the 50-percent factor as the accepted standard and have eliminated the footnote indicating any flexibility based on local conditions.

As table 2.4 shows, 67 percent of the projects applied the suggested standard growth factors in use when project requirements for our sample projects were set—either 25 or 50 percent. For some of the projects, these standard factors may have been appropriate. Another 20 percent of the projects elected zero growth, an option that 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, the Postal Service should give local community conditions 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.

Although our review was not intended to identify instances in which the growth factor was not warranted, we did note some in which it clearly was inappropriate:

- The 50-percent growth factor on one site increased the 10-year land requirement of 101,100 square feet to a 20-year site requirement of 152,000 square feet. The 50,900-square-foot increase appeared inappropriate since the 10-year population and carrier route projections used by the Postal Service indicated no growth, and other real estate file documents noted that future expansion of the facility was not anticipated. The Service's advertising increased the 20-year site requirement to 198,000 square feet for this project to allow for possible land use restrictions. Only one contending site with about 171,200 square feet was located; it was purchased for about $3.2 million.
- The 50-percent growth factor on another site increased the 10-year requirement of about 89,800 square feet to a 20-year site requirement of about 134,750 square feet. The 44,950-square-foot increase appeared inappropriate since real estate file documents noted that future expansion of the site was not anticipated. For this project the Service advertised for a wide range of site sizes because of anticipated difficulty in obtaining a large urban site. Advertising resulted in only one contending site with about 106,000 square feet, which was purchased for $5.5 million.

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 having 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 percentage of each region's projects that had more than one contending site from which to make a selection. Although other influencing factors may exist, 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 (see table 2.2). As table 2.5 shows, the central region has the most projects—89 percent—with more than one contending site; the central region is the only region that does not increase its standard 20-year requirements in advertising for sites.

In our opinion, if all regions would limit their advertising to the 20-year site size requirements, as the central region does, competition might increase by generating additional contending offers from sellers with sites meeting these smaller requirements. Along with additional competition, there might be cost savings. The knowledge that other, smaller sites are available could additionally motivate some owners of large sites to offer to subdivide their sites in order to make them as attractive as the competing sites closer to the Postal Service's size requirement.

The Director, Office of Real Estate, agreed that requirements can influence scarcity and that scarcity tends to produce higher prices. However, the Director believed that market conditions faced by individual projects would have to be studied to determine whether the advertised requirement truly had any bearing on market scarcity. We did not study the availability of sites for individual projects, but believe it is reasonable to assume that the cause and effect relationship indicated by the data in tables 2.2 and 2.5 is not an anomaly.

Table 2.5: Postal Service Real Estate Acquisition Projects With Only One or With More Than One Contending Site for the 246 Projects Reviewed

	Contending sites per project				
Postal region	**Only one**	**Percent**	**More than one**	**Percent**	**Total projects**
Central	4	11	32	89	36
Eastern	11	25	33	75	44
Northeast	7	26	20	74	27
Southern	13	23	44	77	57
Western	28	34	54	66	82
Total	**63**		**183**		**246**

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 we reviewed. In 49 of the 63 sites, the site selected for purchase was larger than the Service's 20-year requirements by more than 10 percent. As shown in table 2.6, 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 with $3.89 for the 54 projects with two or more contending sites.

Table 2.6: Average Cost Per Square Foot and Percentage That Purchased Area Was Larger Than Required Area Based on the Number of Contending Sites for the 246 Sites

	Average cost per square foot	Percent average area purchased was larger than required area
63 projects with one contending site	$5.90	87
183 projects with two or more contending sites	2.65	78

Table 2.6 shows that the Service purchased sites that were larger than the calculated 20-year requirements by a greater percentage when there was only one contending site available. For example, the average area purchased for projects in our sample with only one contending site was larger than 20-year requirements by 87 percent. However, the area purchased for projects with two or more contending sites exceeded the 20-year requirements by 78 percent.

We agree with the Postal Service that in more highly developed areas, suitable sites large enough to meet the Service's needs tend to be scarcer and more costly. Thus it is likely that the Service will receive fewer contending site offers in response to advertisements in more highly developed urban areas. For example, three sites with only one contending site in the Los Angeles metropolitan area cost $51.91, $44.18, and $26.55 per square foot, respectively.

Purchased Sites Larger Than Documented Requirements

When the Service looked for sites to build its 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. Appendix I shows that 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 the 204 projects had only one contending site available for purchase. Appendix I also shows that of the 246 sites purchased, advertisements requested 111 percent or more of the 20-year documented requirements for 133 sites, or about 55 percent of the sites. Sites actually purchased were 111 percent or more of advertised needs for 143 sites, or about 58 percent.

In total, for the 246 projects we sampled, the Service projected 20-year land requirements of 33.8 million square feet, advertised for 39.9 million square feet, and purchased 51.1 million square feet. Overall, the Service purchased 17.3 million square feet more land than its projected requirements. This excess was due in part to advertising practices that generally inflated requirements and in part to accepting offers of sites that were larger than required.

At an average cost per square foot of $3.27, the average cost from our sample, the land purchased that exceeded documented requirements cost the Service $56.6 million. We agree with an observation made by the Director, Office of Real Estate, that a determination of land excess to requirements would be more exact if made at the design stage rather than at the time of acquisition. However, the scope of our review did not extend to the design stage of new construction.

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. Table 2.7 shows that of the 157 projects, the Service selected for purchase a site other than the least costly offered in 86 cases, or 55 percent of the time. The 86 cases included 25 selected sites that were priced between the highest and lowest cost site offers, and 61 sites were the most costly site offered. The least costly sites were selected for the remaining 71 projects.

Table 2.7: Site Selection Statistics Based on the Cost of Contending Sites for the 246 Projects Reviewed

	Number of projects	Percent
If there were two or more contending sites,[a] the site selected was		
The most costly	61	39
Somewhere in between	25	16
The least costly[b]	71	45
Total projects with two or more contending sites	**157**	**100**
Projects with only one contending site	63	
Insufficient cost data on contending sites	26	
Total projects reviewed	**246**	

[a]If cost data were available on at least two contending sites, we included the project in the cost comparison.

[b]On three projects, the cost data on the contending sites were the same and we included them in the least costly category.

In the 86 instances in which the Service selected a site offered at a higher price than the least costly, the differences in offers were often substantial. The cost difference 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.

We found that for 40 of the 86 projects for which the Service selected a more costly site, the land purchases were over an acre in size and also 131 percent or more of the site requirements. These 40 sites contained 14.6 million square feet and cost $41.5 million. Land greater than requirements totaled about 6.2 million square feet and cost $17.5 million, at an average cost of $2.84 per square foot. Less costly, mostly smaller contending sites containing 2.9 million fewer square feet were offered for $25.2 million, or about $2.15 per square foot—$16.3 million less than the purchased price.

The Director, Office of Real Estate, contended that a location that affects operational and customer service issues is the greatest determinant in selecting a site. He believed that our emphasis on site size and price ignores operational and customer benefits of the best located site, which often is the most expensive site.

We agree that operational and customer service issues are critical to site selection and recognize that unique site characteristics may influence selection of the most expensive site. However, as the Director agreed, site evaluation reports do not always provide a complete synopsis of the site selection process. Lacking this documentation in a number of cases where more than one contending site was available, we accepted the real estate specialists' judgment that any one of the contending sites would meet future expansion as well as operational and customer service requirements.

Site Selection Procedures Do Not Require Documenting Reasons for Purchasing Larger and/or More Costly Sites

To purchase a site, real estate specialists are to attempt to identify all potential sites within a designated preferred area. In addition to newspaper advertising, site needs are to be publicized by (1) posting notices in local post offices, (2) contacting site owners, brokers, and local government agencies, and (3) providing information for local press releases. Site offers are to be screened to eliminate noncontending sites. Contending sites are then to be reported to a site selection committee, which is to select the site for purchase.

Undoubtedly, some purchased sites were larger than postal land requirements because extra land was needed to accommodate site use restrictions or owners were unwilling to sell less than their total site. However, there are no written policies that require site selection committees to justify the selection of higher cost sites for operational needs, or to document reasons for purchasing larger than required sites when other, smaller contending sites are available. As a result, we were unable to determine whether the sites purchased were in fact chosen for valid operational considerations. However, as the following examples illustrate, project files sometimes contained explanations when a specific site was not selected because of unfavorable location.

- The lower cost site offered for one project, priced at $840,000, had a severe slope on one side and did not have direct street frontage. To the site selection committee, the site purchased for $2.4 million was a better location because it had street frontage on two sides and was closer to the central business district.
- In one project, the Service selected a site offered at $547,000 instead of one offered at $130,000 because the second site was located in a wetlands area and contained possible ground contamination.
- A site offered at $1 million was accepted because it was centrally located in the preferred area, but two other, lower cost site offers were not. The Service considered one offer of $464,000 questionable because of unknown future uses of surrounding property, possible pollution, and a location not conducive to vehicle maintenance and travel. The Service

did not choose another site offered at $505,000 because its remote location across a river would create logistical access problems and because the site needed partial rezoning.

In other examples, including the following ones, we noted that the Service purchased sites that exceeded requirements for apparently valid reasons because (1) owners were unwilling to split off unneeded portions from their offers, (2) sites included unusable areas, and (3) the Service planned to dispose of excess areas at a later date.

- In one project, the Service needed a 156,200-square-foot site. The Service purchased a 441,500-square-foot site for $400,000 because the seller would not subdivide the 10-acre parcel. According to project files, the local community was studying the need to acquire an easement for a storm drain and water retention basin on a portion of this land. The Service planned to sell remaining excess land after the community decided about the easement.
- The Service required 131,000 square feet, advertised for 174,200 square feet, and purchased the only contending site of 435,600 square feet for $100,000. The Service plans to keep the entire area because the operating division later planned to build a vehicle maintenance facility on the vacant land.
- The Service required 191,600 square feet, advertised for 250,000 square feet, and purchased a site of 341,250 square feet for $2.6 million. The seller refused to reduce the offer by about 65,000 square feet as the Service requested. The excess area was at the rear of the site, and the site was considered too narrow to provide separate access.
- The Service required and advertised for 194,000 square feet and purchased the only contending site of 286,200 square feet for $901,600. This site required about 50,000 square feet to accommodate a long, narrow portion for an access road to a second street and a required water retention pond partially located in a 100-year flood plain. The site also contained three protected saguaro cactus plants.

Conclusions

As noted in the examples, justifiable reasons for purchasing sites that are more costly and larger than documented size requirements do exist. However, our review disclosed that the Service may be purchasing larger than needed sites at a higher than necessary cost. Contributing factors are the following:

- Operating divisions systematically increase most site size needs by a standard 50-percent growth factor, even though this factor does not always apply.
- The current practice of increasing 20-year site size requirements when advertising for sites results in purchasing more land than called for in documented requirements. We believe this practice may also adversely affect competition by discouraging owners of smaller, but otherwise suitable, sites from responding to site solicitations, thereby increasing the likelihood that there will be only one contending site.
- Site selection committees are not required to justify or document reasons for the selection of higher cost sites or larger than required sites when other, smaller contending sites are available.

Because project files frequently did not disclose the basis for the site selection decision, we could not determine whether the purchase of larger than required and/or more costly sites was justified. We also could not determine whether smaller, less costly sites would have been available if the Service had advertised for smaller site sizes that were more in line with the 20-year site size requirements, because such determination was outside the scope of GAO's review.

The purchase of higher cost sites impedes reduction of the Service's large unmet site backlog for new facilities. Purchasing higher cost sites when other, lower cost contending sites are available utilizes funds that could be applied toward additional projects. Similarly, seeking larger than required sites may limit offers from owners of smaller, potentially lower cost sites that are large enough to meet the Service's requirements.

Recommendations

We recommend that the Postmaster General take the following actions:

- 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. If a range of sizes is

used, that range should be centered on the net usable 20-year site requirements.

- 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.

Comments From the Postmaster General and Our Evaluation

In commenting on a draft of this report, the Postmaster General committed to implementing the three recommendations in this chapter. (See app. II.) In making this commitment, the Postmaster General informed us that the Postal Service disagrees with how we structured our work and virtually all of our conclusions, including the principal one that land excess to requirements had been purchased for the projects sampled. The Service maintains that its real estate acquisition program is effective, based on sound business principles, and produces the most appropriate site location for a post office.

As discussed earlier in this chapter, the Service calculated that it needed 33.8 million square feet of land to meet 20-year land requirements for the 246 projects included in our sample of sites purchased. Purchases, however, totaled 17.3 million square feet in excess of these requirements. While our analysis shows that excess land was purchased, our primary concern is that the reasons for purchasing sites larger than net usable requirements and/or more costly than other contending sites be fully documented to ensure that postage revenue is not wasted. Without such documentation, it is not possible for anyone to determine whether the purchase of property in excess of stated requirements was justified.

The Postal Service believes that it can improve the documentation of decisions relative to site size requirements, advertising for sites, and the acquisition of a particular site from among contending sites. It cited a 1987 policy statement issued to the field, which addressed advertising practices and said that improvements were already taking place. The Service suggests that if our sample had included projects later than 1987, we would have observed application of growth factors and advertising practices consistent with our recommendations. Although our statistical data is from the fiscal year ending in September 1987, our description of how site size is determined and advertised is based on information obtained from visits to each of the five postal regions during the fall of 1988, after issuance of the policy statement, which is discussed in chapter 1. Field officials said that they were using the standard 50-percent growth factor, and four of the five regions increased requirements before advertising to anticipate site use restrictions, in the commonly expressed belief that it is better to have too much land than not enough. We continue to believe that the issuance of formal written guidance to apply such discretion in projecting growth and limiting advertising to 20-year site requirements will greatly enhance the prospect of field officials doing so.

The Postal Service states in its response that field staff used discretion, as opposed to a standard growth factor, in 50 percent of our sample projects. We do not know how the Service arrived at this 50-percent figure. As discussed earlier in this chapter and illustrated in table 2.4, 67 percent of the sample projects applied the standard growth factor that was preprinted on the form used to determine requirements for our sample projects—either 25 or 50 percent. While for some of the projects these standard factors may have been appropriate, we believe these figures provide a strong indication that postal field staff did not consider local growth factors in determining land requirements, but instead used a standard growth factor.

In agreeing with our recommendation regarding more complete documentation, the Postmaster General said that he was pleased with our recognition that the more expensive site may indeed be the best value. As we said above, while our analysis shows that excess land was purchased, our primary concern is that the reasons for purchasing sites larger than net usable requirements and/or more costly than other contending sites be fully documented to ensure that postage revenue is not wasted.

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. The Service uses internal real estate specialists to appraise the value of sites costing less than $100,000. In addition, the Service requires an internal review of the site appraisal. We found that the Service usually met these requirements in the 246 projects we reviewed.

Real estate specialists did not, however, always adhere to the Service's policy requiring site price negotiations. For 28 percent of the sites we reviewed, they apparently did not negotiate prices. They did not usually negotiate when site 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.

The July 1987 change in policy specified that appraisals be made in a range of values rather than a fixed amount and suggested that negotiations be initiated at the lowest value of the appraisal range for offers other than those received at a price below the range, which may be accepted without any attempt to negotiate a better price.[1]

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 nor one established 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 below a lower offered price.

[1]Facilities Bulletin No. RE-87 1, July 16, 1987, subject: site acquisition, valuation, and negotiation policy.

Appraisals of Fair Market Value Completed on All Sites Acquired

Site appraisal and review requirements were usually met in the 246 projects we reviewed from the five postal regions. We found documents indicating that independent appraisers were usually used to establish fair market values on sites when price offers exceeded $100,000. In addition, for site offers below $100,000, we usually found documents indicating that Service real estate specialists appraised the fair market value. Documents were also available indicating that field and headquarters postal real estate officials properly reviewed and revised independent appraisals as needed.

Table 3.1 compares the purchase price the Postal Service paid with the appraised value of the site purchased for all 246 projects reviewed. Although the Service paid less than appraised value on 107 projects, often the original offer price was below appraised value and this became the purchase price without further negotiation. Where the Service paid more than its appraised value, the owners would not negotiate their offer price down to the appraised value.

Table 3.1: Comparison of Purchase Price to Appraised Value for the 246 Sites

Purchase price is	Total	Percent
Less than appraised value	107	44
Equal to appraised value	52	21
More than appraised value	87	35
Total	**246**	**100**

Price Negotiations Occur on Many, but Not All, Purchases

For the 246 projects we reviewed, documents indicated that price negotiations were attempted on many, but not all, projects. Site acquisition files documented attempted negotiations for 161 sites, or 65 percent, and the Service purchased 88 of these sites at amounts lower than the offer price.

Documents supporting price negotiations were not available in the site acquisition files for 85 projects, or 35 percent. Project records for 16 of these site purchases showed site offers exceeding appraised values. While these files did not contain documents indicating price negotiations, prices the Service paid were lower than owners' offers for these 16 sites, indicating that the Service may have obtained lower prices through negotiations.

The offer prices for the remaining 69 site purchases, or 28 percent, were equal to or lower than appraised market values. According to regional real estate officials in four of the five postal regions, prices were not negotiated in such cases. They believe that the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 precludes price negotiations for these sites under these circumstances because they believe the law requires the Service to pay a "fair price."

According to Service headquarters officials, even when site offers are equal to or lower than appraised market values, Public Law 91-646 does not preclude the Service from negotiating site purchases when sellers freely offer sites in response to postal solicitations. This law requires the payment of just compensation under condemnation proceedings. Headquarters officials were unaware that four of the five regions were erroneously citing this law but did conclude that the regions were following the Service's negotiating policy, which says that an offer at or below appraised market value can be accepted without negotiation.

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 ensuring that the Postal Service is negotiating the best possible price. The appraisal should not be used to establish a starting point for the negotiation process in open market transactions. A property owner is free to reject or negotiate any counter offer that 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. In some situations, an owner may be willing to accept a price lower than the one offered or lower than an appraised value. We believe this may occur because a property owner with additional sites surrounding an offered site may believe that the construction of a post office will enhance land values and may, therefore, be willing to accept a price lower than an appraisal would indicate.

Negotiations Often Reduce Site Costs

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 negotiations. However, the Service negotiated no reductions to the 69 offers totalling $31.8 million that equalled or were less than appraised value.

Conclusion

We found that the Service usually followed its procedures in estimating a site's fair market value before purchasing it. We also found evidence that the Service attempted to negotiate lower prices (although project files did not always contain documentation supporting negotiation attempts), except for 69 projects with offers to sell equal to or less than appraised values. Postal Service policy needs revision to clarify that the best possible price the Service can achieve through the open market negotiations process with a knowledgeable seller is not restricted by law, by an estimate of fair market value, or by an offered price.

Recommendation

We recommend that the Postmaster General 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 that negotiations may start below either. Further, the Department should instruct managers to ensure that acquisition files contain complete documentation of the negotiation process in all projects.

Comments From the Postmaster General and Our Evaluation

The Postmaster General commented that the Service would endeavor to comply with our draft recommendation that negotiations should start below appraised value or below a lower offered price if the Service can ensure fair and equitable treatment of potential sellers. He was concerned that the Service might be viewed as having an unfair advantage and predominant bargaining power, and could cause a seller to accept less than fair market value. We have changed the wording of our recommendation slightly to respond to his concern and allow more discretion to Postal Service negotiators.

Our recommendation is intended to encourage negotiation. No property owner is obligated to modify an offer to sell or to accept a counter offer from the Postal Service. The Service's current policy of negotiating only offers to sell that are above the appraised market value, but accepting without negotiation offers to sell that are at or below appraised market value, places too much merit on the appraisal process as an indication of the best possible price.

As discussed earlier in this chapter, in reviewing the project files for negotiation reports, we found that in 69 projects, the seller's offer was equal to or less than the appraised market value. In many of these cases, the offer was exactly the same as the appraisal. Therefore, under the Service's current policy, no attempt was made to negotiate a better price. We do not believe the Service should be under any more restraints in this regard than buyers and sellers in the private market place where price negotiations are both accepted and expected.

Area Required, Advertised, and Purchased for 246 Sites Purchased During Fiscal Year 1987

	Number of projects: Western region	Number of projects: Other four regions	Total	Percent
Advertised area compared with calculated 20-year requirements as a percent range:				
Under 90	3	3	**6**	2
90 to 110	31	75	**106**	43
111 to 130	38	23	**61**	25
131 to 150	8	28	**36**	15
151 to 200	1	21	**22**	9
Over 200	1	13	**14**	6
Insufficient data in file	0	1	**1**	1
Total	**82**	**164**	**246**	**100**
Purchased area compared with advertised area as a percent range:				
Under 90	15	18	**33**	13
90 to 110	33	36	**69**	28
111 to 130	13	32	**45**	18
131 to 150	8	24	**32**	13
151 to 200	8	26	**34**	14
Over 200	5	27	**32**	13
Insufficient data in file	0	1	**1**	1
Total	**82**	**164**	**246**	**100**
Purchased area compared with calculated 20-year requirements as a percent range:				
Under 90	7	4	**11**	4
90 to 110	16	15	**31**	13
111 to 130	20	27	**47**	19
131 to 150	18	29	**47**	19
151 to 200	12	45	**57**	23
Over 200	9	44	**53**	22
Total	**82**	**164**	**246**	**100**

Comments From the Postmaster General

UNITED STATES POSTAL SERVICE
U.S. MAIL

THE POSTMASTER GENERAL
Washington, DC 20260-0010

August 25, 1989

Dear Mr. Fogel:

This refers to your draft report entitled "Sites For New Post Offices May Be Larger Than Needed." The report contains four recommendations for changes in our acquisition practices. Briefly, the recommendations relate to application of a growth factor to establish objective site size, standardizing practices for advertising for property, requiring more complete documentation of the selection process, and initiating price negotiations when property is offered below appraised value. We accept and are committed to implementing the first three of your recommendations and will also endeavor to find a way to implement the fourth, if we can concurrently assure fair and equitable treatment of potential sellers.

Our agreement with the recommendations, however, should not be construed as acceptance of the audit itself. We disagree with the structure of the audit, with virtually all of the conclusions reached by this statistical approach to analysis of the data, and with the principal conclusion that the Postal Service purchased more property than required for the projects sampled.

We believe that our real estate acquisition program is effective, based on sound business principles, and produces the site location most appropriate for the conduct of postal business. But we also agree that the program can be improved. Particularly, we feel that we can strengthen our documentation of decisions relative to site size requirements, the determination of the site size range for which advertisements are issued, and documentation of decisions to buy more costly sites when less expensive alternatives appear to be available. In fact, improvements were taking place before the audit was initiated. In 1987 a policy statement was issued to the field covering advertisement for a wider range of site sizes, much as suggested in your second recommendation.

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We believe this change would have been apparent if the sample used for the study could have included more recent projects. We had also been taking steps to ensure that the application of a growth factor used in one of the final steps of determining the objective site size is based on local growth considerations rather than a generic factor. We feel that the data produced for the report in this regard was much more favorable than indicated by the analysis included in the report. The report concludes, unfavorably, that a standard factor was used "routinely" while in fact, our field staff followed the practices endorsed in 50 percent of the projects sampled. Again, if the sample had included later projects, this percentage probably would have been much higher.

The Postal Service totally agrees with the recommendation regarding more complete documentation. We particularly appreciated the wording of the report which recognizes the possibility that the more expensive site may indeed be the best value. The third and final objective of the audit was to determine if the Postal Service purchases "the most <u>economical</u> site from among contending alternatives," and we are concerned about this narrow focus on the most <u>economical</u> property. Seldom does the less expensive property <u>truly</u> result in the best value to any purchaser, even in the short run. The Postal Service is concerned only with the best <u>value</u> and will make sure that the reasoning behind the determination of best <u>value</u> is more carefully documented in the future.

The recommendation that we initiate negotiations when property is offered below appraised value is more difficult for the Postal Service to resolve. We cannot agree that Congress would condone any federal agency using its perceived predominant bargaining power to cause any seller to accept less than fair market value for property the government wishes to purchase. At the same time, we agree that fair market value is not always determined by the independent appraisal we commission. We are convinced, however, that any variance is very small and that the vast majority of appraisals do reflect fair market value. To instruct over 200 real estate specialists to arbitrarily counter an offer to sell, which is already below apraised value, seems to open the door to misuse of a public trust. We will continue to study ways of implementing this recommendation without abuse of our obligation to the American public.

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There are numerous other specific instances of disagreement about the analysis of the data in the report, but it would not seem to serve any purpose to list them here. We will be glad to meet with your staff again to review these concerns if that would have any value. Stanley W. Smith, Assistant Postmaster General, Facilities; William T. Johnstone, Assistant Postmaster General, Government Relations; and James T. Coe, Director, Office of Real Estate, are available to meet with you and your staff as well as any members of Congress to address any aspects of the report and our reaction.

Thank you for the opportunity to comment on your work.

Sincerely.

Anthony M. Frank

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