UNITED STATES POSTAL SERVICE ®

STATEMENT OF
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UNITED STATES POSTAL SERVICE
BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, AND INTERNATIONAL SECURITY
OF THE
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

CHICAGO, ILLINOIS
FEBRUARY 6, 2006

Good morning, Chairman Coburn and members of the Subcommittee. I am pleased to meet with you to discuss the Postal Service's continuing and aggressive efforts to dispose of unneeded buildings and real estate. I am particularly pleased that a Postal Service facility is able to host today's hearing.

When I accepted my current position with the Postal Service, only two short months ago, my experience and observation provided me with a good working knowledge of the complexity of our nationwide mail processing and delivery network. Since that time I have been impressed with the focused efforts of our people to continue to adjust our network of properties to meet the changing needs of our customers, their communities and, of course, our operational requirements.

With more than 34,000 Post Offices, processing plants, vehicle maintenance facilities, and administrative offices, this requires flexibility, responsiveness and a sharp eye on the bottom line. Some 26,100 of these facilities are leased, and 8,400 are owned.

Because the Postal Service is required to operate like a business, with its operational costs borne by the income from the sale of our products and services – not through appropriations – we must keep our focus on minimizing costs and maximizing revenues. This contributes to our goal of providing maximum value for our customers.

The Postal Service's network, as it exists today, is different than the network that existed yesterday and is different than the network that will exist tomorrow.

As communities grow, we must provide the infrastructure to accommodate expanding delivery and retail requirements of local residents. Consider, for a moment, that last year alone, we added more than 2 million new homes and businesses to our delivery network. And, as population centers shift, we must provide sufficient processing capacity – linked to modern transportation networks – to support local service needs. At the same time, we must embrace advances in technology that allow us to become more productive. That means we must replace buildings that were constructed for another time and cannot accommodate the state-of-the-art automated equipment that is the backbone of today's mail processing operations. In addition, by expanding customer access through alternate service channels, including our website, usps.com, and third-party retail providers, we have mitigated network growth.

Ultimately, this means that we must shed properties, as well. If community growth calls for a larger, more modern Post Office, we work to remove the older, unneeded building from our books. Over time, multiple processing facilities may have been acquired to serve the needs of a number of metropolitan areas in the same general region. As technology advances and as processing needs change, we explore opportunities to consolidate operations in a lesser number of buildings – existing or new. When this occurs, we take advantage of the opportunity to terminate leases or to sell the unneeded property.

In 1997, we initiated a focused asset management program. Its goal is to provide internal expertise to identify, analyze, and maximize the return on underutilized and surplus buildings and real estate. While it can be a challenge to realize the maximum market value from each property, the success of our asset management team has been remarkable. Since the program began, the Postal Service has realized gross revenues in excess of $1 billion through the lease or sale of unneeded property, with over $700 million of this figure representing sales of more than 500 properties.

We continue to closely and actively manage our entire facilities portfolio. As part of the Operations group, the Facilities department benefits from the early knowledge of changes that affect buildings used for mail processing, delivery or retail services. This allows us to act quickly when a property is no longer needed. It is immediately added to our database of surplus property – which is linked to our overall facilities management database – and we begin the process of removing it from our rolls. This is the key to keeping our inventory of surplus property as low as possible. Our process includes obtaining a current appraisal, notification to federal, state and local governments, resolution of environmental issues and development of a market exposure plan. Progress and results are tracked through the database.

Today, 44 facilities – only one tenth of one percent of our entire portfolio – are carried as surplus. Of these, 27, with a value of $103,124,500, have been offered for sale; 13, with a value of $80,831,442, are under contract; and four, valued at $224,969,425, including New York City's huge Farley building, are the subject of active negotiation. Last year alone, we realized $48 million from the sale of 50 buildings we no longer needed. While we do not place a value on our inventory of operating properties, market values are assigned to individual buildings as they enter the surplus-property disposition process.

There are costs associated with maintaining surplus buildings that are no longer operating properties until their ultimate transfer, either through sale or lease. These costs are necessary to maintain the value of the assets by keeping them in marketable condition, and to protect the safety of the public by avoiding the potential danger if a property were to fall into disrepair. Clearly, our goal of minimizing these costs is a key driver of our efforts to remove these properties from our rolls as expeditiously as possible. Last year, aggregate holding costs amounted to approximately $2,211,000, with a full 90 percent of this cost attributable to our former Chicago processing plant, which is discussed below in further detail.

Looking forward, we will continue to tightly manage our inventory of excess property. We are also examining our processing network to determine if consolidation of some operations can result in efficiencies and savings that contribute to serving our customers – the American people – even more effectively. This is particularly significant in light of the fact that our mail processing needs are changing. Single-piece First-Class Mail – the type of mail that requires the most intensive front-end handling – is declining in volume. At the same time, we have experienced some growth in mail that has been presorted and entered in bulk, able to bypass some processing operations altogether. As consolidation opportunities present themselves, we will move quickly to take advantage of them.

Despite our best efforts, the sale of some properties can be extremely challenging. This is the situation we face here in Chicago with our former mail processing and distribution center. It served us well for many years. But, as manual operations were replaced by automation, its multi-story configuration simply could not accommodate the space requirements of today's equipment and mail flows.

It is a very old, industrial building, constructed in phases between 1922 and 1934. Because it is essentially three buildings in one, floor elevations do not align across buildings, the window-to-floor ratio is extremely low, and its ten large floors, each 250,000 square feet, are nearly impossible to divide into smaller uses. Because of its sheer size – 2,500,000 square feet – and its configuration, we have been unable to identify a single user for the entire property. In fact, it is the largest facility the Postal Service has ever owned.

We have, of course, considered mixed-use projects. By their very nature, however, these projects require significantly longer development time and must coincide with the market cycles for each use, such as a mix of office, hotel and residential. And, unfortunately, the high vacancy rate for office space in the Chicago area, with the availability of modern premises, has made this facility – requiring extraordinary repairs and alterations – a less attractive option for potential office tenants. I would point out, as well, that attempting to comply with historic landmark regulations significantly limited our development options.

To date, our redevelopment efforts have included three distinct approaches. One was to keep the building intact, with a significant residential component. Unfortunately, market changes made this an extremely problematic solution.

We also explored the "telecommunication hotel" concept, which appeared to be an ideal fit for the property. Regrettably, the "dot-com" crash of 2000, the market downturn following 9/11, and subsequent changes to banking regulations, requiring financial institutions to locate operations centers away from downtown areas, forced us to abandon this plan. Of course, in the post-9/11 environment, the fact that the building straddles a major expressway and active rail operations reduced interest in the site.

Most recently, our direction has been to work around the most challenging areas of the building and pursue a proposal for a more conventional and marketable floor plate, again with a residential component. Because this plan does not involve obtaining special historic consideration and its associated tax credits, we are guardedly optimistic regarding its prospects.

I would emphasize, however, that each development proposal requires a great deal of time. Detailed plans must be developed and we must work with the appropriate federal, state and local government agencies to satisfy a wide range of requirements and obtain the necessary support.

Our developer has made a significant investment in finding a profitable use for the facility – and remains fully engaged. We are also continuing an active dialog with the City of Chicago which has a keen interest in the development of the property – which has become a landmark for local residents. While this has been a difficult and lengthy process, it does underline the fact that the Chicago project is one of a kind. Our experience with it is certainly not indicative of our overall success in moving other properties from our rolls. The transfer of this property remains a top priority and we will continue our efforts to complete it to the satisfaction of all parties and without unnecessary delay.

Certainly, this type of situation, while the exception rather than the rule for the Postal Service, is not unknown in the private sector. As an example, a former Sears warehouse in Boston, physically similar to a large Postal Service mail processing center, and located amid Harvard University medical facilities, took 20 years to redevelop. I do not suggest for a moment that a similar time line is acceptable for the Chicago property. However, it is illustrative of the fact that the very nature and location of some buildings can inhibit their development potential.

We have had – and continue to have – success with the sale of other large facilities. Just last month, we sold our historic Memphis, Tennessee property for $5.3 million. Sale of a participation in the income from a ground lease on New York City's Lexington Avenue resulted in revenue of $130 million. And, over the last several years, the sale of major mail processing facilities in Los Angeles and Denver contributed more than $60 million in revenue. Because the sale of the Memphis property reflects an immediate need on the part of the buyer, we will avoid the costs of carrying it as a vacant property. In fact, on the day we vacate the site, we will turn the keys over to the new owner.

In conclusion, I would like to assure you that the Postal Service fully recognizes and supports the need to maintain a facility network that provides maximum levels of efficiency. This is a key component of our mission of providing affordable, universal mail service for everyone in America. As I have explained, our experience in removing unneeded properties from our rolls in a fiscally responsible manner has been successful. We will continue this strategy. We appreciate your interest in, and your support of, these goals. I look forward to working with you in the future, and I will be pleased to answer any questions you may have.

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