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HEARING
BEFORE THE
COMMITTEE ON
OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
EIGHTY-EIGHTH CONGRESS

SECOND SESSION

ON

H.R. 9653

A BILL TO EXTEND THE AUTHORITY OF THE POSTMASTER
GENERAL TO ENTER INTO LEASES OF REAL PROPERTY
FOR PERIODS NOT EXCEEDING 30 YEARS, AND FOR OTHER
PURPOSES

MARCH 3, 1964

Printed for the use of the
Committee on Post Office and Civil Service



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LEASING PROPERTY BY POSTMASTER GENERAL FOR PERIODS NOT EXCEEDING 30 YEARS

TUESDAY, MARCH 3, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., room 215, Cannon House Office Building, Hon. Thaddeus J. Dulski, of New York (chairman of the subcommittee), presiding.

Mr. DULSKI. The meeting will come to order.

This subcommittee was appointed to consider H.R. 9653, a bill to extend the authority of the Postmaster General to lease real property for postal services for periods not exceeding 30 years. The bill was sponsored by Mr. Murray, chairman of the House Post Office and Civil Service Committee, as a result of an official communication from the Post Office Department.

The leasing authority which this bill is designed to extend will expire on July 22, 1964. The authorization for such leases is contained in section 2103 of title 39, United States Code, and permits the Department to acquire real property by purchase, condemnation, lease, donation, or otherwise for use for postal purposes. Property thus acquired may then be sold, leased, or otherwise disposed of by the Postmaster General for the purpose of having erected on the property buildings and improvements for postal uses. The Postmaster General is permitted under this authority to lease such buildings for a term not exceeding 30 years.

This leasing authority was first contained in the act of July 22, 1954, but was limited to a period of 10 years. The authority will expire on July 22, 1964.

The purpose of this bill is to continue without limitation the authority contained in such section 2103.

The provisions of H.R. 9653 and the official request of the Postmaster General will be inserted in the record.

(The matter referred to is as follows:)

[H.R. 9653, 88th Cong., 2d sess.]

A BILL To extend the authority of the Postmaster General to enter into leases of real property for periods not exceeding thirty years, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 2109 of title 39, United States Code, is amended to read as follows:

“§ 2109. Time limitations on agreements

“Agreements may not be entered into under sections 2104 and 2105 of this title after July 22, 1964.”

OFFICE OF THE POSTMASTER GENERAL,
Washington, D.C., January 3, 1964.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: There is transmitted herewith proposed legislation extending the authority of the Postmaster General to enter into certain term lease agreements beyond July 22, 1964.

Under provisions of title 39, United States Code, section 2103, the Postmaster General is authorized to enter into lease agreements for periods not to exceed 30 years. In addition, he is authorized to acquire lands through purchase, condemnation, lease, donation, or otherwise and to dispose of real property acquired or used for postal purposes by sale, lease, or otherwise as deemed appropriate in the best interests of the United States.

The present authority which will expire under the provisions of 39 United States Code 2109, on July 22, 1964, provides one of the basic tools for the acquisition, management, and disposal of leased space for postal services. It is a proven means for timely acquisition of modern and properly located facilities. Where facilities larger than 50,000 square feet of interior space are needed and stability of location is contemplated, a term of more than 20 years is warranted in those cases where lease construction is deemed appropriate. Unless the authority to enter into these 30-year leases is extended, the Department will be able to enter into leases for terms only up to 20 years. In addition, the Department would lose the essential land acquisition authority described above. This authority has proved invaluable in assembling sites with multiple ownership; sites where owners demand unreasonable prices; and sites to which the title is defective.

In the case of these larger facilities, 30-year lease terms are more advantageous to the Government than 20-year leases. The longer basic lease term attracts investors who are willing to accept a lower rate of annual rent than on shorter term agreements. The result to the Government is lower rentals and consequently lower annual rent expenditures.

The Bureau of the Budget has advised that this legislation is in accord with the program of the President.

Sincerely yours,

JOHN A. GRONOUSKI,
Postmaster General.

GENERAL STATEMENT OF PURPOSE AND NEED

The Post Office Department Property Act of 1954 (68 Stat. 521) authorized the Postmaster General to enter into long-term lease agreements for periods not to exceed 30 years. In addition, it authorized the Department to acquire land through purchase, condemnation, lease, donation, or otherwise; and to dispose of real property acquired or used for postal purposes by sale, lease, or otherwise as deemed appropriate to the best interests of the United States. This authority is now included in section 2103 of title 39 of the United States Code but is due to expire on July 22, 1964 (39 U.S.C. 2109).

The present authority provides one of the basic tools for the acquisition, management, and disposal of leased space for postal services. It makes possible the timely acquisition of modern, properly located facilities.

Continuation of this authority is essential to the proper conduct of the Department's leasing program for the following reasons:

1. Suitable sites are often unobtainable under assignable site options, making acquisition by purchase, condemnation, or lease, the only means by which control can be acquired. Use of this direct land acquisition authority is essential when:

(a) One or more owners of parcels within a selected site area demand exorbitant prices, and the Government's interests can be protected only by acquiring through condemnation, leaving the determination of fair value to the court.

(b) Option speculators tie up the choice sites in an area to force the Government to accept their terms.

(c) Clear title to one or more parcels of a selected site cannot be conveyed by the owner, but title can be cleared by condemnation proceedings.

(d) A municipality or other non-Federal governmental unit owns the desired site and is willing to sell at a reasonable price, but lacks statutory authority to do so.

(e) Owners refuse to grant assignable land purchase options for the length of time required to make a lease award, especially for major facilities where a period of more than a year would elapse before a lease award.

(f) Owners will agree to a firm sales contract at an acceptable price, but decline to tie up their properties by granting mere assignable options to purchase.

(g) Owners are willing to give a ground lease but, for tax and other reasons, decline to sell outright.

(h) The Government is not able to obtain an agreement to sell from all the owners where one or more hold key parcels necessary to the development of the entire selected site.

The Department has relied upon the present authority for more than 80 badly needed facilities in order to obtain control of sites required to conduct postal operations properly.

2. Where large facilities are needed and stability of location is assured, a long-term 20- to 30-year lease is warranted. Thus, the owner can finance his building over a longer period of years, obtain a lower interest rate and have a better schedule of repayment, which correspondingly reduces per square foot rental cost to the Department.

3. The Department has shifted its emphasis from the construction of a large number of small buildings to concentrating on larger facilities in the major communities. The objective is to improve mail service through more modern buildings and mechanical mail processing systems where the greatest improvements can occur. The land must be acquired and the plans and specifications for such buildings and systems must be developed well in advance of the award for the building. In these instances we have a large investment in land, architect-engineer and other developmental contracts, and manpower, as well as in mechanical mail processing systems contracts. For example, upwards of \$20 million have been invested in prime post office sites alone. This investment in time, property, and manpower would become largely frustrated if the present law lapses. Also, the need for adequate and modern postal space and mail processing equipment to handle increasingly greater mail volume would go unfilled.

4. The constant migration of large numbers of our population from one State to another and from cities to suburban areas requires continuous modifications in postal facilities. This problem is expected to intensify in the future. The retention of the valuable means under the present law to insure the furnishing of adequate postal facilities and service is necessary.

In view of the foregoing it is requested that the authority of the Postmaster General to enter into long-term leases and to acquire and dispose of real property be made permanent.

Mr. DULSKI. We are particularly happy this morning to welcome Assistant Postmaster General Tyler Abell, of the Bureau of Facilities. I believe this is his first appearance before our committee as Assistant Postmaster General.

We are very happy to have you with us.

STATEMENT OF HON. TYLER ABELL, ASSISTANT POSTMASTER GENERAL, BUREAU OF FACILITIES, ACCOMPANIED BY DENNIS A. JENSEN, DIRECTOR OF REALTY, BUREAU OF FACILITIES, AND AMOS J. COFFMAN, DEPUTY ASSISTANT POSTMASTER GENERAL, BUREAU OF FACILITIES

Mr. ABELL. Thank you, Mr. Chairman. It is a great pleasure for me to be here this morning. As you say, it is my first appearance here as Assistant Postmaster General, although I have appeared here on previous occasions and I would like to count the members of this committee and its very capable staff as my friends.

On my right is Mr. Coffman, and, I might add that for quite some time prior to my appointment, he was Acting Assistant Postmaster General and did a very good job with the Bureau.

On my left is Mr. Jensen, Director of the Realty Division, who probably is the most directly concerned with this piece of legislation that we are considering this morning.

I appreciate the opportunity of inaugurating these hearings on H.R. 9653 by presenting the position of the Post Office Department on what I personally consider to be a very important piece of legislation. I think this is one case where the importance is in inverse ratio to the number of words in the bill. The bill is extremely short.

As you said, Mr. Chairman, the purpose of the bill is to extend our 30-year leasing authority past the 1964 July 22 deadline.

As the members of this committee know, the Post Office Department is a tremendous user of space. We currently occupy more than 112 million interior square feet, and this space is about evenly divided between leased or rented buildings on the one hand, and Government-owned buildings on the other.

The population of the Nation is growing rapidly and the mail volume is growing even more rapidly than the population. Urbanization and other population shifts continue at a rapid pace. Many of our present buildings are already inadequate both with respect to quality and quantity of space. All these factors combine to create an unprecedented need for new postal space. We estimate that to meet this need the Department should acquire 50 million square feet of new space by the end of fiscal 1968. This would take care of replacing present old buildings and outmoded accommodations. Also, it will provide for the tremendous growth of mail volume, the continuing shift of population, and future needs.

Rather than go into detail here, I would like to submit to the committee a comprehensive study prepared by the Bureau of Facilities, entitled "Post Office Department new construction program, 5-year projections, fiscal years 1964 through 1968."

It is a very weighty document, Mr. Chairman. You may wish to have it included in the record or you may want to accept it and take notice of it.

Mr. DANIELS (presiding). It will be inserted in the record at the end of your testimony. (See p. 27.)

Mr. ABELL. This study includes not only our projection of space needs for the next 5 years but also contains, in organized detail, substantially all the known facts and factors bearing on the future need for space in which to handle the mail.

The extensive requirements projected in this analysis constitute the basic underlying reason why the present bill should be enacted.

At present we attempt to meet the space needs of the Department in three ways:

1. We utilize existing space wherever possible. This includes existing space not presently occupied by the Department as well as existing space in which the Department is now operating. If the space we now occupy can be brought up to acceptable standards by remodeling, extension, or modernization, this is done provided such action is economically justified. We also explore the possibility of utilizing existing space not presently occupied by the Department. If it meets the requirements of the Department or can be made to do so with economically feasible remodeling or renovation, we will lease such space.

2. We cooperate with the General Services Administration in acquiring new federally owned buildings wherever other agencies' needs and postal service needs can be met—all factors considered—in a combined post office-Federal building. At the present time the General Services Administration has more than 140 buildings approved and at least partially funded which will be partially occupied by the Department.

3. We utilize the lease construction program where warranted. Under this program, the Department obtains control of a suitable site either by an assignable option, by purchase, or by condemnation. The site is then offered to the bidder who agrees to construct a building to the Department's specification and lease it to the Department. If the site is controlled by an assignable option, the option is assigned to the low bidder. If the Department owns the site, it is sold to the low bidder. The successful bidder finances the entire project based upon the Government's agreement to pay rent. About 90 percent of our leases are for 10-year terms. About 9 percent are for 15- to 20-year terms and less than 1 percent are for 30-year terms. This is in terms of numbers only. The final 1 percent includes virtually all the Department's large and important facilities not located in Federal buildings.

You will note that at this time the Department does not have a program calling for the construction of federally owned post offices—as distinct from federally owned post office-Federal buildings. We are convinced that the leasing of small- and medium-size buildings is more economical than Federal construction and ownership of such buildings, where a substantial degree of flexibility is desirable. But these same factors are not necessarily present with respect to larger buildings, those exceeding 100,000 square feet in size.

The point I would like to emphasize here is that there are situations where leasing is preferable, and situations where Federal ownership is best. Even if a Federal ownership program were to be commenced in fiscal 1966, there would continue to be situations in which the 30-year leasing authority and supporting land authority would be required to enable the Department to fill its space needs.

So as I present the reasons why the present long-term leasing authority should be extended, please keep in mind that I am not saying that the Department intends to utilize such authority in the future with respect to all facilities, or even all large facilities; but only that it will be used where we feel it is in the best interests of the Government to do so.

Mr. NIX. Explain what you mean when you said:

The site is then offered to the bidder who agrees to construct a building to the Department's specification and lease it to the Department at the lowest rent for a specified term of years.

Mr. ABELL. We have different ways of obtaining these sites. If obtained by assignable option, we assign the option to the low bidder, so he might exercise the option to purchase from the owner. We never buy the site in that particular case. We just get the option for \$1.

Mr. NIX. How do you go about this?

Mr. ABELL. We develop the specifications for the building. We put the public notice out. Of course, there are numerous contractors

who are continually interested in that sort of bid, who contact us, asking that they be notified when a particular contract comes up for bid.

Mr. NIX. This particular practice has been in use over a period of years?

Mr. ABELL. Yes, sir; the 30-year lease was authorized in 1954.

Mr. DANIELS. Mr. Abell, let me ask you a question regarding 1954 to 1964. You have operated under this program for 10 years and you have done well. Why is it the Department is now coming up with this 30-year lease?

Mr. ABELL. It had this 30 years all along. I hope we didn't confuse the committee on this. We have had this 30-year lease authority since 1954 but the authority as passed in 1954 had an expiration date of July 22, 1964. We have entered into 30-year leases from the beginning. The only question now is whether the Congress will permit the 30-year leasing authority to continue.

Mr. DANIELS. But you had this authority under the law itself?

Mr. ABELL. Yes, sir. That Buffalo facility is under a 30-year lease. We have a contract with Mr. McCloskey, the contractor, to rent that facility for 30 years, with the right of options to renew the lease for an additional 40 years. We might be in there for as long as 70 years.

Mr. WALLHAUSER. Maywood, N.J. had a 30-year lease, too.

Mr. DANIELS. You may continue.

Mr. ABELL. Section 2103 gives 20-year authority. Excuse me, 2102 gives 20 years and 2103, in danger of expiring, gives 30-year. The 20-year and 30-year are in different sections; one expires and the other doesn't.

Mr. DANIELS. Just to keep me on the straight track here, supposing this bill is not enacted into law before July 22, 1964, can you enter into leasing 20 years?

Mr. ABELL. Yes, sir; that is correct. We will then only be permitted to lease up to 20 years and, as I will develop later, we will lose some other valuable authority which will make us have difficulties in many instances to even get an acceptable 20-year lease.

Mr. DANIELS. I just wanted to know that if this bill is not enacted you will still have the 20-year authority.

Mr. NIX. If the chairman will yield: How did it come about that in the two sections of the act you have different specified periods of time, 20 and 30? Why?

Mr. ABELL. I am not that familiar with the legislative history of the act.

Mr. COFFMAN. I believe the 20-year authority is a long-standing authority and the 30-year authority was superimposed on it in section 2103. Instead of rewriting the two sections and melting them together, the 30-year authority was added.

Mr. NIX. As long as the other is superimposed on the shorter then you don't have the shorter here any more?

Mr. COFFMAN. It still prevails where we have an option on a site.

Mr. NIX. I am not talking about that which is in existence under the formal law. I am talking about what you can do after the passage of the act of 1954 in which you say the 30-year was superimposed on the 20. You certainly couldn't, in my opinion, be operating under the 20-year law.

Mr. COFFMAN. We have the option to use either authority.

Mr. DANIELS. Do you have any condemnation rights under the 20-year section?

Mr. ABELL. No, sir; we do not. We only have condemnation and purchase authority under 2103.

Mr. DANIELS. Under 20-year you couldn't condemn any property under the 20-year provision?

Mr. ABELL. That is correct. We couldn't condemn or purchase. We cannot acquire a ground lease.

Mr. WALLHAUSER. Is there any cut-off date under section 2102?

Mr. ABELL. No, sir.

Mr. WALLHAUSER. I think this answers Mr. Nix' question.

Mr. ABELL. As I understand it, Mr. Nix thought that section 2103 would automatically supersede 2102.

Mr. NIX. I understand now they are separate and independent authorities.

Mr. WALLHAUSER. There is no cut-off date in 2102.

Mr. NIX. Yes.

Mr. ABELL. Operating under either authority we can obtain an assignable option and this option can then be assigned to the successful bidder. The other technique would be to purchase the land outright, which we can only do under 2103.

Mr. NIX. You have condemnation under both?

Mr. ABELL. No, sir; only 2103. If the Department owns it, it is of course sold to the low bidder and he reimburses us for the cost of the land.

If the site is controlled by an assignable option, the option is assigned to the low bidder. If the Department owns the site, it is sold to the low bidder. The successful bidder finances the entire project based upon the Government's agreement to pay rent. About 90 percent of our leases are for 10-year terms. About 9 percent are for 15- to 20-year terms and less and 1 percent are for 30-year terms.

Now where I say "leases," I am talking about number of leases and number of buildings. However, that final 1 percent for 30-year authority includes most if not all major mail handling facilities not located in Federal buildings, although there are a few smaller buildings which we do lease under the 30-year authority.

You will note that at the present time the Department does not have a program calling for the construction of federally owned post offices—as distinct from federally owned post office-Federal buildings which are built by GSA. We are convinced that the leasing of small- and medium-size buildings is more economical than Federal construction and ownership of such buildings, where a substantial degree of flexibility is desirable. But these same factors are not necessarily present with respect to larger buildings, those exceeding 100,000 square feet in size.

The point I would like to emphasize here is that there are situations where leasing is preferable, and situations where Federal ownership is best. Even if, as some people have suggested, a Federal ownership program were undertaken, I still feel that there would continue to be situations in which the 30-year leasing authority and the supporting condemnation and other land authority would be required to enable the Department to fill its ever-increasing space needs.

So as I present the reasons why the present long-term leasing authority should be extended, please keep in mind that I am not saying that the Department intends to utilize such authority in the future with respect to all of its facilities. I am not saying it intends to exercise this authority with respect to all its large facilities; but only that this authority will be used where we feel it is in the best interest of the Government to do so.

Before I get into the analysis of the bill, I would just like to summarize the reasons why we feel this 30-year leasing authority should be continued.

Mr. NIX. Who decides what is in the best interests of the Government. Who has that authority, the Postmaster General?

Mr. ABELL. The Postmaster General would decide basically after an economic analysis of the two possible approaches to any given building requirement, whether or not to construct such a building and have it federally owned, or whether it would be better to have it constructed and lease it.

Mr. NIX. His judgment would be final without him submitting it to anyone?

Mr. ABELL. That is the situation at present.

Just to briefly outline the reasons why we feel this 30-year leasing authority is necessary:

1. It is the most economical method of procuring space where long-term occupancy is projected and leasing is appropriate.
2. The 30-year term enables the Department to more evenly match space costs and revenue. We reduce our need for capital expenditures.
3. It is especially needed during fiscal 1965 since otherwise our major facilities program will be drastically curtailed.
4. Subsequent to 1965, if a Federal construction program were to be developed, continued 30-year leasing authority is essential to the development of facilities where Federal ownership would not be appropriate.

This 30-year authority, as I have alluded to earlier, contains very necessary land acquisition authority. This we feel is basic to a competitive lease construction program, irrespective of lease terms.

Without this land disposition authority, and in the absence of an appropriation for a Federal construction program during fiscal 1965, the entire postal construction program of major facilities probably will come to a halt during fiscal 1965.

The condemnation authority, which is also included in section 2103, protects the Department against excessive land costs, and its very existence enables the Department to obtain options at fair prices which would not otherwise be obtainable.

Now, after that brief summary of why we think this bill is necessary, I will actually analyze the bill.

H.R. 9653 was introduced by Chairman Murray at the request of the Postmaster General and we are grateful for his prompt response to our request. The bill extends the Department's 30-year leasing authority and also extends the Department's broad related authority to acquire and dispose of real estate. The continuance of this dual authority is vital to the Department. Thirty-year lease terms bring lower rents and lower renewal options than do the 20-year lease terms which the Department will be forced to use if this legislation were not enacted.

Mr. NIX. What makes you say that?

Mr. ABELL. Well, as I will develop here as I go along, the lessor, the owner of a building who leases it to us for 20 years, charges a higher rate in order to more quickly amortize his capital investment, than the owner of a building who leases for 30 years.

Mr. NIX. That is an established fact that can be supported?

Mr. ABELL. Yes, sir; and we have that supported at the end of the statement with three exhibits—A, B, and C—where we have worked out the mathematics of this.

Mr. NIX. All right.

Mr. ABELL. No leasing program can be conducted on a truly competitive basis in the absence of effective land acquisition and disposition authority, and the long-term lease and supporting land authority offers the only solution to the urgent need for space in some locations.

This one-sentence bill is meaningless without an explanation. Accordingly, I would first like to explain how the bill affects the Department's leasing and land authority and to describe rather precisely the extent and terms of the authority involved. And then, with a clear picture of what is involved before you, I would like to present the reasons why this measure should be enacted.

The bill simply provides that 39 U.S.C. 2109 which is entitled "Time Limitations on Agreements" be amended to read as follows:

Agreements may not be entered into under section 2104 and 2105 of this title after July 22, 1964.

Thus the bill contains no reference to 39 U.S.C. 2103 which is the section of the statute containing the 30-year leasing and land authority. Nevertheless this proposed amendment accomplishes its purpose because the amended section (2109) now provides that:

Agreements may not be entered into under sections 2103-2105 of this title after July 22, 1964. [Italic added.]

The present bill simply eliminates section 2103 from the time limitations imposed by section 2109. In so doing it leaves section 2103 in effect. That section contains the authority in which we are interested and I would like to give you a comprehensive explanation of the scope of that authority.

Section 2103 is entitled "Additional Leasing Authority." This has reference to the fact that the authority contained in the section is in addition to the present 20-year leasing authority prescribed by section 2102. The additional leasing authority contained in section 2103 authorizes the Postmaster General to enter into leases for periods not exceeding 30 years. The section expressly provides that these leases are to cover buildings to be erected by the lessor on land sold or leased by the Postmaster General to the lessor or otherwise acquired by the lessor.

It is important to note that section 2103 authorizes leases up to 30 years in duration. This is important in connection with the Postmaster General's authority to acquire and dispose of land as set forth in the remainder of the section. Under this authority the Postmaster General may "acquire by purchase, condemnation, lease, donation, or otherwise" real property and interests therein for the purpose of carrying out the lease construction program authorized by the section. The section also authorizes the Postmaster General to dispose of such property by sale, lease, or otherwise for the same purpose. This essen-

tial land acquisition and disposition authority is available to the Department only under section 2103 no matter what the term of the lease, up to 30 years.

Further, leases entered into under section 2103 may be awarded only after advertised competitive bidding, as required by 41 U.S.C. 5. This requirement is set forth in 39 U.S.C. 2112.

To summarize—the section of the statute we are attempting to perpetuate gives the Postmaster General leasing authority up to 30 years; it gives him condemnation and other land acquisition and related land disposition authority; it confines the use of this authority to the leases entered into under the section; and all leases entered into under the section may be awarded only after advertised competitive bidding.

On the face of it, this comprehensive long-term leasing and land authority is essential to the execution of an effective lease construction program. The specific advantages of 30-year leases, and the many specific reasons why the land authority is required if the Department's leasing program is to be carried on, are even more compelling.

THE REASONS WHY THE BILL SHOULD BE ENACTED

The 30-year lease is more economical.—The annual rental rate is substantially less under a 30-year lease than it would be if the Department were compelled to use a 20-year lease.

One of the objectives of the leasing program is to avoid the necessity for large annual expenditures and the resulting larger appropriations—to minimize Treasury financing of the postal service. The leasing program enables the Department to spread the cost of space over the period of occupancy. During this same period, the revenue from the users of the mail pays for the space being occupied.

It is obvious that—where there is a need for long-term occupancy—the 30-year lease term is more economical than the 20-year term. The larger leased facilities, where the Department's needs are firm for 30 years or more and where we have used the 30-year lease term, are special-purpose buildings. They have built-in features, such as abnormally high ceilings for mechanization that severely limit their use for purposes other than mail handling. These special-purpose buildings must be amortized, virtually 100 percent, over the term of the basic lease. Lenders will loan very little on the residual value of this type of building. If the Department is forced to reduce the basic lease term on this type of facility to 20 years, it will increase the annual rental very significantly.

For example, the Department's net rent for our new facility at Houston, Tex., under a 30-year term is \$661,376 annually. If a 20-year term had been used, this rent would have been about \$772,200 annually.

Mr. JOHNSON. May I interrupt? How many hundred thousand square feet of space would that be for \$600,000 annual rent?

Mr. ABELL. I think the Houston is about 500,000 square feet.

Mr. JOHNSON. Was that built on a rental basis?

Mr. ABELL. Yes, sir.

Mr. JOHNSON. Then you do build on a rental basis in excess of 100,000 square feet?

Mr. ABELL. Yes, sir.

Mr. JOHNSON. Is it your plan in the future to build where it is over that?

Mr. ABELL. That, sir, is in the hands of this committee today.

Mr. JOHNSON. The reason I asked is because it said back here you were just asking for authority of 100,000 square feet.

Mr. ABELL. If I said that, it was a misstatement.

Mr. JOHNSON. I just made a note here that you made a statement that the program was for facilities under 100,000 square feet. I guess I must have misunderstood you.

Mr. ABELL. I think what I said is where the facility is over 100,000 square feet we feel that in almost every case we would want to be there for a substantial period of time, at least 30 years, so this program has direct application to any building over 100,000 square feet, and many buildings where there are less than 100,000 square feet.

Mr. BARRY. I think on page 4 of the statement, lines 6 and 7:

But these same factors are not necessarily present with respect to larger buildings, those exceeding 100,000 square feet in size.

I think that may be where the confusion entered.

Mr. ABELL. I was talking there about in the case of smaller buildings, the rental of smaller buildings is justified because of our general need in the smaller building to have flexibility. In other words, if we are building a post office out here in Bethesda, Md., where the population is expanding at a tremendous rate, we might be certain that that building we built today will not be useful to us 10 years from today, it will be outmoded as the community changes complexion, the population increases, and there are more high-rise buildings out there.

Whereas, if we build a building in downtown Washington, where the area is reasonably stable, more stable, we would be pretty certain that for the next 40 to 70 years we would be able to use that building.

Our net rent for the relatively new post office at Detroit, Mich., under a 30-year lease, is \$1,370,743 annually. If a 20-year term had been used in this instance, the rent would have been about \$1,518,500 annually.

It is true, under a 30-year term, more total interest is paid but this is to be weighed against the objective, minimum Treasury financing. Treasury financing is not interest free either, though it is somewhat cheaper.

It is our current estimate that we will award 21 lease-construction projects during fiscal year 1965 alone in which the 30-year lease term would be used if it is available. It is clear that if we are compelled to use a 20-year term for these facilities the annual rental rate will be much greater than if a 30-year term can be used.

It is desirable, where leasing is to be used, to maintain a lower rental rate with as even a distribution over the related revenue producing period as possible. It is perhaps more important that the most economical overall rental costs be achieved. By this test, too, a 30-year lease is preferable to the 20-year lease—provided the Department's space needs at a given location can be projected to 30 years.

We have prepared a comparative analysis of 20- and 30-year basic term leases entered into by the Department during the 5-year period from July 1, 1957, to July 1, 1962. This analysis includes all the 20- and 30-year leases executed by the Department during this 5-year

period covering buildings having more than 20,000 net interior square feet, and having renewal options up to 50 years. On this basis the analysis includes twenty-six 20-year leases and twenty-five 30-year leases.

This footage criteria gives us a comparison of buildings as nearly similar as the facts permit. There are, however, marked differences between the two categories. The 30-year leases have been used for the larger, more complex and expensive buildings located in the large metropolitan centers, such as Detroit and Houston, whereas the 20-year lease terms have been used where the buildings are less complex and less expensive located in medium-size cities, such as Joplin, Mo., and Pontiac, Mich.

Under these circumstances no valid comparison of cost per square foot is possible. Variations in initial land and construction costs and corresponding fluctuations in per-square-foot rental costs are not related to the length of the lease term but are controlled by the specifications issued by the Department. The true measure of the economic advantage of one lease term over another is the rental cost to the Department for each dollar of initial cost. Only in this way can the wide variation in initial costs be taken into account. The ultimate test of the 30-year lease term is the rental cost to the Government over that term compared to the rental cost over the same term under a 20-year basic lease term, assuming exercised options running up to 30 years.

The results of our analysis are set forth in exhibits A, B, and C.

Exhibit A shows that under 30-year leases the cost of rent averaged 6.0822 percent of initial cost for each of the 30 years of occupancy and that the corresponding figure for 20-year leases, assuming the exercise of options to 30 years was 6.3734 percent of initial costs. As the exhibit shows, this is a difference of 4.5 percent in favor of the 30-year term. The exhibit also shows that if occupancy goes to 40 years the advantage is 25.9 percent in favor of the 30-year basic term lease and that if the building is occupied for 50 years this advantage is increased to 43.9 percent. The significant economic advantage at 40- and 50-year occupancy is not academic. There is every likelihood that the buildings to which we apply the 30-year basic lease terms will be occupied for these extended periods of time.

Exhibit B demonstrates another economic advantage of the 30-year basic lease term. Most of our leases contain purchase options under which the Government may elect to purchase the property at a price specified in the lease and at the times specified in the lease. Usually the options may be exercised in either type of lease at the end of 20 years and at 10-year intervals thereafter up to 50 years.

Exhibit B shows that if the Department exercised the purchase options contained in both types of leases at the end of the 20th year it would get 18 percent more for its money under the options contained in the 30-year leases than it would under the options contained in the 20-year leases. That advantage increases to 40.4 percent at the end of the 30th year, 49.4 percent at the end of the 40th year, and 58.1 percent at the end of the 50th year. If values for real estate continue to increase as they have in the past, there is a definite possibility that the Government may wish to exercise these purchase options. The economic advantage resulting from the use of a 30-year term and related purchase options cannot be ignored.

Exhibit C converts the percentage figures in exhibits A and B into actual dollars of savings attributable to the use of the 30-year term. This exhibit shows that if the Department had been compelled to use a 20-year lease term with options on the 25 projects where the 30-year term was actually used the additional rental cost to the Government over the 30 years would have been \$10,420,860. The exhibit shows that if occupancy had continued to 40 years, the additional cost attributable to the use of a basic 20-year term would be \$22,885,720 and that this amount would increase to \$42,502,870 if occupancy were extended to 50 years.

Exhibit C also shows the total dollar advantage to the Government in exercising the purchase options in the 30-year leases as against those in the 20-year leases. The exhibit shows that the options in the 30-year leases are worth \$21,012,120 more than those in the 20-year leases if the options were to be exercised at the 20th year and that this advantage goes to \$42,024,600 if the options were exercised at the 30th year, \$45,526,260 if the options were exercised at the 40th year, and \$50,195,620 if the options were exercised at the 50th year. The exhibit also shows that this advantage is increased at each of these intervals by reason of the lower rental costs of 30-year leases.

We believe that the reason the 30-year leases are more economical than the 20-year leases is that the 30-year leases are considered by moneylenders to be more desirable as security for financing and therefore attract funds at a lower interest rate. These long-term leases attract loans from pension funds and insurance companies who are willing to reduce interest rates in return for a long-term Government obligation with minimum administrative burden.

In some instances, such as at airports, the most practical way for the Department to obtain a site is by an assignable ground lease. This means that the builder to whom the lease is assigned must obtain a loan on his leasehold interest in order to finance the project. Here, too, the long-term lease seems to be considered a more attractive security than the shorter term lease. For example, many States prohibit insurance companies from making loans on leasehold interests unless the lease has a specified number of years to run; significantly the States of California, New York, Minnesota, and Ohio have statutes prohibiting loans by insurance companies on leases with varying minimum terms, all exceeding 20 years.

It seems clear that the 30-year basic lease term has greater value as a security than does the 20-year term and is consequently more economical.

Failure to extend section 2103 would jeopardize the major part of the Department's building program for fiscal 1965.—Failure to extend section 2103 would not only deprive the Department of its most economical lease term for long-term occupancy but would also seriously delay and even jeopardize the major facility buildings program now scheduled for fiscal 1965.

The Department is presently scheduled to award 21 major lease construction projects during fiscal 1965 where 30-year basis lease terms would be appropriate. The land for 13 of these extremely important projects was acquired either by purchase, condemnation, or ground lease under the authority of section 2103. As explained earlier, the land acquisition and disposition authority contained in section 2103 may be used only for leases authorized by that section.

It follows that unless that section is extended so that this land can be disposed of to the successful bidders under its authority, these projects cannot go forward. The probability is that the sites would have to be declared surplus to Post Office Department needs and taken over for disposition or use by the General Services Administration.

This, of course, raises the possibility of using these sites and constructing these buildings under a Federal building construction program. This is a possibility, but there is no appropriation for such a program for 1965, nor is any being requested by the Department or by the General Services Administration. It is estimated that an appropriation of about \$100 million would be required for these buildings.

The eight remaining projects scheduled for 1965, where the sites are under option, could be awarded on a 20-year basic lease term basis. However considering that such terms for these large facilities are uneconomical, I would be hesitant to proceed. If Congress fails to extend this authority I would have to consider the legislative intent that approval had been withdrawn from these projects.

The ultimate future of the Department's major facility construction program—after 1965—would depend on the development of a workable Federal construction program. There is no certainty that such a program will be developed.

Even if such a program is developed, there are certain types of buildings in certain locations required for the postal service which can only be feasibly developed under long-term leasing authority.

The full authority of section 2103 is essential to the development of postal facilities in high land cost and certain other locations.—The need for postal space where service is required is by no means diminished because land cost is high. Our space needs do not go away because land is expensive.

For many years the Department has desperately needed better and larger mail handling facilities in the middle of New York City. Studies conducted during the Eisenhower administration pinpointed two locations where these facilities should be built. In 1958 the Department acquired one of these sites located on the east side of 3rd Avenue between East 54th and 55th Streets in what might be called the United Nations section of Manhattan. Part of this site was acquired by purchase and part by condemnation. In 1962 the Department caused condemnation proceedings to be filed on the other site located on East 31st and 32d Streets between Lexington and 3rd Avenues. All this land was acquired under the authority of section 2103.

These two sites cost many millions of dollars. The postal space required at the two locations is about 400,000 and 350,000 square feet, respectively. Under New York zoning regulations, buildings could be constructed on these sites containing in excess of twice the postal requirements. Under these circumstances it would appear to be in the public interest to develop these sites for their highest and best use, thus spreading the high cost of the land over a much broader base. If buildings are constructed on these sites for postal use only, it would mean that the Post Office Department would bear the full cost of this extremely expensive land. If, on the other hand, buildings are constructed on these sites, fully utilizing the commercial po-

tential of the sites, the tenants of the nonpostal space would bear a share of the land cost. In fact, since the Department owns the sites and will transfer them to the bidder offering the Department the lowest rent, there is an excellent chance that the commercial tenants will bear much more than a pro rata share of the land costs. I feel confident competitive bidding will force this result.

The authority contained in section 2103 is absolutely essential to the development of sites such as these in Manhattan.

Mr. DULSKI. You have an assignable option?

Mr. ABELL. No, sir; we own this site.

Mr. DULSKI. This particular instance, you own this site in New York City?

Mr. ABELL. Yes, sir.

Mr. DULSKI. When you enter into a contract with the builder do you specify the designs of that contract or does he agree to put up a building and rent a certain portion to you?

Mr. ABELL. In this case, this is a unique situation that we haven't tried before, it is a little different from what we normally do and we are being extremely cautious in the way we enter into it. Let me answer your question by outlining basically how this is going to work. We have a site, substantially all of a solid block in New York City. We hire an architect to design a building, to use this location in the most efficient manner, taking into account the Post Office Department needs and also providing as much additional space as could be done under New York regulations.

We now have building plans which call for two basements, a 4-story base and a 38-story tower. We will offer advertisement for bids on the 1st of April. Interested contractors—and a number of them have already expressed quite a lot of interest in this project—will submit bids under which they will offer to buy the land, reimburse us for the architect's fee, build the building, and rent the two basement levels and the four-story base building to us.

This section will be built exactly to our specifications. This architect has already designed it. They will then build the 38-story tower and lease the tower to private tenants. So they have to get out their pencil and paper and figure out just what they can rent this whole project for and what it is going to cost them, and hope they are the successful low bidder, because the key factor we are looking for in awarding this bid is the cost of our part of the building to the Government.

Mr. DULSKI. Then your contract with the contractor is for the sale of the land with the condition that he erect a certain type of building, portions of which will be used exclusively for the post office, plus whatever private tenants that he may engage to rent the upper floors?

Mr. ABELL. This is the initial one. I might say there has been some—I didn't want to confuse this hearing too much or get too far afield, but I will get to it briefly so you don't think I have misled you.

Because there has been a certain amount of controversy about it, we actually plan to ask every bidder to submit four different bids on this project. There has been some feeling that the tower which we visualize for private tenants is not justified. So each bidder will bid for the base building with and without the tower.

There has also been quite a lot of discussion about what the price of the land should be to the successful bidder. The land actually cost \$3.9 million. We have since recovered \$700,000 of that in rents, so the net cost of that land is \$3.2 million. The land has been appraised at almost \$8 million. That is the increase in value that has occurred between acquisition date in 1958 and today. One appraisal at \$7.8 million came in and we are waiting for another appraisal now.

So each bidder will bid on what he would charge us, if he were just to build the post office, what he would charge us if he were to build the post office building and the tower, and in each of these two cases what he would bid if he were to reimburse us for the full cost of the land at present market value or, on the other hand, the acquisition costs of the land.

Mr. BARRY. How are you going to make up your mind when you get all those figures in?

Mr. ABELL. Well, we are going to flip coins. No, seriously, we feel this is something we can analyze and make an exact evaluation of what—all things being considered—considering the cost of interest to the Government, the cost of financing to the Government, cost of taxes, and so forth and so on, just what it will amount to.

Mr. BARRY. One of the strong arguments in the testimony you have prepared was the fact that by building the tower you would spread the land cost over a larger number of uses, thereby bringing down our costs. So there shouldn't be any doubt as to the results.

Mr. ABELL. There is no doubt. I think the lowest bid is going to be for the land acquisition cost, the \$3.2 million this land has cost us, and the building with the full tower. I don't see how it can be otherwise.

Mr. BARRY. In other words, if you made each bidder decide now, that on the basis of any reasonable economics if you spread the cost of living on, you have got a 38 to 4 ratio there; it is a perfectly obvious thing. Realizing the decision you will ultimately make, wouldn't two figures suffice, the cost of the building and his allocation of that cost to land? Then you would adjust one of them up or down, whether or not he was high on the building site and low on the land, you might be able to get him up on the land and that way come out with a better deal for Uncle Sam without so many gyrations. It seems to me we are going to get more confused there.

Mr. ABELL. My hope is that I haven't confused the members of this committee. And you make exactly the very same reasonable argument about this that I made in my presentation, which I feel strongly about. I am amazed at the people who feel this tower is not justified. I hear all kinds of reasons for not building it. I am glad that you agree with me; it always makes me happy to have reasonable people agree with me.

Mr. BARRY. Ostensibly knowing the value of land in the United Nations area of New York, the higher the building the lower the cost the square foot, whether Government or private enterprise or whoever uses it. I think it is pretty obvious. It is just a matter of public relations.

Mr. ABELL. I think it is obvious, too. I was prepared to take a stand on it and I discovered that deep thinkers over in the Bureau of the Budget and the General Accounting Office were all worried about different factors in that.

Mr. BARRY. There are a lot of loops in the bureaucratic knot and one of the problems is to untie each one of them.

Mr. JOHNSON. If you charge him \$8 million for the land, the Federal Government gets the \$8 million now. Then we will have to pay a higher rent because we charged him \$8 million for the land and we will have to pay interest in the amortization on the \$8 million. Wouldn't it be better to sell the land for \$3 million with the option at the end of 30 years you can buy the property back based on the part, the \$3 million that he got the land for?

Mr. ABELL. I agree with you 100 percent about the cost of the land. The cost of financing to the Government is a little bit cheaper than it is to private investors. So if a private investor has to pay \$8 million he is going to get from the post office increased rent to cover interest on the \$8 million. I think this borders on the axiomatic. But again, I have been pilloried and accused of giving a \$5 million bonanza, so my easy solution is to let every bidder come in and bid it each way.

As to the option to purchase, we don't think the Government should be in the real estate business any more than it already is. Some people have accused me—and Mr. Wallhouser's constituent, Tony Keffmore, accused me of this—of being in the real estate business. We don't think the Government should own a 38-story building in New York which it leases to private industry, doctors, lawyers, whatever they might be. This is one of the reasons we think there should be a leased project, where private enterprise owns it and leases to us what we need. I don't think we will have any purchase options in this particular project.

Mr. DULSKI. That may be all right in this particular instance in New York but how about other parts of the country, where you can put up a 4-story building?

Mr. ABELL. Where we just have the building without the complications of private tenants?

Mr. DULSKI. Is the Post Office getting out of the construction of buildings for its own exclusive use and entering into the lease arrangements in preference thereto?

Mr. ABELL. We never have been able to build for our own exclusive use for Federal ownership; all of our construction has been this lease construction program.

Mr. DULSKI. Why? If a private individual can go out and construct a building for the Government, lease it to the Government and make money, why can't the Government do it itself?

Mr. ABELL. They can through the General Services Administration; they build a Federal building and we in many respects are the major occupant of those.

Mr. DULSKI. Why is there a preference to the lease arrangement over the ownership principle?

Mr. ABELL. Well, there are different factors involved. In the smaller buildings particularly we have a need frequently to get out of the building after 10 years. We have expanded in that area to the point the building no longer serves our purposes. We can lease it for 10 years and at the end of that period go and get another building.

For the larger buildings the lease program is not as advantageous economically in some instances. But there are also, when you put all

the factors in, there are many times when we feel it is more advantageous to lease the building.

Generally, a building will cost less per square foot when it is produced under this arrangement, when the General Administration contracts for it. We have less complications than when we go in and have our own program and deal directly with the contractor ourselves.

Mr. BARRY. If the gentleman will yield: Isn't the real answer to this question the fact that we needed many post offices at a given period of time, that the Congress was reluctant to build them, and therefore entering into the lease arrangement kept down the initial condemnation costs and at the same time gave us much needed space? I think this is the kernel of it.

Mr. ABELL. This way you spread the cost as rent instead of having big chunks of appropriations coming in as capital expense.

Mr. DULSKI. Well, I wanted you to tell me that for the record.

Mr. ABELL. We have gotten around in so many circles that I forgot some of my argument. I am glad Mr. Barry helped me out.

Mr. DULSKI. I wanted to get that on the record because when this reaches the floor of the House some eager beaver is going to come up with this question and we would like to have that answer in the record to respond to that inquiry should it be made.

Mr. WALLHAUSER. Yes; I can think of one Member who will argue very strongly that the Government should own all its buildings.

Mr. DULSKI. It is almost 11 o'clock and I think we have to hurry along here if we want to get through this morning.

Mr. ABELL. Well, as I was making the point about private enterprise in this project in Manhattan, I don't think projects of this kind should be developed under a Federal building program. I do not believe—and I think you will agree—that the Federal Government should build two skyscrapers in mid-Manhattan and lease most of them to private tenants. I feel this would be a substantial encroachment of the Government into free enterprise.

Mr. BARRY. Mr. Chairman, I do want to nail down whether we have an option to get additional floors in the same building should we ever need them?

Mr. ABELL. I have never considered that.

Mr. JENSEN. No; we are not contemplating that in our agreement to lease. We are designing this facility to meet our needs for about 20 years and we think this will be adequate.

Mr. ABELL. Did you say 20 years?

Mr. JENSEN. Excuse me. Twenty years with options which will carry to 70 years.

Mr. BARRY. It seems to me you ought to protect yourself to utilize that space, if you have to come in again after 30 years and buy additional space. That is a bargain, that piece of land, and I wouldn't give up too readily. Just a suggestion.

Mr. ABELL. I think a good suggestion.

Mr. WALLHAUSER. If the gentleman will yield: Do I understand that under 2102 there is no provision that would allow you to receive donated land?

Mr. ABELL. That is correct.

Mr. WALLHAUSER. That is, of course, another reason why we must have 2103. In the case of my community we donated the land to the

Government for the use of the time that you were occupying the building.

Mr. ABELL. This is not an infrequent occurrence, Mr. Wallhauser, and in many cases we have the situation where the local community, the local city, is happy if not to actually give us the land, to sell the land at a very reasonable cost, with the knowledge that it will be owned by a private individual and kept on the local tax rolls, whereas if the Federal Government got it there would be a substantial block of downtown real estate removed perhaps forever from the local taxation.

I don't think projects of the Manhattan magnitude should be developed under a Federal building program. I do not believe—and I think you will agree—that the Federal Government should build two skyscrapers, in mid-Manhattan about 20 blocks apart, and lease most of them to private tenants. This would be a substantial encroachment of the Government into free enterprise.

There are certain locations, such as those at airports, where the Department must have a mail-handling facility but where the only practical means of obtaining it is through a long-term assignable ground lease. There are other situations where the availability of the best and most economical site—owned by a municipality, for example—depends on the construction of a leased facility that will remain on the local tax rolls. The city will sell to us at a very favorable price if the land in question is to be taxed. Otherwise we would have to condemn the land and pay a substantially higher price.

Even if a Federal construction program were to be developed, it would not solve these problems. The solution lies in the continued long-term leasing and supporting land acquisition and disposition authority. Particularly to meet these problems in the future, I ask that the time limitation on section 2103 be eliminated.

The land acquisition and disposition authority contained in section 2103 is essential to the entire leasing program.—The land acquisition and disposition authority contained in section 2103 may be used in connection with all leases entered into under the authority of the section, and this includes leases up to 30 years in duration. This is as it should be because this authority is essential to an effective leasing program whether the leases are of 10, 20, or 30 years in duration.

To achieve the lowest possible rents a lease construction program must be competitive. It must lend itself to true competitive bidding. True competitive bidding requires that all bidders bid on the same project, including the site. This means that the site for the project must be under control so that it can be offered to the low bidder. So-called open bidding, where each bidder furnishes his own site within a specified area, is not true competitive bidding.

We are successful in obtaining site options at fair and reasonable prices for almost all the projects included in our extensive lease construction program. This success must be directly attributed to the existence of the condemnation authority contained in section 2103. The mere existence of the authority is enough in almost all cases. However, suitable sites are sometimes unobtainable under assignable site options, making acquisition by purchase, condemnation, or lease, the only means by which control can be acquired.

Use of this direct land acquisition authority is desirable when—

1. One or more owners of parcels within selected site area demand exorbitant prices and the Government's interests can be protected only by acquiring through condemnation, leaving the determination of fair value to the court;

2. Option speculators tie up the choice sites in an area to force the Government to accept their terms;

3. Clear title to one or more parcels of a selected site cannot be conveyed by the owner, but title can be cleared by condemnation proceedings;

4. A municipality or other non-Federal Government unit owns the desired site and is willing to sell at a reasonable price, but lacks statutory authority to do so;

5. Owners refuse to grant assignable land purchase options for the length of time required to make a lease award, especially for major facilities where a period of more than a year would elapse before a lease award;

6. Owners will agree to a firm sales contract at an acceptable price, but decline to tie up their properties by granting mere assignable options to purchase;

7. Owners are willing to give a ground lease but, for tax and other reasons, decline to sell outright;

8. The Government is not able to obtain an agreement to sell from all the owners where one or more hold key parcels necessary to the development of the entire selected site.

The continued existence of this land authority and the right to use it with respect to all leases is vital to the Department's entire leasing program. Section 2103 now meets this need, and it should be continued in effect.

SUMMARY

To summarize—the 30-year leasing authority contained in section 2103 should be continued because:

1. It is the most economical method of procuring space where long-term occupancy is projected and leasing is appropriate.

2. The 30-year term enables the Department to more evenly match space costs and revenue—thus minimizing Treasury financing.

3. It is especially needed during fiscal 1965 since otherwise our major facilities program will be drastically curtailed.

4. After fiscal 1965, if a Federal construction program were to be developed, continued 30-year leasing authority is essential to the development of facilities where Federal ownership is inappropriate.

The land acquisition and disposition authority contained in H.R. 9653, including the all-important condemnation authority, should be continued because:

1. It is basic to a competitive lease construction program irrespective of the length of the lease terms.

2. Without land disposition authority, and in the absence of an appropriation for a Federal construction program during fiscal 1965, the entire postal construction program of major facilities will come to a halt during fiscal 1965.

3. The condemnation authority protects the Department against excessive land costs, and its very existence enables the Department to obtain options at fair prices which would not otherwise be obtainable.

What we are asking here is simply that the Department be permitted to retain the same space acquisition tools available to private industry. We compete with private industry for space—we should be in a position to compete effectively.

For these reasons we recommend the passage of H.R. 9653.

(The exhibits referred to are as follows:)

EXHIBIT A

Comparative net costs of occupancy in postal facilities under 20- and 30-year base-term leases with renewal options to 50 years entered into between July 1, 1957, and July 1, 1962

Base term of contract	Number of projects analyzed	Total square feet, interior plus platform	Total cost, land plus estimated cost of construction	Annual net rental rate per dollar of initial project cost				
				1 to 20 years	20 to 30 years	1 to 30 years	30 to 40 years	40 to 50 years
20 years plus renewal options.....	26	796,000	\$14,180,000	\$0.070027	\$0.051339	\$0.063734	\$0.041255	\$0.038222
30 years plus renewal options.....	25	5,320,000	116,734,000	-----	-----	\$0.060822	\$0.030577	\$0.021417
Percent annual savings, 30-year contracts.....	-----	-----	-----	-----	-----	4.5	25.9	43.9

EXHIBIT B

Comparative costs of acquiring title to postal facilities under 20- and 30-year base-term leases with purchase options entered into between July 1, 1957, and July 1, 1962

Base term of contract	Number of projects analyzed	Total cost, land plus estimated cost of construction	Ratios of purchase options to dollars of initial project costs (percent)			
			20th year	30th year	40th year	50th year
20-year.....	1 14	\$6,596,000	96.0	89.0	79.0	74.0
30-year.....	25	116,734,000	78.0	53.0	40.0	31.0
Percent savings, 30-year contracts.....	-----	-----	18.8	40.4	49.4	58.1

¹ Many 20-year base-term contracts prior to fiscal year 1960 did not include options to purchase.

EXHIBIT C

Comparative net additional costs if 20-year lease terms were applied to the 30-year leases entered into from July 1, 1957, to July 1, 1962

PART I. NET RENTALS

	Land plus estimated construction costs of buildings	1 to 20 years		Cumulative cost (1 to 20 years)	20 to 30 years		Cumulative cost (1 to 30 years)	30 to 40 years		Cumulative cost (1 to 40 years)	40 to 50 years		Cumulative cost (1 to 50 years)
		Annual rate	Annual cost		Annual rate	Annual cost		Annual rate	Annual cost		Annual rate	Annual cost	
Total cost.....	\$116,734,000												
20-year factors.....		0.070027	\$8,174,532	\$163,490,640	0.051839	\$5,993,007	\$223,420,710	0.041255	\$4,515,861	\$271,579,320	0.038222	\$4,461,807	\$316,197,980
30-year terms.....		.060822	7,099,995	141,999,900	.060822	7,099,995	212,999,850	.030577	3,569,375	249,699,600	.021417	2,500,092	273,694,520
Differences (20 to 30 years).....		.009205	1,074,537	21,490,740	(.009483)	(1,106,988)	10,420,860	.01678	1,246,486	22,885,720	.016805	1,961,715	42,502,870

PART II. PURCHASE OPTIONS

	20th year		30th year		40th year		50th year	
	Percent of initial cost	Dollar option						
20-year factors.....	96	\$112,064,640	89	\$103,893,260	79	\$92,219,860	74	\$86,383,160
30-year terms.....	78	91,052,520	53	61,869,020	40	46,698,600	31	36,187,540
Differences (20 to 30 years).....	18	21,012,120	36	42,024,240	39	45,526,260	43	50,195,620
Cumulative differences (20 to 30 years).....		42,502,860		52,445,100		68,411,980		92,698,490

Mr. DULSKI. I have a question to ask you. I notice in reading the bill that we have under consideration that it provides that 39 U.S.C. 2109 be amended to read:

Agreements may not be entered into under sections 2104 and 2105 of this title after July 22, 1964.

That is the complete amendment?

Mr. ABELL. That is the complete bill.

Mr. DULSKI. There is no reference to 2103, to which you have directed most of your testimony. Now under this amendment sections 2104 and 2105 will no longer exist in the law after July 22, 1964. Why are you dropping those sections?

Mr. ABELL. I will have Mr. Coffman respond.

SECTIONS 2104 AND 2105

Mr. COFFMAN. These authorize the Department to enter into lease-purchase agreements. They have been abandoned by the Post Office Department and by the remainder of the Government due to a congressional mandate contained in the appropriation act several years ago. These for all practical purposes are dead sections that we are not using any longer. They no longer are of any value to us.

Mr. DULSKI. You say "lease-purchase agreements." Would you describe that more fully?

Mr. COFFMAN. It is an arrangement whereby the rent is allocated to the purchase price. The agreement to lease authorizes a purchase to be made by the Government but rather than just paying the purchase price you also have credited against the purchase price the amount that has been paid in rent, or a percentage of that.

For some reason that I am not familiar with these seems to be a consensus that this program was not a wise program and, accordingly, Congress for all practical purposes killed it several years ago.

Mr. DULSKI. What it actually amounts to then is a lease agreement with an option to purchase?

Mr. COFFMAN. With option to purchase and rent to be credited against the purchase price.

Mr. DULSKI. It's been brought to my attention that under these two sections that after 30 years the Government would automatically become the owner of the property.

Mr. ABELL. What happens is the contract frequently becomes inflated so you wind up actually paying more than you should for the building under this type of arrangement. Plus the fact that one of the arguments—it's a sound argument in many cases—for using this lease authority is to have the flexibility to just move out and not be bothered about disposal of that surplus.

Mr. DULSKI. In other words, the Government would ultimately wind up as the owner at the expiration of the lease?

Mr. ABELL. Right. Whereas under 2102 and 2103 we can lease the building and have an option to purchase. If we feel the continued use is wise and economically justified we can go ahead and buy it, but we don't have to.

Mr. DULSKI. Therefore, it has not been to the best interests of the Government to enter into arrangements under 2104 and 2105, it is better under 2103; that is the purpose of your statement?

Mr. ABELL. Correct.

Mr. WALLHAUSER. Mr. Chairman.

Under the proposed legislation the agreement under 2103 would stand in perpetuity?

Mr. ABELL. Yes, sir.

Mr. WALLHAUSER. As 2102 now does?

Mr. ABELL. Perpetuity—it will stand until Congress amends it.

Mr. WALLHAUSER. Without any cutoff date?

Mr. ABELL. Yes, sir.

Mr. WALLHAUSER. We will probably run into some problem on this score from some Member of Congress who may wish to put a cutoff date similar to the one that was on now. In other words, was the 10 years, from 1954 to 1964, an extension? I think you should develop quite specifically why you object to the 10-year extension of the present cutoff date.

Mr. ABELL. Let me tell you my reasoning on that. I feel that there are very definite, specific projects, and I have outlined them in my statement—which I am probably not going to have a chance to read but I hope you will read it later—there are specifics like the two projects we were talking about a few moments ago, in New York; instances at airports where the local airport authority doesn't want to sell a piece of land in the middle of the airport; instances where the city or some other government or quasi-governmental authority does not want a piece of land that they would like to use brought under Federal ownership for one reason or another; that this 30-year leasing authority is of invaluable use to us.

The only alternative, as I have pointed out, would be to go to the 20-year leasing authority, and again we don't have in section 2102 our necessary condemnation authority, and acceptance of donation authority, and other land disposition and acquisition authority which is very necessary to the total leasing program.

There are definitely specific places where a leasing arrangement is your only practical alternative and in many of these cases the 30-year lease is quite appropriate and much more economical than the 20-year lease. This should be divorced from the whole subject of Federal ownership.

Mr. WALLHAUSER. I am not making a point of Federal ownership.

Mr. ABELL. If I get favorable consideration here, there are other people who will be talking about it.

Mr. WALLHAUSER. When the matter of cutoff date is raised about the legislation, do we have a right answer, which I assume, if I may paraphrase you, is that the 30-year lease is a just arrangement to us and even more so in many cases than the 20-year, inasmuch as the 20-year lease section has no cutoff section, is equal in fact to having a 30-year lease privilege; is that correct, approximately so?

Mr. ABELL. That is correct. And if this argument comes up on the floor of the House, and the argument is made by Members that the Post Office Department shouldn't have this 30-year authority any more or, if so, it should be only a short period of years, I hope you will counter by saying that the Post Office Department, you have been assured, will continue to investigate the possibility of broader Federal ownership where Federal ownership is appropriate, but there are still instances where we need this 30-year authority.

Mr. WALLHAUSER. Thank you.

Mr. ABELL. It is an argument of degree and I don't think the degree goes to the number of years that we have this but to the number of projects to which this 30-year authority is applied.

Now Congressman Jones has submitted a statement for the record here, as chairman of the Public Buildings and Ground Subcommittee of the Public Works Committee of the House, and I think that his statement will reinforce my argument.

Mr. WALLHAUSER. Thank you.

Mr. BARRY. Gentlemen, I am getting back to this New York post office—

Mr. ABELL. It is close to home.

Mr. BARRY. I am a New Yorker here and as a member of this committee I have a keen interest in it. It seems to me if the land now is worth \$8 million, if we were to charge rent to the builder of this building, say 6 percent of that \$8 million, we would get a credit on our rent of \$480,000. That would be our land credit let's say. Let's assume that it costs \$6 million to build the post office part of that building. At 6 percent, if he charged us 6 percent that would be \$360,000. And if we paid \$3 million for the building, at a time when we were borrowing money at 4 percent, that would be a cost of \$120,000; so, our interest cost on the original three, plus the cost to rent, \$360,000 a year, offset by the cost charged to him of the rent for the privilege of building 36 stories up in the air, we would be breaking even on our money; it could cost us nothing.

Mr. ABELL. Sounds great; hope it works. We hadn't considered the possibility of ground lease to the builder. Are you suggesting actual ground lease—

Mr. DULSKI. I think you ought to hire Congressman Barry to rent this building for you.

Mr. BARRY. I am identified in the area to the extent that I am backing into this by realization that the possibility of giving the building up in 30 years might be unwise for future generations. Because I think it would be almost impossible to acquire a block of land at that point. So how do you hang on to it? By leasing it back to him—we aren't going to be in the business of making money in real estate, but we are certainly not against breaking even.

As a free enterprise Congressman, I would stand up for our right to own this property in perpetuity providing we weren't in the business of making money on it. We are in the business of making space for our post office.

Mr. ABELL. To me this is a fascinating idea. Not having considered it, I don't want to make any rash statements.

Mr. Chairman, could we go off the record?

Mr. DULSKI. Off the record.

(Discussion off the record.)

Mr. DULSKI. Back on the record.

You indicated in your testimony a bit earlier that you would ask the contractor to buy this land and to erect this building, the Government would occupy two subbasement levels, plus four floors above the ground and the upper portion of the building would be rented to private individuals. You mentioned at the expiration of 30 years the Government might have the option to renew for an additional period of 40 years, making a total of 70?

Mr. ABELL. In eight 5-year blocks, eight 5-year options, making 40 years in addition.

Mr. DULSKI. As I read 2103, it says the Government may enter into lease agreements for periods not exceeding 30 years. By what authority would you have to make agreements for eight 5-years or a total of 40 years in addition to the original lease of 30 years?

Mr. ABELL. That is a good question. Each agreement is separate. The initial 30-year agreement is a separate contract. This contains an option and if we exercise the option that is a separate agreement in effect legally.

Mr. DULSKI. But you are getting option for additional period of 40 years. I wondered if the language of this statute is sufficient to give the authority to enter into option beyond the period of 30 years?

Mr. ABELL. Yes, sir; we have had an option on that.

Mr. COFFMAN. The Government is not bound for more than 30 years and, in view of the nonbinding character of options, the General Accounting ruled the ownership or right to exercise option—

Mr. DULSKI. I fully realize what an option is.

Mr. COFFMAN. I understand your question is whether execution by the Department of a lease with a 30-year term and eight 5-year renewal options, such as we propose for the FDR station in New York City, violates the statutory mandate that a lease term shall not exceed 30 years.

Of course, it is understood that the option to renew vests the discretion exclusively in the Department as lessee to decide at the expiration of the primary term whether it would be in the best interests of the Government to renew the lease at the stated rentals. In other words, the renewal options do not operate automatically.

The Government is contractually obligated to but a 30-year term. The options to renew do not themselves extend that term beyond 30 years. If at the expiration of the 30-year term the Department decides it would be in the best interests of the Government to occupy under a 5-year renewal option and elects to do so, a new 5-year term is thereby created.

The Comptroller General has passed upon the specific question raised by you and in his decision, B-103967, July 7, 1954, recognized that section 2103, title 39, United States Code, specifically authorizes 30-year terms with additional renewal options.

The Department has made hundreds of awards under its sections 2102 and 2103 leasing authority which are for 20- and 30-year terms, respectively, which agreements contain renewal term options.

The same principle applies where the series of 5-year options is more than six in number and hence covers more than 30 years. There is no binding lease for more than 5 years in any one time and consequently the mandate that a lease term shall not exceed 30 years is not violated.

Mr. DULSKI. The lessee exercises the discretion as to whether or not the option should be or should not.

Mr. COFFMAN. That is the situation here where we have the option to exercise, since it is not binding.

Mr. ABELL. Since we are the lessee we have not bound ourselves beyond 30 years; therefore, we are within the authorization of that section and we go for the first 30 years and then each additional option is considered separately under the authorization of that section.

Mr. DULSKI. Mr. Roybal, any questions?

Mr. ROYBAL. No, sir.

Mr. DULSKI. Unless you have some further comments, or your associates, which you wish to put on the record, this will conclude today's hearings.

Mr. ABELL. Mr. Chairman, I just want to thank you and the members of this committee for hearing my case here today.

Mr. DULSKI. Your report, "Post Office Department New Construction Program," will be inserted at this point in the record.

(The prepared report follows:)

POST OFFICE DEPARTMENT NEW CONSTRUCTION PROGRAM, 5-YEAR PROJECTIONS,
FISCAL YEARS 1964 THROUGH 1968

Bureau of Facilities, Post Office Department, January 1964

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SECTION I. SUMMARY AND PROJECTIONS

1. Foreword

This is a revision and updating of the lease construction program—5-year projections, fiscal years 1963 through 1967, published in November 1962 in connection with the 1964 budget requests of the Bureau of Facilities. This presentation moves the projections forward 1 year to include fiscal years 1964 through 1968. The general analysis covers the need for new space without regard to the method of acquisition. The specific 5-year projections are stated in terms of the leasing program because this is the program now being utilized.

Section I contains a summary of the growth factors which make imperative a substantial annual increase in postal space. It closes with a projection of what that increase should be in terms of square feet and in terms of number of awards for fiscal years 1964 through 1968 if the leasing method is to be utilized in meeting requirements.

Section II contains in organized detail substantially all the known facts and factors supporting the premise upon which the projections are based, namely, that the growth and shift of population, plus the much greater growth in mail volume, make inevitable a constant, substantial increase in the space needed to handle the mail, not only for the next 5 years but for the foreseeable future.

2. Summary of growth factors

Since the turn of the century the population of this country has increased from approximately 76 to 190 million, or about 2½ times. A major part of this increase has been in the urban areas of the country, the number of urban communities having increased from approximately 1,700 in 1900 to over 5,000 at the present time.

During this same period the volume of originating domestic mail has increased from approximately 7 billion pieces per year in 1900 to approximately 68 billion at the present time, or nearly 10 times the volume at the beginning of the century. Thus, the per capita utilization of the postal service in the past 63 years has increased approximately four times as fast as the population itself, or from an average of 95 pieces per capita in 1900 to over 350 pieces in 1962.

A major portion of these increases in mail volumes has resulted from the rapidly accelerating use of the postal communications system by commerce and industry to a point where it is now estimated that 75 percent of all originating domestic mail is generated by commercial and industrial organizations and that an additional 15 percent is generated by the public in response. Since, at the present time, most business enterprises as well as their customers are located within urban areas, the two-thirds of the total population currently living in these areas generates and receives approximately nine-tenths of the total mail volume while the balance of one-third of the population is responsible for but one-tenth of the mail.

During most of the period since 1900, the Department has been faced with a constant need to continuously expand its plant capacities in order to handle efficiently this accelerating growth in mail volumes. While the depression period of the decade 1930 to 1940 resulted in a reduction in mail volumes, during which time the public works programs provided an extensive refurbishment of the postal plant, the resumption of the country's economic vigor following 1940 soon resulted in a recurring inadequacy of postal facilities to meet the accelerated rate of postal growth.

Based on growth factors of population and mail volumes experienced in the last two decades, it is now estimated that the present population will increase to approximately 247 million by 1980 and at least 330 million by the year 2000, while the mail volume will increase to approximately 124 billion pieces in 1980 and 242 billion in the year 2000. In terms of mail volumes, this means that the total originating domestic mail will nearly double each 20 years to the end of this century, although the population will increase only about 84 percent during the entire period.

Based on the application of present standards to these growth factors, it is estimated that it will be necessary to expand the present postal plant at the rate of approximately 5 million square feet of additional interior space per year merely to meet current requirements. However, since sound economic practice dictates the feasibility of building now to meet both current and foreseeable requirements, it is obvious that the plant expansion program, particularly in high-growth areas, should include provisions for handling increasing mail volumes without major additional remodeling or reconstruction.

Thus, it is presently estimated that the postal plant must be increased to a minimum of approximately 150 million square feet of interior space by 1970 and 200 million square feet by 1980 just to keep current and without provision for future growth.

The proposed 5-year program, submitted herewith, is simply a segment of the Department's long-range facilities projections based on both meeting today's and a part of tomorrow's needs. Therefore, while the inclusion of expansion factors results in meeting the 1970 target in 1968, it will obviously be necessary to continue to expand the postal plant thereafter as long as the economic vigor of this country continues to grow.

3. Analysis of existing postal facilities

As of the close of fiscal year 1963, the Department occupied approximately 112.6 million square feet of interior space in 28,282 Government-owned or leased or rented buildings, exclusive of fourth-class offices and contract stations.

The following table sets forth, as of June 30, 1963 (a) the number and types of facilities occupied, (b) the square feet of interior space occupied by type of facility, and (c) the change in interior square feet occupied from 1960 to 1963:

TABLE I.—Existing postal facilities

(A) NUMBER OF POSTAL UNITS AND AUXILIARY INSTALLATIONS, JUNE 30, 1963

Type:	Federal	Leased	Rented	Total
1st-class office.....	2,578	1,657	-----	4,235
2d-class office.....	392	4,627	1,789	6,808
3d-class office.....	3	1,085	11,984	13,072
Branches and stations.....	191	2,300	884	3,375
Other ¹	6	706	80	792
Total.....	3,170	10,375	14,737	28,282

(B) MILLION SQUARE FEET OF INTERIOR POSTAL SPACE, JUNE 30, 1963

Class of office:				
1st.....	52.8	12.0	-----	64.8
2d.....	2.4	9.8	1.2	13.4
3d.....	-----	1.4	8.6	10.0
Branches and stations.....	.9	10.8	.6	12.3
Other ¹3	11.6	.2	12.1
Total.....	56.4	45.6	10.6	112.6

(C) SQUARE FEET OF INTERIOR POSTAL SPACE CHANGES, FISCAL YEAR, 1960-63

As of June 30, 1960 ²	55,757	33,948	10,422	102,127
As of June 30, 1963.....	56,362	45,616	10,694	112,672
Increase or decrease.....	-1,395	+11,668	+272	+10,545

¹ "Other" includes parcel post annexes, truck terminals, airmail facilities, vehicle maintenance facilities, regional offices, supply centers, and other miscellaneous space.

² Adjusted to make comparable with Federal space adjustments made in 1962.

Leased space is directly controlled by the Department through direct contractual agreements with the lessors. The terms and conditions of these agreements vary considerably by length of lease periods, options to renew or purchase, provisions for lessor or lessee maintenance, and lease cancellation clauses. Lease procedures are generally used for buildings when the rental rates are in excess of \$3,000 per year. Basic lease periods vary from 5 to 30 years, depending on the foreseeable requirements and best interests of the Department in each case.

Rented space is also directly controlled by the Department through direct contractual agreements which permit either the Department or the owner to cancel an agreement or a 30-day notice by either party. For the most part, rental agreements are used for acquiring small buildings of under 2,000 square feet, although the Department often uses this type of agreement to acquire temporary space of larger dimensions.

4. Five-year projection, fiscal years 1964 through 1968

To meet urgent requirements for additional postal facilities as well as to replace obsolete or inadequate buildings, it will be necessary for the Department to acquire a total of 51.8 million square feet of interior postal space during the 5-year period 1964 through 1968.

Twenty-five percent of this total, or 12.9 million square feet, will be needed for replacement purposes and 38.9 million square feet will be needed to handle expanding mail volumes.

If this urgently needed space were to be acquired entirely under the leasing program, annual rental rates would increase a net of \$82.2 million by the end of the 5-year period.

If, on the other hand, these needs were to be met entirely by direct Federal outlays, appropriations totaling approximately \$1.1 billion would be required.

Table II below summarizes the number of contracts for new construction which it will be necessary for the Department to award each year for the ensuing 5 years under the present leasing program.

TABLE II.—Number of awards for new construction, fiscal years 1964 through 1968

Fiscal year:	Number	Fiscal year—Continued	Number
1964.....	975	1967.....	918
1965.....	971	1968.....	920
1966.....	956		
		Total.....	4,740

Table III summarizes the total estimated net changes in occupancy of leased and rented facilities for the entire period 1964 through 1968 and table IV, (a) through (e), sets forth in detail the proposed actions in each specific fiscal year.

TABLE III.—Summary: Estimated net changes in occupancy of leased and rented postal facilities, interior operating areas including platforms, and annual rates, fiscal years 1964 through 1968

	Leases		Rents		Combined total at end of fiscal year
	Total added during fiscal year	Cumulative total at end of fiscal year	Total added during fiscal year	Cumulative total at end of fiscal year	
1. Number of buildings:					
(a) As of July 1, 1963.....		10,375		14,737	25,112
(b) Fiscal years:					
1964.....	354	10,729	-90	14,647	25,376
1965.....	437	11,166	-134	14,513	25,679
1966.....	511	11,677	-179	14,334	26,011
1967.....	444	12,121	-154	14,180	26,301
1968.....	440	12,561	-154	14,026	26,587
5-year increase.....	2,186		-711		1,475
2. Interior area and platform (thousands of square feet):					
(a) As of July 1, 1963.....		48,793		11,262	60,055
(b) Fiscal years:					
1964.....	5,510	54,303	-39	11,223	65,526
1965.....	5,508	59,811	-31	11,192	71,003
1966.....	10,054	69,865	-107	11,085	80,950
1967.....	9,208	79,073	-79	11,006	90,079
1968.....	8,997	88,070	-88	10,918	98,988
5-year increase.....	39,277		-344		38,933
3. Annual rental rates (thousands of dollars):					
(a) As of July 1, 1963.....		\$68,105		\$9,096	\$77,201
(b) Fiscal years:					
1964.....	\$9,787	77,892	\$399	9,495	87,387
1965.....	10,998	88,890	487	9,982	98,872
1966.....	20,864	109,754	268	10,250	120,004
1967.....	18,831	128,585	281	10,531	139,116
1968.....	20,083	148,668	266	10,797	159,465
5-year increase.....	80,563		1,701		82,264

TABLE IV-A.—Facilities appropriation—Leases and rents, estimated annual rates, awards, and occupancy, fiscal year 1964

	Number of projects			Annual rates ¹			Square feet ¹ (interior and platform)				
	Under construction, July 1, 1963	Awards, fiscal year 1964	Occupied, fiscal year 1964	Under construction, June 30, 1964	Under construction, July 1, 1963	Awards, fiscal year 1964	Occupied, fiscal year 1964	Under construction, July 1, 1963	Awards, fiscal year 1964	Occupied, fiscal year 1964	Under construction, June 30, 1964
New construction:											
Lease agreements:											
New space:											
New units.....	19	56	21	54	\$217	\$582	\$224	107	337	111	333
Major facilities.....	6	10	6	10	2,558	3,791	2,558	1,503	1,835	1,503	1,835
Lease for Federal buildings.....	72	119	73	118	2,331	3,963	2,339	1,435	2,148	1,439	2,144
Space replaced:											
Lease for lease.....	233	400	276	357	2,099	5,131	2,307	1,101	2,503	1,221	2,383
Lease for rent.....	99	162	144	117	413	716	573	237	405	331	311
Rental agreements: Rent for rent.....	111	228	203	136	166	381	305	126	285	238	173
Total, new construction.....	540	975	723	792	7,784	14,564	8,306	4,509	7,513	4,843	7,179
Major remodeling:											
New space: New units—lease.....	2	16	10	8	8	501	299	5	282	170	117
Space replaced: Lease for lease.....	66	230	185	111	742	1,883	1,550	504	984	955	533
Total, major remodeling.....	68	246	195	119	750	2,384	1,849	509	1,266	1,125	650
Existing facilities:											
New space: New units—lease.....		25	25			159	159		110	110	
Space replaced:											
Lease for lease.....		200	200			1,665	1,665		1,250	1,250	
Lease for rent.....		75	75			181	181		230	230	
Extensions—option.....		1,520	1,520			3,971	3,971				
Advancements and delegations.....		218	218			87	87		109	109	
Total, existing facilities.....		2,038	2,038			6,063	6,063		1,699	1,699	
Subtotal.....	608	3,259	2,956	911	8,534	23,011	16,218	5,018	10,478	7,657	7,829
Less buildings replaced.....	509	2,904	2,692	721	1,147	7,081	6,032	1,075	2,814	2,196	1,693
Net change.....	99	355	264	190	7,387	15,930	10,186	3,943	7,664	5,471	6,136

¹ In thousands.

TABLE IV-B.—Facilities appropriation—Leases and rents, estimated annual rates, awards, and occupancy, fiscal year 1965

	Number of projects			Annual rates ¹			Square feet ¹ (interior and platform)				
	Under construction, July 1, 1964	Awards, fiscal year 1965	Occupied, fiscal year 1965	Under construction, June 30, 1965	Under construction, July 1, 1964	Awards, fiscal year 1965	Occupied, fiscal year 1965	Under construction, July 1, 1964	Awards, fiscal year 1965	Occupied, fiscal year 1965	Under construction, June 30, 1965
New construction:											
Lease agreements:											
New space:											
New units.....	54	40	64	30	\$575	\$418	\$662	\$331	240	383	190
Major facilities.....	10	26	7	29	3,791	13,703	1,571	15,923	6,572	845	7,562
Lease for Federal buildings.....	118	81	74	125	3,955	3,143	1,732	5,366	1,653	929	2,868
Space replaced:											
Lease for lease.....	357	400	398	359	4,923	4,454	4,706	4,671	2,253	2,366	2,300
Lease for rent.....	17	220	174	163	56	953	808	701	579	446	444
Rental agreements: Rent for rent.....	130	204	255	85	232	420	484	173	269	350	112
Total, new construction.....	792	971	972	791	14,052	23,091	9,963	27,170	11,596	5,299	13,476
Major remodeling:											
New space: New units—lease.....	8	18	18	8	210	375	406	179	205	223	99
Space replaced: Lease for lease.....	111	222	228	105	1,075	2,055	2,138	992	1,229	1,191	571
Total, major remodeling.....	119	240	246	113	1,285	2,430	2,544	1,171	1,434	1,414	670
Existing facilities:											
New space: New units—lease.....		25	25			159	159		110	110	
Space replaced:											
Lease for lease.....		200	200			1,665	1,665		1,250	1,250	
Lease for rent.....		75	75			181	181		230	230	
Extensions—option.....		1,423	1,423			3,967	3,967				
Advancements and relettings.....		200	200			80	80		100	100	
Total, existing facilities.....		1,923	1,923			6,052	6,052		1,690	1,690	
Subtotal.....	911	3,134	3,141	904	15,327	31,573	18,559	28,341	14,720	8,403	14,146
Less buildings replaced.....	721	2,829	2,838	712	2,196	7,201	7,074	2,923	1,693	3,137	1,904
Net change.....	190	305	303	192	13,131	24,372	11,485	26,018	11,583	5,477	12,242

¹ In thousands.

TABLE IV-C.—Facilities appropriation—Leases and rents, estimated annual rates, awards, and occupancy, fiscal year 1966

	Number of projects			Annual rates ¹			Square feet ¹ (interior and platform)			
	Under construction, July 1, 1965	Awards, fiscal year 1966	Occupied, fiscal year 1966	Under construction, June 30, 1966	Awards, fiscal year 1966	Occupied, fiscal year 1966	Under construction, July 1, 1965	Awards, fiscal year 1966	Occupied, fiscal year 1966	Under construction, June 30, 1966
New construction:										
Lease agreements:										
New space:										
New units.....	30	40	30	40	331	420	190	246	190	246
Major facilities.....	29	16	19	26	15,923	10,548	8,663	4,341	4,001	7,902
Lease for Federal buildings.....	125	75	125	75	5,366	2,850	5,366	1,538	2,868	1,538
Space replaced:										
Lease for lease.....	359	400	399	360	4,671	4,800	5,154	2,400	2,540	2,160
Lease for rent.....	163	200	219	144	4,701	860	619	444	510	367
Rental agreements: Rent for rent.....	85	225	216	94	178	450	440	293	281	124
Total, new construction.....	791	956	1,008	739	27,170	19,928	20,896	9,328	10,467	12,337
Major remodeling:										
New space: New units—lease.....	8	18	18	8	179	414	409	234	229	104
Space replaced: Lease for lease.....	105	200	205	100	992	1,860	1,922	1,100	1,121	550
Total, major remodeling.....	113	218	223	108	1,171	2,274	2,331	1,334	1,350	654
Existing facilities:										
New space: New units—lease.....		25	25			159	159		110	110
Space replaced:										
Lease for lease.....		100	100			832	832		625	625
Lease for rent.....		75	181			181	181		230	230
Extensions—option.....		1,069	1,069			2,035	2,035		100	100
Advancements and relocations.....		200	200			80	80			
Total, existing facilities.....		1,469	1,469			3,287	3,287		1,065	1,065
Subtotal.....	904	2,643	2,700	847	28,341	25,489	26,514	14,146	11,727	12,882
Less buildings replaced.....	712	2,354	2,368	698	2,323	4,944	5,382	1,904	2,645	1,614
Net change.....	192	289	332	149	26,018	20,545	21,132	12,242	9,082	11,377

¹ In thousands.

TABLE IV-D.—Facilities appropriation—Leases and rents, estimated annual rates, awards, and occupancy, fiscal year 1967

	Number of projects			Annual rates ¹				Square feet ¹ (interior and platform)			
	Under construction, July 1, 1966	Awards, fiscal year 1967	Occupied, fiscal year 1967	Under construction, June 30, 1967	Under construction, July 1, 1966	Awards, fiscal year 1967	Occupied, fiscal year 1967	Under construction, July 1, 1966	Under construction, June 30, 1967	Occupied, fiscal year 1967	Under construction, June 30, 1967
New construction:											
Lease agreements:											
New space:											
New units	40	40	40	40	\$420	\$420	\$420	246	246	246	246
Major facilities	26	17	12	12	17,808	3,840	9,144	7,902	7,902	4,409	5,056
Lease for Federal buildings	75	75	75	75	2,850	2,850	2,850	1,538	1,538	1,538	1,538
Space replaced:											
Lease for lease	360	400	400	360	4,317	4,800	4,800	2,160	2,160	2,400	2,160
Lease for rent	144	200	194	150	619	860	834	367	367	510	469
Rental agreements: Rent for rent	94	200	210	84	188	400	420	124	124	280	109
Total, new construction	739	918	936	721	26,202	13,170	18,468	12,337	12,337	6,517	9,517
Major remodeling:											
New space: New units—lease	8	20	18	10	184	460	414	104	104	260	130
Space replaced: Lease for lease	100	159	200	59	930	1,479	1,800	549	550	875	1,000
Total major remodeling	108	179	218	69	1,114	1,939	2,214	654	654	1,135	1,334
Existing facilities:											
New space: New units—lease		25	25			159	159			110	110
Space replaced:											
Lease for lease		100	100			832	832			625	625
Lease for rent		75	75			181	181			230	230
Extensions—options		754	754			1,163	1,163				
Advancements and relocations		200	200			80	80			100	100
Total, existing facilities		1,154	1,154			2,415	2,415			1,065	1,065
Subtotal	847	2,251	2,308	790	27,316	17,624	23,157	12,991	12,991	8,717	9,972
Less buildings replaced	698	1,973	2,018	653	1,885	3,919	4,045	1,759	1,759	2,486	1,493
Net change	149	278	290	137	25,431	13,605	19,112	11,377	11,377	6,231	8,479

¹ In thousands.

TABLE IV-E.—Facilities appropriation—Leases and rents, estimated annual rates, awards, and occupancy, fiscal year 1968

	Number of projects			Annual rates ¹				Square feet ¹ (interior and platform)			
	Under construction, July 1, 1967	Awards, fiscal year 1968	Occupied, fiscal year 1968	Under construction, June 30, 1968	Awards, fiscal year 1968	Occupied, fiscal year 1968	Under construction, July 1, 1967	Under construction, July 1, 1967	Awards, fiscal year 1968	Occupied, fiscal year 1968	Under construction, June 30, 1968
New construction:											
Lease agreements:											
New space:											
New units.....	40	40	40		\$420	\$420		246	246	246	246
Major facilities.....	12	5	11	6	12,504	2,750	4,430	5,056	4,363	4,363	2,068
Lease for Federal buildings.....	75	75	75	75	2,850	2,850	2,850	1,538	1,538	1,538	1,538
Space replaced:											
Lease for lease.....	300	400	400	300	4,317	4,800	4,317	2,160	2,400	2,400	2,160
Lease for rent.....	150	200	194	156	645	860	671	408	510	469	449
Rental agreements: Rent for rent.....	84	200	200	84	168	400	168	109	280	265	109
Total, new construction.....	721	920	920	721	20,904	12,080	20,128	9,517	6,829	9,276	6,570
Major remodeling:											
New space: New units—lease.....	10	20	20	10	230	460	460	130	280	280	130
Space replaced: Lease for lease.....	59	100	109	50	549	930	1,014	325	550	600	275
Total, major remodeling.....	69	120	129	60	779	1,390	1,474	455	810	880	405
Existing facilities:											
New space: New units—lease.....		25	25			159	159		110	110	
Space replaced:											
Lease for lease.....		100	100			832	832		625	625	
Lease for rent.....		75	75			181	181		230	230	
Extensions—option.....		200	200			517	517		100	100	
Advancements and relocations.....						80	80				
Total, existing facilities.....		1,056	1,056			1,769	1,769		1,065	1,065	
Subtotal.....	790	2,096	2,105	781	21,683	15,239	23,371	9,972	8,204	11,201	6,975
Less buildings replaced.....	653	1,816	1,819	650	1,739	2,993	3,022	1,493	2,269	2,282	1,470
Net change.....	137	280	286	131	19,924	12,246	20,349	8,479	5,935	8,909	5,505

¹ In thousands.

SECTION II. THE POSTAL COMMUNICATIONS SYSTEM IN THE 20TH CENTURY

1. Postal communications—A public enterprise

The U.S. Post Office Department operates the largest communications system in the world. In terms of numbers of pieces of mail and parcel post handled, the total volume generated in this country is approximately equal to the total volume generated by all other countries reporting mail volume statistics to the Universal Postal Union.¹

As the main artery for the transmission of all types of written communications, including legal documents of many kinds, currency transfers, advertising materials, educational and news publications, and general social concourse, the Department's responsibilities bring it in daily contact with almost every area of industrial, commercial, educational, and social activity.

Since for many decades an increasingly greater proportion of the mail volumes have been generated by commercial and industrial users, the postal service is especially identified with this country's economic activities, many of which would be seriously affected by any restrictions on the effective operation of the postal system. In many respects, therefore, the postal communications system closely parallels that of a commercial communications enterprise and, as such, has many similar attributes and problems.

An accurate analysis of past, present and future demands for its services are elemental factors in the Department's planning program. Since the postal system is a basic channel through which a steadily increasing population communicates, the projected growth of the population, as well as its characteristics, are fundamental factors in forecasting future space requirements. Of even greater importance is the continued analysis of the distribution and economic activities of this population.

In this connection, it must be assumed that the need for expanding postal plant facilities will continue for as long as the population continues to increase and the economic vigor of the country is maintained. In addition, it will be necessary to replace outmoded and obsolete portions of the postal plant as time and use reduce their operating effectiveness. These expansion and replacement requirements will necessitate a progressive program of long-term capital commitments, either through Federal appropriations or through utilization of private capital acquired under the Department's leasing program or a combination of the two.

In either case, regardless of the source of investment funds, the justification for these commitments must be based on realistic economic and operational projections. From the standpoint of practical management, therefore, the Department must consider the following four major factors in planning to meet anticipated plant requirements:

1. Population growth and concentration
2. Changes in mail volumes and sources of origin
3. Changes in mail distribution patterns and transportation methods
4. Changes in postal services and processing methods.

While the above factors are generally parallel to those which must be considered in the management of many similar commercial and industrial enterprises, the public nature of the postal communications system requires, in addition, that these services be maintained at a high level, not only in the major centers of mail concentration, but also in all outlying areas wherever the public might have need for these services.

Thus, the Post Office Department must carefully balance its plant and equipment program in such a way that it will continue to provide adequate plant capacity, not only in areas of greatest growth, but also across the Nation as a whole.

It is the basic objective of the analyses and projections presented herein to correlate all pertinent factors to the greatest extent possible in a conservative and sound program to meet present and anticipated responsibilities for such plant needs.

Prior to developing projections of this type, it is necessary first to review in some detail the historical growth of the postal system in order to establish a series of benchmarks by which further growth may be realistically gaged.

Therefore, to gain better perspective, the projections presented herein are based primarily on rates of growth developed from analyses of changes which have taken place in this country since the turn of the century. While it is

¹ Does not include 57 nonreporting countries principally behind the Iron Curtain.

recognized that these rates of growth may be arrested for limited periods due to unforeseen readjustments, it is believed that the patterns of change during portions of the past 60-year period, which included two major world wars and a major prolonged economic depression, should provide certain reliable guidelines for long-range planning.

As has been noted previously, the 5-year facilities projection for the period fiscal year 1964 through 1968 is simply a segment of a continuing organic growth predicated on experience of the past where reliable data is available.

2. *Population growth and concentration*

There are three basic interrelated factors which must be considered in analyzing the impact of population growth and population characteristics on the postal communications system. They are as follows:

1. The overall growth of the total population.
2. The continuing proportionate increases in the urban population in contrast to the rural population.
3. The concentration patterns of the urban population by sizes of communities.

Chart I illustrates these population changes by 10-year intervals for the period 1900 to 2000. During the first 60 years of this period, the urban-rural ratio changed from 39 to 61 in 1900 to 63 to 37 in 1960. Also, urban population increased a cumulative total of 272 percent while the rural population increased only 45 percent. Further, it will be noted that, during the decade 1930 to 1940, the rate of total population growth not only decreased significantly, but the rate of urbanization also declined at a somewhat greater rate.

Chart II is an analysis of the growth of communities during the period 1900 to 1960, based on population distribution within size ranges, and a projection of growth and distribution by size of community to the year 2000.

From this chart, it may be determined that, in 1960, approximately 50.6 million or 28 percent of the population lived in 130 cities having populations of 100,000 or more; 46.3 million or 26 percent lived in 1,769 communities having populations ranging from 10,000 to 100,000; 15.6 million or 9 percent lived in 3,097 communities having populations ranging from 2,500 to 10,000; and the balance of 66.8 million or 37 percent lived in rural communities or outside recognized communities.

It may be noted that during the period 1940-60, the greatest growth occurred in the communities ranging below 100,000 in population, these communities having absorbed more than half of the urban growth. This accelerated growth in cities of these size ranges resulted in a significant change in the population distribution patterns established in the prior period 1900-40.

Chart I also projects the anticipated growth of the total population as well as the urban and rural segments of the population to the year 2000, based on ratios developed during the period 1940 to 1960. If this rate of growth were to continue in the same proportion, a total population in excess of 330 million people could be anticipated by the year 2000, of which approximately 85 percent might be expected to live in urban communities and approximately 15 percent in rural areas.

While it is more difficult to predict the distribution of the urban population by sizes of communities over this extended period of time, chart II shows an extension of the growth pattern of communities of 2,500 population and over, using the period 1940-60 as a base. However, it should be noted that the pattern of urbanization by sizes of communities for this period changed substantially from the pattern developed during the prior 40-year period and it is entirely possible that the patterns in the future years might again be altered.

3. *Changing mail volumes and sources of origin*

There are two basic factors which must be considered in analyzing the effects of changing mail volumes and sources of origin on postal plant requirements. They are as follows:

1. The changes in total mail volumes by types and cubages of mail.
2. The relationship between population distribution and originating mail volumes as they vary by sizes of communities.

Chart III is a tabulation of the total mail volumes at specified intervals during the period 1900-60 and projected volumes to the year 2000.

This chart is of particular significance for two reasons. First, it permits a correlation of types of originating mail to total mail, and second, it illustrates the sensitivity of mail volumes to economic conditions.

It will be noted that the mail volume increased steadily from 1900 to 1930; that it decreased slightly during the decade 1930 to 1940; and then that it resumed an increase in growth at an accelerated rate from 1940 to 1960. While this tabulation does not present in detail the full effect of the major economic depression during the early 1930's, postal records show that the mail volume in 1933 dropped to 19.8 billion pieces which was the lowest annual volume of record since 1914. This drop was particularly noticeable in preferential first-class mail, periodicals and parcel post. However, circulars and bulk rate mail continued to increase during their period, probably because of the fact that many business organizations were withdrawing their sales personnel from the field and substituting postal media for promotional purposes.

Chart III also projects anticipated mail volumes to 1980 and 2000. In computing these projections, certain geometric factors have been used in order to recognize both the coming to maturity of the age groups born in prior periods, as well as to give weight to the increasing longevity of the older age groups.

For many decades it had been the practice to develop mail volume projections based on nationwide per capita averages of pieces of mail generated by the total census population. However, later experience indicated that census data did not furnish a true measurement of the number of patrons which a specific post office served, particularly in central communities where commercialization and industrialization were highly developed. Therefore, it became necessary to relate mail volumes in these communities to the postal population or patrons served rather than the population shown in census reports.

It is also apparent that the per capita mail volumes generated by the postal population vary significantly by size ranges of communities.

Chart IV is based on a tabulation of the relationship of these factors applied to communities ranging in census population upward from 2,500 based on 1960 census and postal data.

The lower two lines of this chart shows the numbers of communities by size range, the census population for each group, and the estimated postal population (patrons) in each category.

It may be noted from this portion of the chart that 130 communities, having a population of 100,000 or over, show a total census population of 50.6 million people. However, the postal population in these communities totaled approximately 76 million. In the size range, 10,000 to 100,000, the census population for the 1,769 communities in this group totaled 46.3 million while the postal population totaled 67.3 million. In the balance of 3,097 communities in the size range 2,500 to 10,000, the census population totaled 15.6 million and the postal population 19.2 million.

Thus, in these 4,996 communities, the census population totaled 112.5 million, while the postal population approximated 162.5 million. In other words, the postal population exceeded the census population in these communities by 50 million people or approximately 45 percent.

Additionally, it will be noted that in 1960 the postal population in the cities ranging from 25,000 to 500,000 exceeded the census population by approximately 26.4 million people or 50 percent, while in both the largest as well as the smaller groups of communities the ratio dropped substantially below this average. Chart IV also projects these postal population factors to 1980 and 2000 based on 1940-60 rates of growth.

Chart V has been developed to generally project the effects of continuing urbanization on future mail volumes by size ranges of communities based on 1940-60 population and mail volume data. Neither chart IV nor V is intended to be authoritative or conclusive, but rather to provide direction for long-range planning.

It will be noted in this chart that emphasis continues to be placed on the intermediate range of communities which, it may be presumed, will increase in numbers as well as in aggregate population. However, as is now the case, the great central cities will probably continue to generate the major portion of the mail volumes although the flow of mail distribution may narrow and elongate along transportation arteries.

This assumption is based on a further analysis of the data from which charts IV and V were developed. This data shows that, in 1960, the annual volume of originating mail per postal patron varied significantly by size of community. For example, in cities over 100,000 population, the average was 480 pieces per

patron per year. In cities ranging from 10,000 to 100,000, the average was 290 pieces per patron and for communities ranging from 2,500 to 10,000 population, 215 pieces per patron was the average. For the balance of the population, it was only 45 pieces per capita per year.

4. Mail distribution patterns

In reviewing the growth of the postal communications system as it has affected and will continue to affect requirements for plant facilities, it is necessary not only to analyze the sources of mail entering the system, but also the distribution patterns through which mail flows from sources to ultimate destinations.

To make this analysis, it is further necessary to analyze the following two factors:

1. The distance which mail flows from a source to destination.
2. The methods by which it arrives at ultimate destinations.

Generally, it may be assumed that an average first-class post office distributes to its patrons a volume of mail closely approximating that which is generated by the postal patrons served by that office. It is recognized, of course, that there are many exceptions to this assumption, particularly in instances where mailers having nationwide mail distribution are predominant patrons of a given office or in instances, such as the Washington, D.C., Post Office, where great volumes of Government mail are generated for nationwide distribution.

However, the movement of mail into and away from post offices as a whole follows a general pattern which may be illustrated statistically. Chart VI is based on a tabulation of the flow patterns of mail in terms of linear miles from source to destination at specific intervals during the period 1940 to 1960.

A number of significant observations may be drawn from the data in this chart. First, in terms of pieces of mail, approximately 47 percent of all originating mail was, in 1960, delivered within 100 miles of its source; an additional 17 percent was delivered in the next 200-mile belt; a further 15 percent went into the 300- to 599-mile belt; and the balance of approximately 21 percent was delivered to points outside the 600-mile radius.

In terms of cubages, approximately 33 percent was delivered within 100 miles of point of origin; 21 percent was delivered within the next 200-mile belt; 20 percent went into the 300- to 599-mile area; and the balance of about 26 percent was delivered to points outside the 600-mile radius.

Thus, it will be noted that while the percentages of pieces has a tendency to decrease as the distance from source to destination is increased, the cubage increased proportionately as the distance grows greater.

Chart VI also provides a basis for comparing the relative growth rates of local and 100-mile belt mail during the period 1940 to 1960.

Based on 1940 volumes in terms of pieces of mail, approximately 43 percent of the total volume was distributed within this 100-mile radius, while, by 1960, the volume delivered within this zone was greater alone than the total nationwide mail volume in 1940.

Thus, in the 1940-60 period, while the total volume increased 129 percent, almost half of the entire increase occurred in the 100-mile radius zone.

These comparisons again point to the fact that not only do the centers of population generate the major portion of the increasing mail volumes, but an increasingly proportionate part of this increase is delivered within a relatively limited zone immediately surrounding these centers.

This accelerated growth rate of local and 100-mile radius mail simultaneously paralleling the replacement of rail transport by trucks for comparatively short-haul distribution and the addition of long-haul air transport has had a significant impact on postal space requirements.

For example, during the period 1923 to 1960, rail-mail routes dropped approximately 60 percent while interoffice truck-mail routes increased over 100 percent, and domestic airmail transport grew from a small relatively localized system to a national transportation complex serving hundreds of communities.

These changes have not only resulted in the necessity for replacing operating space in railway post offices with five times the equivalent space in ordinary post offices, as this type of cars was withdrawn, but it has also become necessary to make offices, formerly served by rail, accessible to large over-the-road trucks. This means greater outside maneuvering areas as well as additional dock space.

Further, the growth of truck transport has required that a completely new series of vehicle maintenance facilities be provided as the Department's automotive fleet increased by geometric proportions.

Finally, the growth of airmail transport has brought with it the necessity for the development of an ever-growing system of airfield mail facilities to handle the increased volumes of mail at more and more points of pickup and delivery.

Turning first to the effects of the reduction of railway post office space in the 1923-60 period, this type of space dropped from approximately 881,000 square feet in 1923 to about 468,500 square feet in 1940, or a loss of 412,500 square feet, which required substitution of about 2 million square feet. Between 1940 and 1960, this loss approximated 250,000 square feet which required substituting about 1,250,000 square feet of operating space in post offices along the routes previously served by rail, or a total for the period of over 3 million square feet.

In regard to the growth of the departmental operated motor vehicle fleet, the number of such vehicles increased from 4,703 in 1923 to 8,650 in 1940; to 36,781 in 1960 (to 45,127 in 1963). To service this fleet, maintenance facilities have had to be acquired, parking space has had to be provided, and trucking terminals have had to be built at major highway exchange points.

The effect of the growth of airmail transport is also of major significance. For example, in 1923 there was only one route in operation, the transcontinental route from New York to San Francisco—a total of 2,680 miles, with intermediate stops at 13 airfields. By 1940 a total of 37,943 route miles, with intermediate stops at 340 fields, were in operation. This system increased by 1960 to 268,753 route miles between 762 fields. Total airmail in 1923, 13 million pieces, had increased by 1940 to 259 million pieces and by 1960 to 1,356 million pieces.

Thus, it is clearly apparent that these changes in distribution patterns, as well as the changes in methods of transporting the mail, particularly during the period 1940 to 1960, have all had a marked impact on the postal plant requirements during this period.

5. Changes in postal services and mail processing methods

From time to time, certain new postal communications services have been introduced since the turn of the century by the Department which have affected postal plant requirements.

Among these are:

- 1913—Parcel post service.
- 1918—Airmail service.
- 1928—Bulk third-class mail.

These services are presently responsible for approximately 75 percent of the total present cubage, although they account for less than one-third of the number of pieces handled.

In addition, improvements of mail processing equipment also affect postal space requirements.

A number of these improvements are as follows:

- 1956—First semiautomatic parcel post sorting system
- 1956—First mail-flo letter processing system
- 1957—First multiposition semiautomatic letter sorting machine
- 1958—First Mark II facer-canceler
- 1960—First semiautomatic sack sorting machine
- 1961—First single-position semiautomatic letter sorting machine

Relative to the effects of additional sorting and distribution mechanization on postal space requirements, it is believed this type of equipment will not require more than 5 percent additional workroom space compared to that normally required for a similar manual operation. Some added space may also be needed in particular instances for support areas due to mechanized equipment.

Turning now to improvements in mail distribution procedures which will have a beneficial effect on the utilization of postal space, two important new concepts have been initiated and will be more completely implemented as time progresses.

One is the nationwide improved mail service program (NIMS) which was inaugurated in 1961 in order to make better use of manpower, equipment, and workroom space by spreading the receipt of mail by the post offices over a greater part of the day.

Through this program, business mailers are encouraged to deposit noncritical mail at nonpeak post office hours, thus leveling the peak loads at large offices.

As a result of this program, the mailings deposited for working after 5 p.m. have been reduced from 67.1 percent of the total mailings early in fiscal year 1962 to 54.6 percent at the same point in the current year.

Of even greater universal importance is the nationwide integrated postal service plan (NIPS), which was inaugurated in 1960. Under this plan, concentration, distribution, and transportation of the mails are being planned according to predetermined functional patterns based on transportation schedules which will ultimately permit next-day deliveries of letter mail between any two points in the Nation. In addition, this plan will expedite the distribution, dispatch, and delivery of all other classes of mail by substantially reducing processing and delivery times.

The plan presently envisions adequate facilities at 561 key points throughout the Nation when fully implemented. These will serve as distribution and transportation centers and, of these, 62 will also function as national area centers in a basic transportation network which will permit direct connections between each national center and all others. This interarea network is essential to the effective use of the zone improvement plan, commonly referred to as the ZIP code, which is enlisting widespread mailer participation. The ZIP code marking on mail permits the more expeditious sortation and dispatch from office of origination to city zone of delivery.

The initial effect of the outlined programs on the space acquisition schedules is to direct immediate attention and energy to the acquisition of the required key-point facilities. This, in turn, assures the most effective allocation of funds, inasmuch as the early acquisition of adequate facilities at key points permits the prompt massing of volumes of mail for handling by modern techniques and distribution equipment with consequent savings resulting therefrom.

6. Meeting postal plant requirements

Postal space requirements are generally determined by four principal inter-related factors:

1. The volumes and types of mail to be processed in terms of pieces and cubages;
2. The number of times each piece must be handled within a facility;
3. The internal equipment required to receive and process the mail volume at specific installations; and
4. The types of external transportation equipment utilized to collect and distribute the mail.

While it is beyond the scope of this presentation to consider individual plant requirements as they may be determined by the above factors, an effort must be made to assess long-range across-the-board requirements in order to determine the magnitudes of ultimate fund commitments.

Historical data provides few guidelines by which postal growth may be related directly to postal plant capacities or requirements in the past. In fact, prior to 1955, there seems to have been no consolidated report of total postal space occupied although, in 1947, the Postmaster General's report did make reference to federally owned space utilized for postal purposes during that year.

Fortunately, however, the records are quite precise in accounting for numbers of buildings occupied although an estimate of postal space provided within these buildings must be based on a series of applied averages and calculations, particularly in the early years of the period under review.

Chart VII is an analysis of the approximate expansion of postal space during the period 1900-1960 by types of occupancy arrangements and a projection of space requirements to 1980.

Since the turn of the century, privately owned postal facilities have accounted for the vast majority of buildings occupied by the Department. Even during the period 1930-40, when the public works programs resulted in the construction of over 2,000 new federally owned post offices, privately owned facilities continued to provide the majority of postal quarters, in terms of numbers, particularly in small communities and rural areas.

However, it should be noted that the addition of over 2,000 new Federal buildings between 1930 and 1940 ultimately resulted in a federally owned postal plant which provided over 80 percent of the total postal space, and which handled approximately 90 percent of the originating mail volume. Most of the postal

space in Federal buildings constructed during that period was designed for 20-year requirements.

By 1943, at which time the public works programs were virtually completed, the postal plant consisted of approximately 57 million square feet of federally owned space and 13 million square feet of privately owned space. As closely as can be determined, this total of 70 million square feet was apparently intended to handle between 45 and 50 billion pieces of mail providing the mail origin and distribution patterns during the 1940-60 period followed the 1920-30 configurations.

Thus, if the 1920-30 rates of increase had been applied to the 1930 mail volumes, a total volume of 47 billion pieces of mail would have been anticipated by 1950.

While the total mail volume did increase to approximately the anticipated level by 1950, the community growth pattern changed significantly from the pattern established prior to 1940. This change occurred in the intermediate-sized communities where the population as well as the number of communities grew at a rate far greater than during any preceding period. As a result, it became necessary to increase the postal plant to approximately 78 million square feet by 1950 in order to adjust to these new growth factors.

While it is impossible to pinpoint any specific time at which it may be said that postal space was adequate to handle the then current volumes of mail, it seems reasonable to assume that the 1950 ratios of postal space and mail volumes approximated a norm against which to project further space requirements in later periods.

At that point in time, the ratio of total pieces of mail to total postal space approximately 570 pieces per square foot. The ratio of total cubage to total postal space was approximately 10 to 1.

Therefore, using the 1950 space factors applied to the 1950-60 rates of increase, it is now necessary to project a minimum across-the-board space requirements of 150 million square feet by 1970 and 220 million square feet by 1980. Chart VII also summarizes these estimates and illustrates actual and proposed expansion programs through fiscal year 1970.

From chart VII, it is apparent that the proposed construction program will exceed the projected overall space requirements substantially by 1970. This, of course, is the expected result of building to meet long-range needs based on the estimated rates of annual increase of mail volumes. This situation makes some overcapitalization difficult to avoid during the early years of plant occupancy.

Thus, the problem of how far to expand the postal plant at any given time or, in fact, for any given period of time, will continue to confront the Department for years to come.

However, each decision to invest in further plant expansion must be supported by documented justification demonstrating the need for the new construction under consideration.

Chart VIII correlates the comparative growth rates of the census population, mail volumes, and postal space from 1900 through 1963 and projects the future increases of these factors to the year 2000.

It will be noted from this chart that there has generally been a lag between the rate of increase of mail volumes and postal plant capacities since the turn of the century except for the decade 1930-40.

It will also be noted that during the period 1950 through 1970, the rate of expansion of postal space has approximately paralleled the growth of the mail volume and that after 1970 the space rate falls away slightly.

This divergence is introduced at the indicated points to recognize the possible effects of the NIMS and NIPS programs on future space utilization. While the eventual savings in space made possible by improved procedures cannot be precisely estimated at this time, future programing will be progressively adjusted to take advantage of every economy possible.

(The charts referred to are as follows:)

CHART I
 POPULATION GROWTH AND CHARACTERISTICS
 1900-1960-2000 (EST.)

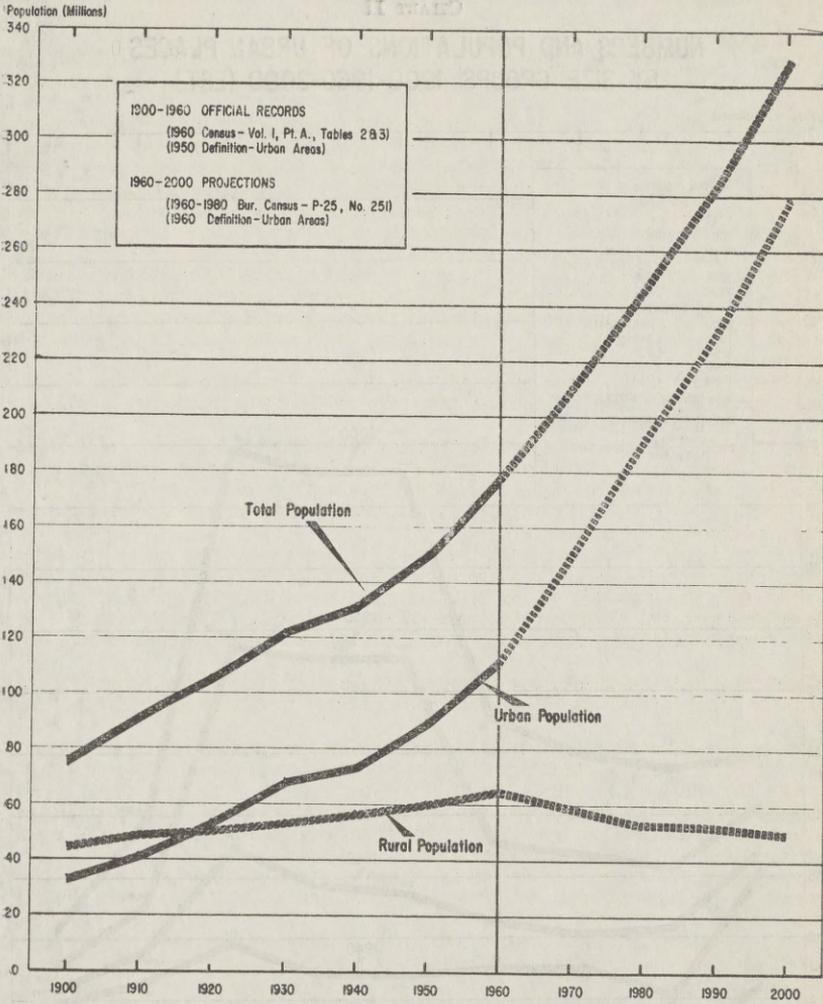


CHART II

NUMBERS AND POPULATIONS OF URBAN PLACES BY SIZE GROUPS 1900-1960-2000 (EST.)

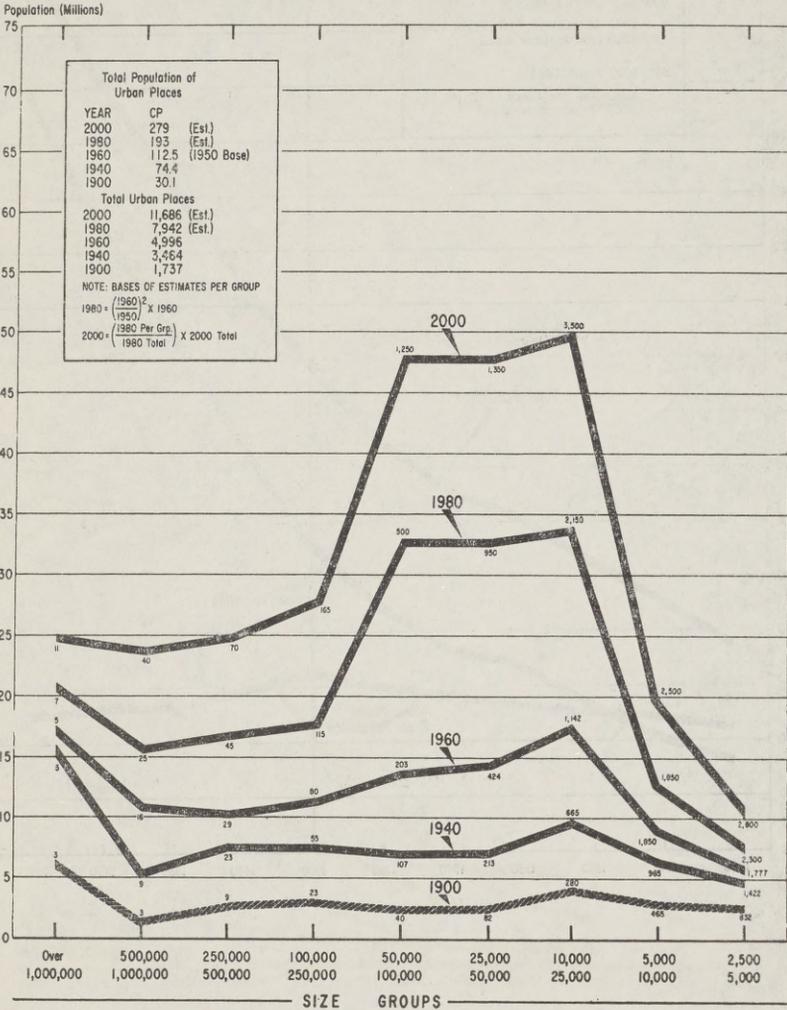


CHART III
 GROWTH IN VOLUMES OF ORIGINATING DOMESTIC
 MAIL BY CLASSIFICATIONS-1900-2000

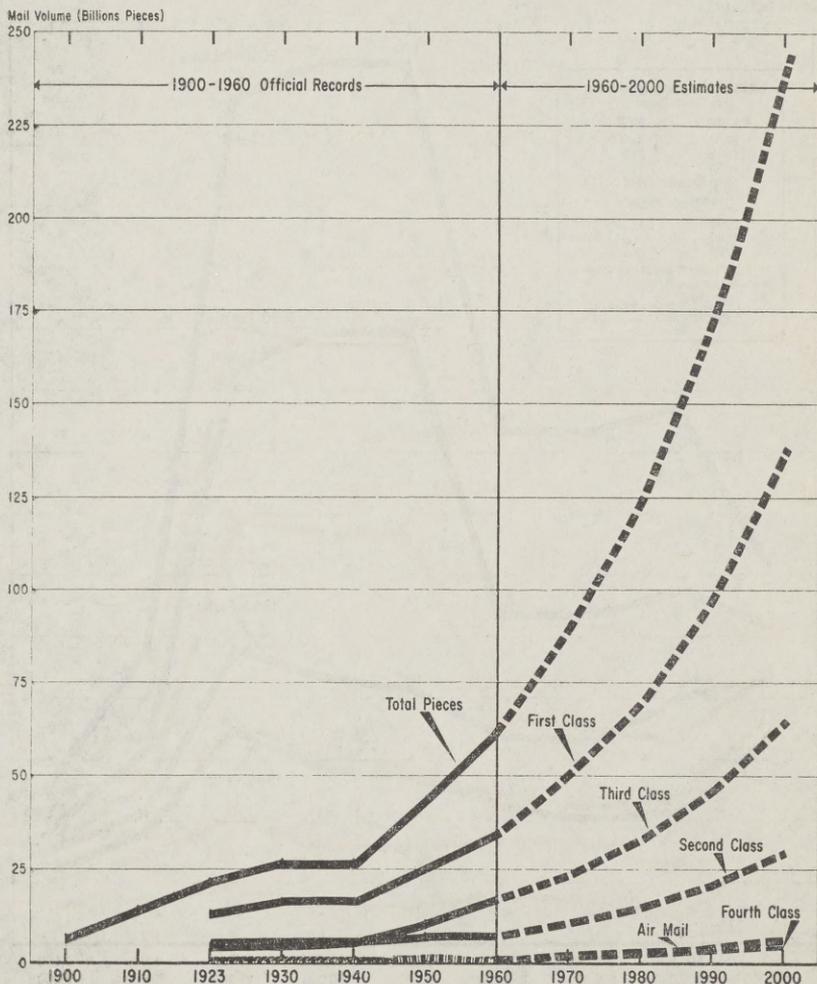


CHART IV
ESTIMATED POSTAL PATRONS SERVED BY POSTAL FACILITIES IN URBAN PLACES-1960-1980-2000

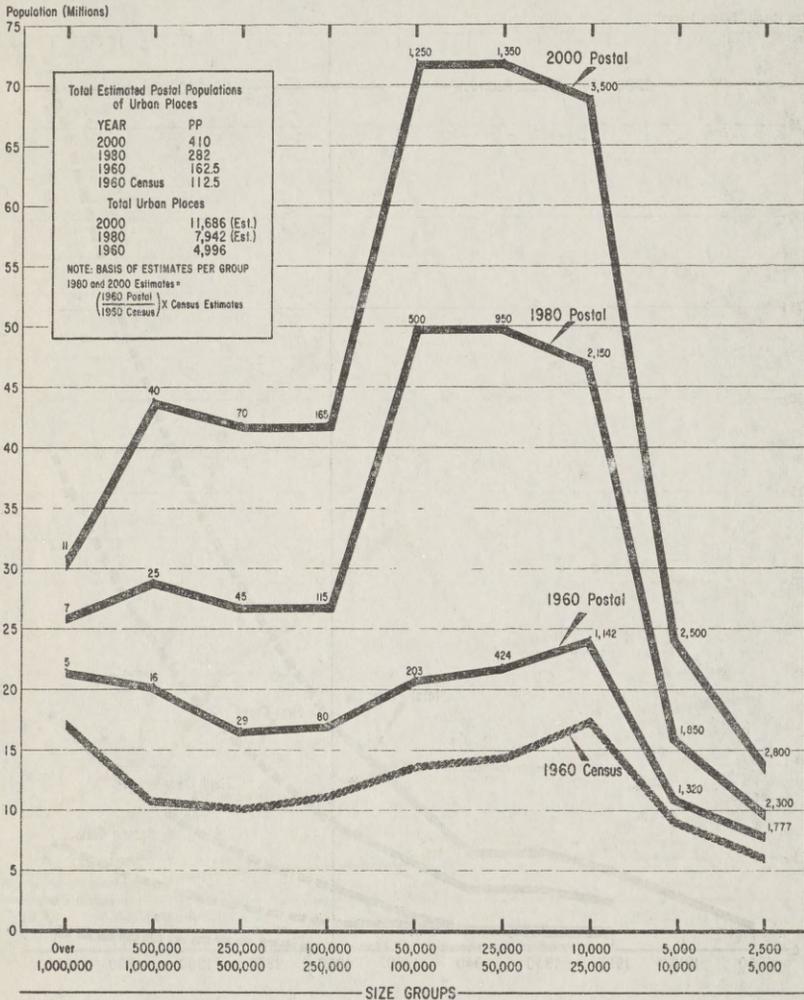


CHART V

ESTIMATED VOLUMES OF ORIGINATING DOMESTIC MAIL GENERATED BY POSTAL PATRONS IN URBAN PLACES-1940-1960-1980-2000

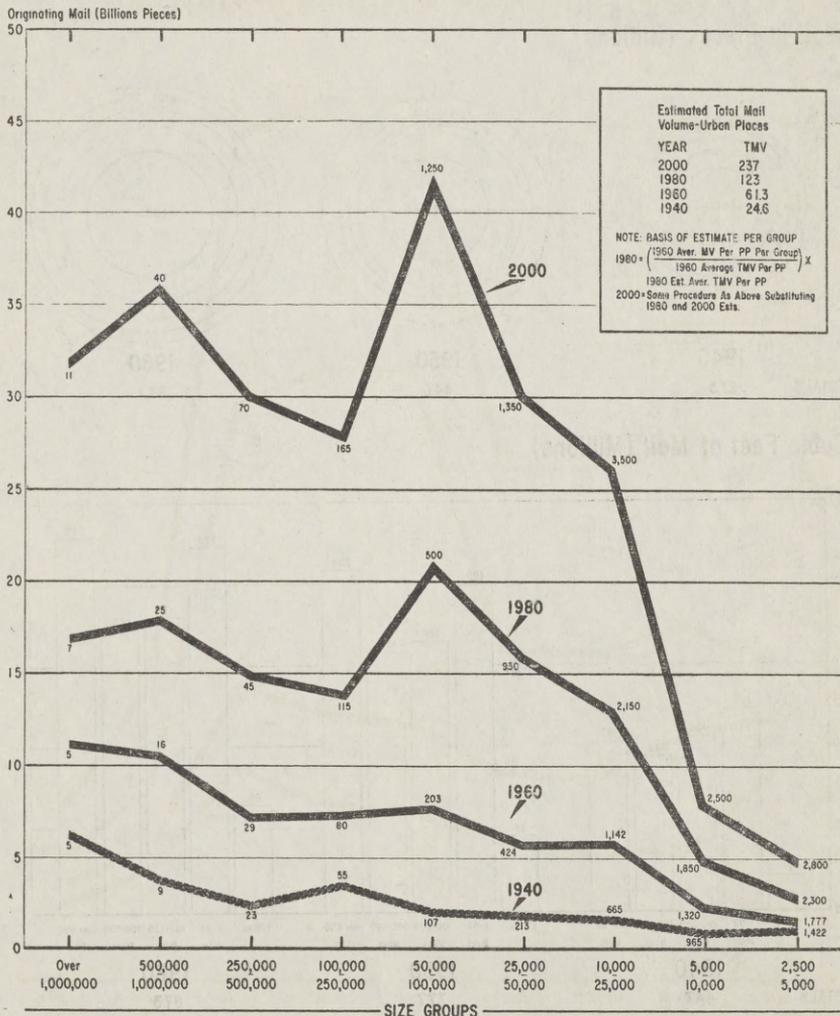
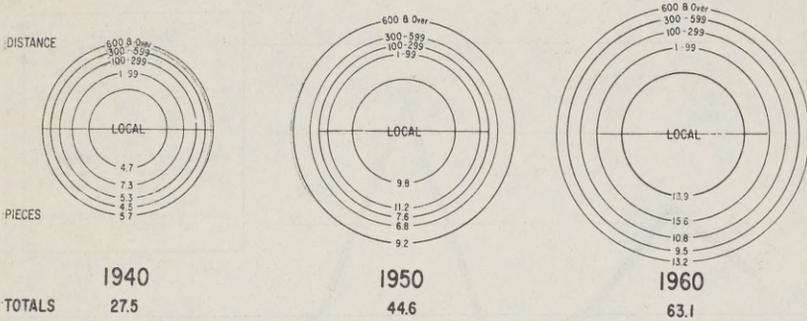


CHART VI
 CHANGING MAIL DISTRIBUTION PATTERNS IN LINEAR
 MILES FROM SOURCE TO DESTINATION-1923-1960

Mail in Pieces (Billions)



Cubic Feet of Mail (Millions)

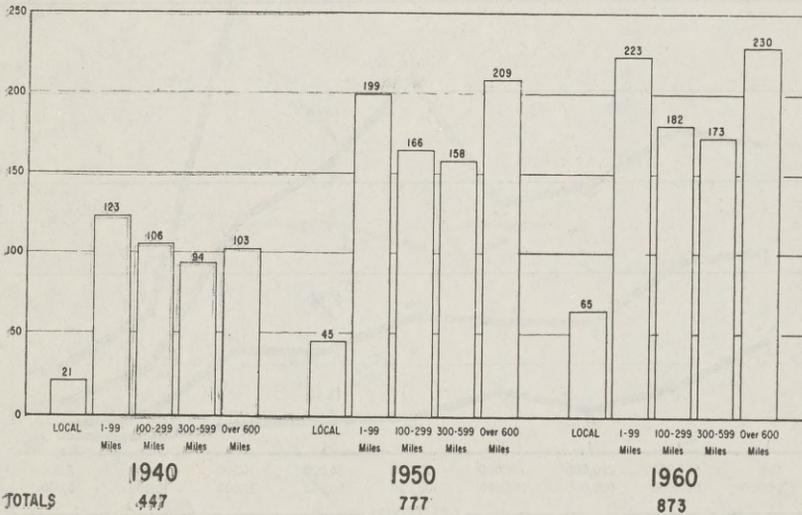


CHART VII
THE EXPANSION OF THE POSTAL PLANT-1900-1980

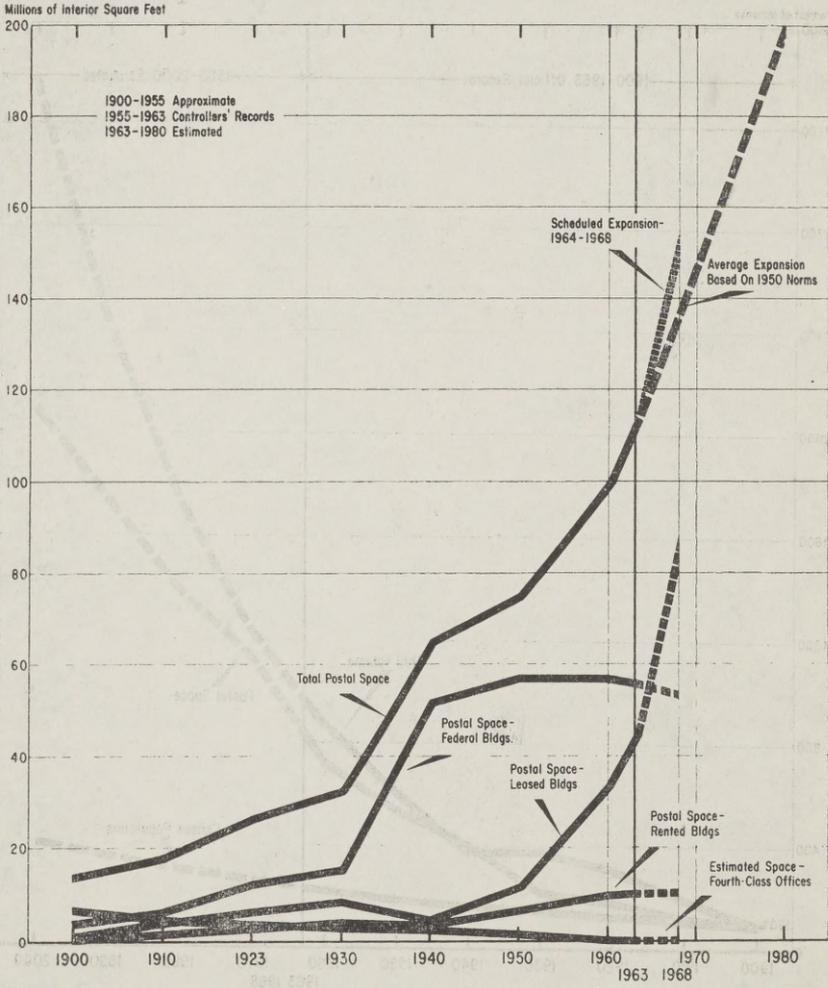
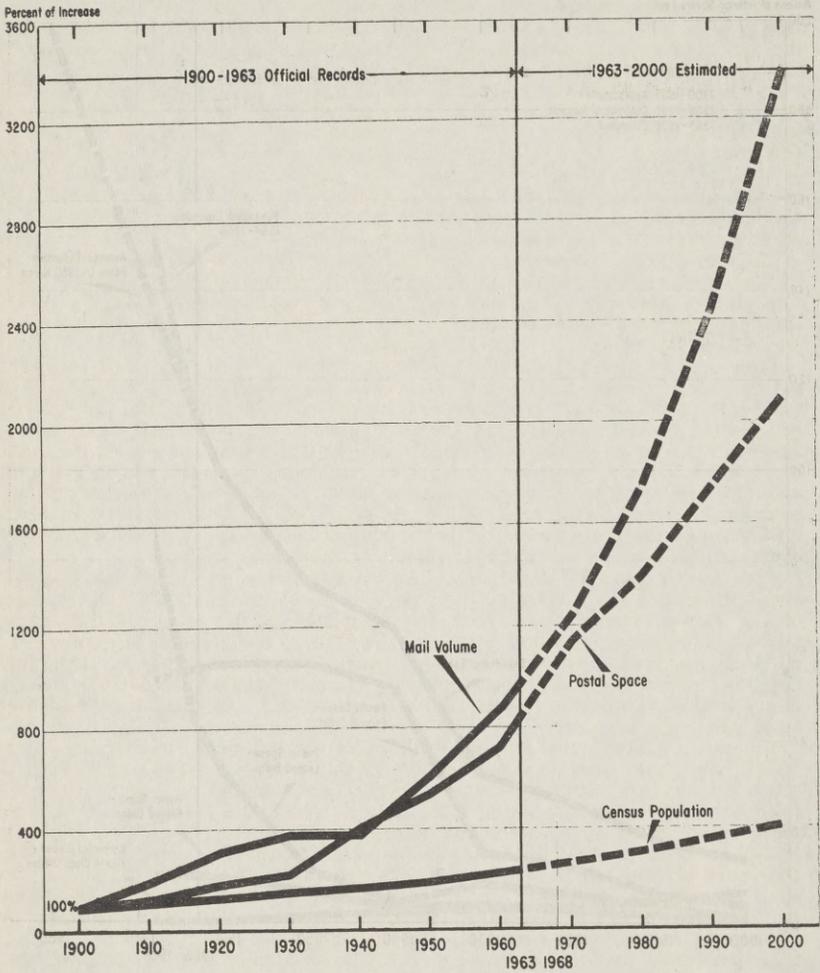


CHART VIII
 COMPARATIVE RATES OF INCREASE - CENSUS POPULATION,
 MAIL VOLUME, AND POSTAL SPACE - 1900-2000



Mr. DULSKI. The committee has a statement from Congressman Robert E. Jones, chairman of the Public Buildings and Grounds Subcommittee of the Public Works Committee, a report from the General Accounting Office, on this bill, H.R. 9653, a letter dated March 3, 1964, from the Deputy Postmaster General to the General Accounting Office and a reply to that report from the Post Office Department. These will appear in the record if there is no objection.

(The documents follow:)

STATEMENT OF CONGRESSMAN ROBERT E. JONES

Mr. Chairman and members of the committee, I had hoped to be able to appear before you personally in support of H.R. 9653, but since my absence from the city makes that impossible, I wish to express my genuine appreciation for the opportunity to present my views in this statement.

As chairman of the Public Buildings and Ground Subcommittee of the Public Works Committee, I am particularly interested in the problems confronting all the civilian agencies of the Government with respect to their efforts to obtain sufficient space in which to carry on their affairs and render the service expected of them. And of all these agencies, none has more acute space problems or greater space needs than does the Post Office Department. Approximately half the space occupied by the Department is located in Federal buildings and the other half is located in leased and rented buildings.

The Department's documented need for new space to contain the growing mail volume and replace substandard facilities it now occupies exceeds 5 million square feet annually. To meet this need, the Department should retain all the tools for space procurement it now has, including the long-term leasing and related land authority of 39 U.S.C. 2103.

This section authorizes the Department to enter into long-term leases for periods not to exceed 30 years. In addition, it authorizes the Department to acquire land through purchase, condemnation, lease, donation, or otherwise for the purpose of carrying out the leasing authority contained in the section. The section also authorizes the Department to sell, lease, and otherwise dispose of land for the same purpose. I want to emphasize that even of the Post Office were to develop a much more extensive Federal construction program than it now has, it should still have the space procurement tools provided in section 2103 to meet the truly awesome space acquisition problem with which it is now confronted and will be confronted in the years ahead.

The fact is that the Department has been utilizing all the methods of space acquisition open to it. During the past year alone the Public Works Committee of the House, acting upon the recommendation of the Public Buildings and Ground Subcommittee, has approved more than 140 Federal buildings to be partially occupied by the Department. During this same period, the Department has also utilized its lease construction program to obtain space and has carried on an extensive program of remodeling, modernizing, and extending the Federal buildings it now occupies.

Where an agency must acquire millions of feet of space annually in order to render the public service expected of it, it cannot rely on Federal construction alone. There are situations where both short-term and long-term leasing are essential. The vast number of situations in which the Post Office Department cannot predict its space needs for more than 10 or 15 years makes short-term leases an essential tool for its space acquisition program. On the other hand, there are circumstances where long-term leasing is the only solution to postal space acquisition problems. Such circumstances arise where the Department has a critical need for space at a location where the land cost is extremely high and, therefore, cannot be economically purchased for postal use only. In addition, there are certain locations, such as those at airports, where the Department must have a mail handling facility but where the only practical means of obtaining it is through the use of a long-term assignable ground lease. There may be other situations where the availability of the best and most economical site—one owned by a municipality, for example—depends on the construction of a leased facility that will remain on the local tax rolls.

A Federal construction program, as helpful as it may be, cannot solve all these problems.

As author of the Public Building Act of 1959, I am familiar with the possibility of space acquisition through new Federal construction. We have found that the authority to lease and rent space is a necessary corollary to a Federal construction program. Both the General Services Administration and the Post Office Department need leasing authority in order to obtain required space.

Section 2103 was originally enacted to enable the Department to conduct its leasing program with more efficiency and economy. The experience of the Department with long-term leases and with the land acquisition and disposition authority contained in the section indicates that these reasons for the enactment of the section were and are valid. Long-term leases are more economical than shorter term leases where space needs are firm for the longer term. I need not belabor the point that no lease construction program can be carried out without comprehensive land acquisition and disposition authority, including condemnation. Sites must be obtained in order to permit competitive bidding for lease construction. Without condemnation authority it may be impossible to obtain sites at fair and reasonable prices. And, of course, the authority to dispose of the land to the successful bidder must be included.

For all these reasons I recommend to your committee that it approve H.R. 9653 and that the bill be enacted into law.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., March 3, 1964.

DEAR MR. CHAIRMAN: Your letter of February 6, 1964, requests our comments on H.R. 9653. The bill would amend section 2109 of title 39, United States Code, to provide that "Agreements may not be entered into under sections 2104 and 2105 of this title after July 22, 1964." The effect of the proposed legislation would—as the title of the bill indicates—operate to extend permanently the authority of the Postmaster to enter into leases of real property for periods not exceeding 30 years as provided in section 2103 of title 39. Section 2109 presently provides that agreements may not be entered into under sections 2103–2105 of title 39 after July 22, 1964.

While we have no objection to granting the Postmaster General permanent authority to negotiate and enter into leases for periods not exceeding 30 years we do feel that there is an urgent need for the establishment of certain controls over the Department's leasing program, particularly in view of the high cost of leasing and other factors as disclosed in our reports to the Congress on Post Office Department real estate activities. Also, we feel that such controls should be applied on the basis of the annual rental payments rather than the length of the basic lease terms. Therefore, if the proposed legislation should be favorably considered by your committee we recommend for its consideration the enactment of amendments to sections 2102 and 2103 which would provide, in effect, (1) that in any lease agreement for a major facility the Department shall be required to submit to the appropriate committees of Congress written justifications in the form of a prospectus similar to that provided for in the Public Buildings Act of 1959, 73 Stat. 479, and section 202 of the Post Office Department Property Act of 1954, Public Law 519, approved July 22, 1954, such justifications to include results of economic and feasibility studies showing comparative costs of leasing versus Government ownership with a clear showing of the factors justifying leasing; (2) that in planning for the acquisition of leased space for major facilities, the Department shall furnish the appropriate committees of the Congress a statement by General Services Administration as to the space needs of other Government agencies in the particular area together with a showing as to the feasibility of a Federal building to satisfy the needs of the Post Office Department and other Government agencies; (3) that Public Law 86-682, revising title 39, United States Code, be further amended to provide that in all cases involving negotiated lease agreements and any contracts executed incident thereto under the leasing authority granted to the Postmaster General the Comptroller General shall have access to the pertinent records of the involved lessors, contractors and subcontractors.

The need and desirability for legislation consistent with the foregoing recommendations have been demonstrated by our review of the Department's leasing practices incident to leases executed by the Department under the broad authority granted to it under the Post Office Department Financial Act of August 17, 1950, 39 U.S.C. 2102, and the Post Office Department Property Act of 1954.

While the legislative history of the latter act shows that at the time of its enactment it was generally conceded that providing space by leasing was the most costly method of satisfying the Government's needs, because of budgetary considerations and the immediate need for postal space temporary (10 year) 30-year leasing authority was granted to the Postmaster General, 39 U.S.C. 2103, 2109. The Department's records show that following the enactment of the Post Office Department Property Act of 1954 and up through the fiscal year 1963, about 8,500 new postal facilities were constructed by private interests and leased to the Government. The records further show that during the same period 261 Federal buildings containing postal space were approved by the Congress and that such buildings have either been constructed or are in various stages of planning or construction. In addition, the records show that during this period funds have been appropriated for the renovation and modernization of more than 500 Federal buildings containing postal space.

Our report of November 20, 1962, B-145650, to the Congress, compared the costs of leasing facilities for initial terms of 20 and 30 years with the costs of Government ownership. Our comparisons established that the costs of leasing substantially exceeded the costs of Government ownership. In view of the significant savings available to the Government incident to Government ownership, we recommended that the Department consider a policy of ownership except in specific cases where the cost of leasing was clearly justified by other identified factors. Our report of September 30, 1963, B-145650, to the Congress, relating to the leasing of small- and medium-size postal facilities also established the cost of Government ownership to be less than leasing for original 10-year terms if there be considered the value of the land and facilities at the expiration of such terms.

As pointed out in the November 1962 report we should like to emphasize again that under lease arrangements, the Government is committed to large annual rental expenditures over long periods of time without acquiring any equity in the facilities at the expiration of the Government's tenures. It is true, of course, that construction costs incident to Government ownership of the facilities have a greater impact on the budget during the construction period than if the facilities should be acquired through leasing arrangements. Under leasing arrangements, however, the budgets during the Government's tenures are burdened with rental payments which in the aggregate exceed the construction costs. In this regard, in the November 1962 report we noted that the Post Office Department's appropriation for rental payments for the fiscal year 1955, including month-to-month rentals, was about \$29.2 million. In the fiscal year 1963 the appropriation for rent was increased to about \$78.7 million and the Department has projected its needs for rental payments for the fiscal year 1967 at about \$137.2 million.

During the hearings preceding the enactment of the Post Office Department Property Act of 1954 we pointed out that the proposed legislation would give the Department unlimited leasing authority and that it would operate to remove most of the restrictions generally applicable to Government leases. The fiscal effect of the legislation was clearly brought out in our November 1962 report. To provide adequate control over the Department's leasing operations we believe provisions should be made for congressional review of the projects involving major facilities leased under the provisions of both 39 U.S.C. 2102 and 2103. Other agencies are subject to such a requirement and there would appear to be no valid reason why the Post Office Department should be exempt from the control afforded by compliance with a similar requirement. For example, Public Law 87-741, approved October 3, 1962, and Public Law 88-215, approved December 19, 1963, making appropriations for General Services Administration, for the fiscal years 1963 and 1964, respectively, provide:

"No part of any appropriation contained in this act shall be used for the payment of rental on lease agreements for the accommodation of Federal agencies in buildings and improvements which are to be erected by the lessor for such agencies at an estimated cost of construction in excess of \$200,000 or for the payment of the salary of any person who executes such a lease agreement: *Provided*, That the foregoing proviso shall not be applicable to projects for which a prospectus for the lease construction of space has been submitted to and approved by the appropriate committees of the Congress in the same manner as for public buildings construction projects pursuant to the Public Buildings Act of 1959."

The legislative history of the foregoing statutory inhibition indicates that the legislation was considered necessary and desirable because it was felt that major facilities should be constructed and owned by the Government and that the leas-

ing authority of GSA was being used to avoid construction of such facilities under the Public Buildings Act of 1959, 73 Stat. 479. A requirement somewhat similar to that in Public Law 87-7412 and Public Law 88-215 is provided for in 10 U.S.C. 2662(a) (2), pertaining to armed services real property transactions. This latter statute as amended provides that if real property to be leased is estimated to cost more than \$50,000 in annual rent, the service concerned must come into agreement with respect thereto with the Armed Services Committees of both Houses of Congress.

Recapitulating, we recommend, that with respect to any lease agreement for a major postal facility the Post Office Department should be required to submit to the appropriate committees of the Congress written justification, including results of economic and feasibility studies showing the comparative costs of leasing versus Government ownership and clearly identifying the factors in justification of leasing as opposed to Government ownership. For the purpose of this requirement the definition of a major facility should be based upon the amount of annual rentals rather than the term of the lease. By this means there would be precluded any tendency to set an artificial limitation on the term of the lease in order to avoid controls. At the same time recognition would be given to the need for greater control over a 20-year lease with an annual rental of \$50,000 than would be accorded in the case of a 30-year lease with an annual rental of \$5,000. We believe it desirable that the exact definition should be left to your committee. We suggest, however, that information obtained in the preparation of our November 1962 and September 1963 reports may be helpful in evaluating the effect of the use of different amounts of annual rentals in the definition. For example, such information indicates that if major facilities should be defined as those with \$25,000 annual rentals, or more, the Department might be required to obtain congressional approval each year for about eight new leases which would commit the Government to total rentals of about \$48 million. This might represent about 45 percent of the 20- and 30-year leases and about 95 percent of the total rental commitments under such leases. Very few 10-year leases have annual rentals in excess of \$25,000. On the other hand, if the definition should be based on annual rentals of \$10,000 the Department might be required to obtain congressional approval for about 61 percent of their 20- and 30-year leases, representing about 98 percent of the total commitments under such leases, and about 12 percent of its 10-year leases, representing about 31 percent of rental commitments under such leases.

In our September 1963 report we recommended that the Department determine on an individual basis whether to acquire space for postal facilities by leasing or by Government ownership and that it support each determination by adequate cost comparisons and other appropriate justification. Our recommendation was not qualified with regard to the size of the facility. While we are still of the opinion that the Department has the administrative responsibility for determining that each lease contract is advantageous to the Government our emphasis at this time is that requirement for congressional approval be directed to major facilities only.

Incidental to the selection of the method of acquisition of space for post offices we believe that the selection of the method most advantageous to the Government requires consideration of the needs of all Government agencies in the involved area. As an illustration of our views in this respect, at the request of Congressman Pillion, ranking members of the Appropriations Subcommittee having jurisdiction over Post Office appropriations, we reviewed the proposed construction by private parties of a mixed post office and commercial building on Third Avenue between 54th and 55th Streets in New York City. Under this project the Department has proposed the construction of a building in which the first four floors and two basements, consisting of approximately 480,000 square feet, will be leased to the Department and the upper 38 story office tower consisting of about 492,000 square feet will be leased to commercial tenants. By this means the Department expects to obtain optimum use of the site and thus reduce the cost of the post office space. There is some basis for concluding, however, that lower costs to the Government might be realized through the construction of a Federal building on this Government-owned site, with the Department occupying the lower floors and other Government agencies occupying the upper floors. We found no evidence that the Department had given active consideration to such a possibility or that there had been any coordination in this respect between the Department and General Services Administration on this project.

Officials of GSA have informed us that after the completion of the Federal office building presently under construction in Manhattan, New York City, Government agencies will still occupy more than 750,000 square feet of leased space in Manhattan, and they expressed the view that the location of the Department's proposed post office project would be suitable for many of these agencies. Accordingly, we recommend that in planning for the acquisition of leased space for major facilities the Department be required to furnish the appropriate committees of the Congress a statement by GSA as to space needs of other Government agencies in the involved area and as to the feasibility of a Federal building to satisfy the space needs of the Department and other Government agencies.

In conclusion, we should like to invite attention to the fact that the Department's leasing authority as presently provided for in 39 U.S.C. 2102 contains no requirement that contracts negotiated without advertising contain an examination-of-records clause permitting the Government's access to pertinent cost and financial records of the lessors. Without the right to examine such data neither the Department nor the General Accounting Office can adequately evaluate the reasonableness of pricing data used in lease agreements. Because under negotiated contracts prices must be based largely on estimated costs, such estimates must be as sound and realistic as possible to determine fair and reasonable prices. We believe, therefore, that it is essential that the Government have access to the contractor's pertinent records in order to verify and evaluate the cost and profit factors which furnish the basis for the contract price. In this regard, the Postmaster General by letter dated October 19, 1961, informed us that the Department had concluded that access to contractor's records for negotiated contracts is desirable and that the Department intends to provide therefore by including a standard clause in such contracts negotiated without competitive bidding. In our view, provision for such access should be made a matter of law rather than a matter of policy for determination by the Postmaster General. See in this regard the remarks of Congressmen Hébert and Vinson on the merits of assuring control by legislation as opposed to regulation, 108 Congressional Record 9234, 9235, 19237. See, also, our decision of August 2, 1961, B-124046, and July 10, 1962, B-40342. There is for noting in this respect that access to records clauses in the case of negotiated contracts are specifically provided for by legislation in section 304(c) of the Federal Property and Administrative Services Act of 1949, as amended, 41 U.S.C. 254(c) and section 2313(b) of the Armed Services Procurement Act, 10 U.S.C. 2313(c). Accordingly, we recommend that Public Law 86-682, title 39, United States Code, be amended by adding thereto a provision that in the case of all contracts negotiated under the authority therein granted the Comptroller General shall have access to the pertinent records of the contractors and subcontractors.

We shall be pleased to have members of our staff discuss with your committee any matters concerning H.R. 9653 and the recommendations herein made.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., February 19, 1964.

Hon. JOHN R. PILLION,
House of Representatives.

DEAR MR. PILLION: Further reference is made to your letter dated December 14, 1963, requesting a review of the financial and economic factors of the proposed U.S. Post Office project to construct a mixed post office and commercial building in New York City. You requested a report by March 1, 1964, on whatever facts and recommendations we were able to assemble by that date. Subsequently, we were notified by your office that you required the report no later than February 19, 1964.

We visited the site acquired by the Post Office Department in New York City for the proposed building, we discussed the project with cognizant officials of the General Services Administration, and to the extent possible under the conditions described in the following paragraph, we examined certain Post Office Department documents and discussed the project with Department officials.

Post Office Department officials did not believe it appropriate to give us free access to all pertinent records and information or to allow us to discuss the project freely with knowledgeable Department officials and employees at this time, when the project is still only in the planning stage. Initially the only documents made available to us by the Department were a general prospectus of the project entitled "Preliminary Bidding Information, U.S. Post Office Department, January 1964," a copy of the architect-engineer's contract; and an analysis of the architect's fee and the estimated construction cost upon which it was based. Except for the information relating to the cost of the site to the Department and the estimated present market value of the site, the information furnished by the Department was not sufficient to enable us to respond to the specific aspects raised in your letter of December 14, 1963. We cannot respond fully to your inquiry without free access to all records and information concerning the inception, planning, and implementing of the project.

In a letter dated January 14, 1964, we requested from the Postmaster General all departmental records, studies, and analyses related to the project. In a letter dated January 4, 1964, to the Deputy Postmaster General we requested information pertaining to the Department's legal authority for certain actions taken with respect to the project. In a meeting in your office on January 17, 1964, members of our staff advised you of the problems we were encountering in obtaining the information needed to respond to your request.

At approximately the close of business on Friday, February 14, 1964, the Department gave us some additional material, consisting mainly of an analysis and justification of the Post Office space needs in the vicinity of the proposed building, support for the Department's estimate of \$8 million as the current market value of the site, and general information on mail handling operations and mechanization in the proposed project. We have previously furnished you a copy of the Department's prospectus on preliminary bidding information, and we are enclosing herewith copies of the other documents furnished us by the Department. As of February 17, 1964, we had not received from the Department the reply to our request for information as to the legal authority for the actions taken.

The following comments are based on the data made available to us by the Department before February 14, 1964, and our discussions with Post Office Department and General Services Administration officials.

The project, as described by the Department, involves a combination postal structure of four stories with two basement levels, topped by an office tower for commercial use. The Department owns the site, which is located in Manhattan on the east side of 3rd Avenue, between 54th and 55th Streets, and represents about 82,000 square feet in land area. The formal advertising period will be from April 1 through June 5, 1964. Alternate bids are required from all bidders for (1) annual rentals in consideration of constructing a building and leasing the lower portion, consisting of four stories and two basements, to the Post Office Department, with the additional floors above the Post Office space to be leased to other tenants; and (2) annual rentals in consideration of constructing a building (apparently consisting of four stories and two basements) and leasing it exclusively to the Post Office Department. The Department in its general prospectus requires also two bids under each alternative. One bid in each case will be based on transferring the land to the successful bidder at acquisition cost. A second bid in each case will be based on transferring the land to the successful bidder at current market value. Current market value is to be determined prior to the formal bid period.

The bidding requirements, as stated in the prospectus, appear to be somewhat restrictive of competition in requiring each bidder to submit bids under both alternatives, thus eliminating from consideration a bidder who might be interested only in constructing and leasing the four-story structure. Department officials with whom we discussed this question stated that in their opinion the Department could not legally, and would not in any event, disqualify a low bid on the technicality that the bidder had not submitted bids under each alternative. Even if this were true so far as evaluation of the bids received and award of the contract are concerned, it appears that a prospective bidder could be discouraged from participating by the wording of the prospectus, which states that "To be responsive to the advertisement bidders must submit separate annual rentals to the Post Office Department under the foregoing conditions." Also, contrary to the view expressed by the Post Office Department officials, it appears to us that if this provision of the prospectus is incorporated into the advertised

invitation, a bid not quoting on both alternatives would be nonresponsive and therefore required to be rejected as a matter of law.

With regard to the Department's plans to obtain alternate bids based on transfer of land to the successful bidder at either the Government's acquisition cost or the current market value, we note that the acquisition cost of the site is stated by the Post Office Department to be about \$3.2 million. If the Department transfers the site to the successful bidder at acquisition cost because of a lower rent bid in consideration of a lesser investment in land, the successful bidder would obtain for \$3.2 million property for which the Post Office Department estimates the current market value to be \$8 million.

The Post Office Department negotiated a contract dated June 19, 1961, with Urbahn & Brayton, architect, for architect-engineering services for the project. The contract provided for design of a building consisting of a basement and four stories, and provided a fee of \$385,000 for the architect's services. Contract change order No. 2, dated November 27, 1962, provided for a study to be made by the architect for a fixed fee of \$45,000 to determine the feasibility of constructing the project as a multioccupancy, high-rise structure with the Post Office occupying the lower floors. Contract change order No. 3, dated June 26, 1963, required the architect to prepare drawings for two designs, designated as scheme "A" and scheme "B." Under scheme "A" the architect is to design a high-rise structure with a tower designed for maximum height and floor areas allowable under New York City codes and ordinances. Complete drawings are to be prepared by the architect for the postal portion consisting of a subbasement, a basement, and the first four floors. Tentative drawings are to be prepared for the office tower. Under scheme "B" the architect is to prepare tentative drawings for a low-rise building to be occupied exclusively by the Post Office. Change order No. 4, dated July 25, 1963, set the architect's fee at \$610,000 for all services called for under the contract, including the feasibility study. The successful bidder will be required to reimburse the Department for the amounts paid to the architect up to the time of the bidding, and to pay directly to the architect the balance of the fee as it becomes due.

An analysis prepared by the Department's Office of Research and Engineering shows the following information regarding the estimated cost of construction of four stories and two basements under scheme A and scheme B:

Scheme A, high-rise

Area of Post Office portion (4 stories, basement, and subbasement).....	square feet.....	480,000
Tower support areas.....	do.....	50,000
Total area.....		530,000
Estimated cost:		
480,000 square feet, at \$22.50.....		\$10,800,000
50,000 square feet, at \$25.00.....		1,250,000
Total, 530,000 square feet.....		12,050,000

Scheme B, low-rise

Original scheme on which architect contract was based (4 stories and basement).....	square feet.....	408,000
Subbasement added after original contract was signed.....	do.....	82,000
Total area.....		490,000
Estimated cost, 490,000 square feet, at \$19.60.....		\$9,600,000

An official of the Department's Office of Research and Engineering advised us that the difference of \$2.90 between the estimated construction costs of \$22.50 a square foot under scheme "A" and the estimated costs of \$19.60 a square foot under scheme "B" was accounted for partly by an increase in construction costs in the year following the signing of the architect-engineering contract and partly by the need for additional construction features in the lower floors because of the addition of the tower in scheme "A." The same official advised us that the subbasement was added (1) to provide room for expansion to take care of

future postal needs in the area, (2) to provide parking space for Post Office vehicles, and (3) to offset the loss of usable space in the basement and first four floors due to the addition of the tower.

Post Office Department officials have indicated that the utilization of upper air space for commercial purposes should result in lower rental costs for needed postal space. To support this conclusion, they are asking for alternate bids for (1) a high-rise structure with only the lower portion to be occupied by the Post Office, and (2) a low-rise structure to be occupied exclusively by the Post Office, with the expectation that a comparison of the bids will prove the economy of the high-rise concept. While this procedure may provide a comparison of the relative costs of occupancy under two different lease arrangements, it ignores the possible long-term economies and advantages of a Government-owned building, either a low-rise structure occupied exclusively by the Post Office or a high-rise structure shared by the Post Office with other Government agencies. If, as the Department contends, an office tower utilizing the upper air space will reduce the cost of Post Office occupancy of the lower levels, it appears that the same result may be obtained through occupancy of the tower by other Government agencies.

We issued to the Congress on November 20, 1962, a report (B-145650) on our review of the Post Office Department's real estate program relating to the leasing of major facilities and certain other facilities under long-term leases. In our report we pointed out that our review of fund requirements for 85 postal facilities under 20- and 30-year leases showed that the total rental costs to be incurred under the lease arrangements substantially exceed the Post Office Department's estimated costs of constructing these facilities. Although larger Government expenditures would be required during the period of construction if the facilities were constructed for Government ownership, overall fund requirements for the facilities would be substantially less than total rent payments over the terms of the leases. In addition, under the lease arrangements the Government is committed to large annual rental expenditures for long periods of time without acquiring any equity in the leased facilities. We recommended that in view of the significant savings available to the Government by ownership of postal facilities, the Department consider a policy of ownership except in specific cases where the cost of leasing is clearly justified by other identified factors.

Consideration of a Government-owned building at the site selected for this project would require coordination between the Post Office Department and General Services Administration, inasmuch as the Department owns the site and under 40 U.S.C. 601 General Services Administration is the Government agency that is authorized to construct public buildings. We found no evidence of any coordination with General Services Administration with regard to this project, nor of active consideration being given to construction of a Government-owned building. Post Office Department officials with whom we discussed this matter agreed that there had been no formal or documented coordination between the Post Office Department and General Services Administration on the project but believed that there had been some informal conversations making General Services Administration officials generally aware of the Department's planning.

Cognizant General Services Administration officials with whom we discussed the matter had no knowledge of any coordination between General Services Administration and the Post Office Department on this project. We were advised also that a considerable amount of leased space is now occupied by Federal agencies in the Manhattan area. General Services Administration officials stated that after completion of a new Federal office building presently under construction in downtown Manhattan, Federal agencies would still occupy more than 750,000 square feet of leased space in Manhattan. They gave their informal opinion that a tower above the post office space could be made suitable for occupancy by many of these agencies. The Department's prospectus indicates that the proposed 38-story tower will provide approximately 492,000 square feet of net space.

We trust that the foregoing information will serve your purpose. If we can be of further assistance, please advise us.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

THE DEPUTY POSTMASTER GENERAL,
Washington, March 3, 1964.

Mr. LLOYD G. SMITH,
Assistant Director, Civil Accounting and Auditing Division
U.S. General Accounting Office,
Washington, D.C.

DEAR MR. SMITH: This will reply to your recent letter to Mr. Bishop regarding this Department's use of a site at New York City pursuant to its long-term leasing authority.

The site was acquired by direct purchase and condemnation under 39 U.S. Code 2103 et seq. Section 2103(a) authorizes the Postmaster General to enter into lease agreements for periods not exceeding 30 years on such terms as he deems to be in the Government's best interests. Section 2103(a)(2)(A) vests the Postmaster General with the authority to acquire the necessary postal site by purchase, condemnation, lease, donation, or otherwise, and on such terms as he considers appropriate to the best interests of the United States. Moreover, under section 2103(a)(2)(B), the Postmaster General may dispose of real property, and interests therein, acquired for use for postal purposes by sale, lease, or otherwise, on such terms as he deems appropriate to the best interests of the Government, for the construction by the lessor of postal improvements the Postmaster General considers appropriate.

In the case you have in mind, the site was originally assembled in 1958 as the result of a space study which noted a certain land area need. This land area need still obtains today. As a matter of fact, the actual land dimensions barely satisfy the postal requirements. Thus, the availability of upper airspace for commercial development is a byproduct of the need for ground floor and other space for postal use.

In the usual case, the Department restricts site usage exclusively for postal purposes. In other words, the Department conveys the site to its successful lease bidder, who builds the postal facility according to the contract plan and specifications, and then leases back land and improvement at a certain fixed rental. Of course, the land and building are then privately owned, and after expiration of the postal lease term and renewal term options which may have been exercised, they become available for such private use as the owner chooses. Thus, under the concept of this leasing authority, where the Department acquires ownership of land for the Government, it is understood such ownership will be a mere interim ownership, and that the Department will convey the Government-owned land to a private party. The statute expressly contemplates that the public or postal use will only be for a term of years, and that the postal buildings will be privately built and privately owned.

The Department's thinking is for site utilization with a postal improvement of a ground floor, three upper stories, and two basement levels. It is imperative that the ground area and next above and below site area be utilized for postal purposes. Thus, airspace is available above the postal facility which could house a tower of approximately 38 additional stories for commercial purposes. Such commercial use would lower rental costs for needed postal space without hindering the postal use.

As noted, the statute vests broad authority in the Postmaster General to acquire and dispose of property and make construction lease-back agreements on such terms as he deems appropriate. Further, section 2114 provides that the laws normally applicable to the acquisition and disposal of Federal real property, construction of buildings, or leasing of space do not apply to any of the functions performed by the Postmaster General in effectuating the purposes of section 2103. Thus, there appears ample statutory authority for a lease of the nature contemplated in New York City. We find nothing in the cited authority or the legislative history which would restrict the Department to site utilization exclusively for postal purposes for so long as the property is encumbered by the Department's leasehold. To hold that the site may not be developed for mixed governmental and private use in the first instance would be contrary to the declared congressional policy of private construction of postal facilities with private financing and private ownership. Needless to say, such policy would be defeated in areas of high land costs if the site development were restricted to the postal improvement only. The cost to the Government on a single purpose postal improvement in a high land cost area would be prohibitive.

The Department feels the best interests of the United States would be served by utilizing the site for the intended purpose of a new construction lease facility at the lowest monetary cost to the Government. With this purpose in mind, the Department intends to solicit bids in the alternate. Bidders would quote rental for an exclusive purpose postal building, and also rental for the same postal building where bidders would be permitted to utilize the area over the postal premises to the extent of zoning permissibility. Of course, when the bids are received and analyzed, the Department will make its award based upon what it considers to be in the best interests of the United States.

As in all its lease contracts for new construction postal facilities, the Department does not assist the contractor in any financial arrangements necessary to complete the construction. The project is exclusively handled by private financing arranged entirely by the contractor. The Government's obligation to pay monthly rental begins only after satisfactory completion of the postal building according to the contract plans and specifications, and occupancy thereof by the Department. It would not be unusual in this case or any construction lease-back arrangement for the leases to be a primary source of loan money.

Sincerely yours,

FREDERICK C. BELEN,
Deputy Postmaster General.

MARCH 10, 1964.

HON. THADDEUS J. DULSKI,
Chairman, Subcommittee on H.R. 9653, Post Office and Civil Service Committee, Washington, D.C.

DEAR MR. CHAIRMAN: Under date of March 3, 1964, the Comptroller General submitted a letter to your committee on H.R. 9653. The Comptroller General's letter constitutes much more than a comment on that bill. In fact, he has no objection to the extension of the Post Office Department's long-term leasing and related land acquisition and disposition authority to which the bill relates. He recommends, however, that the section containing that authority (39 U.S.C. sec. 2103) and the section containing the Department's 20-year leasing authority (39 U.S.C. sec. 2102) be amended so as to seriously impair, if not prevent, the Department from exercising the power contained in those sections to meet the space needs of the postal service.

Specifically the Comptroller General suggests—

1. That all major lease construction projects be approved by the "appropriate committees of the Congress" (presumably the Public Works Committees) before the Department is authorized to proceed therewith;
2. That the Department, in effect, obtain the approval of the General Services Administration before being authorized to proceed with a major lease construction project; and
3. That sections 2102 and 2103 be amended to require that an examination of records clause be inserted in all negotiated lease construction agreements.

The Department is opposed to these recommendations of the Comptroller General because—

1. The truly appropriate committees of the Congress; namely, the Appropriations Committee and the Post Office and Civil Service Committee are already fully informed about the Department's lease construction projects. My statement to this committee in support of this bill is an example of that information. Further, each year the Appropriations Committee of the House is furnished a list of all lease construction projects for the coming year. The kind of approval suggested by the Comptroller General would hamstring the Department in meeting the pressing space needs described in detail in my statement before this committee.

2. The suggestion of the Comptroller General that with respect to major facilities "the Department be required to furnish the appropriate committees of the Congress a statement by GSA as to space needs of other Government agencies in the involved area and as to the feasibility of a Federal building to satisfy the space needs of the Department and other Government agencies" is totally unacceptable to the Department. The full import of the suggestion is that the judgment of the General Services Administration should prevail with respect to postal space requirements. Since the furnishing of space in which to handle the mail is absolutely essential to the mail service, this suggestion, if enacted into law, might seriously jeopardize the Postmaster General's ability to perform the duties entrusted to him.

3. The Comptroller General comments that the Department now requires that an examination of records clause be placed in every negotiated lease construction agreement. There are of course very few negotiated lease construction agreements. Awards under section 2103, the section here being considered, are required to be made only after advertised competitive bidding, as provided in 5 United States Code, section 41. The Comptroller General is suggesting legislation to solve a problem which does not exist. Further, any legislation on this matter would involve an amendment to section 2102 and is not germane to H.R. 9653 which relates only to section 2103.

The first amendment suggested by the Comptroller General would require that before any major facility lease agreement can be entered into the Department must submit to the appropriate committees of Congress (apparently meaning Public Works) written justifications similar to that provided in the Public Buildings Act of 1959 or in section 202 of the Post Office Department Property Act of 1954.

Section 202 (g) of the Post Office Department Property Act of 1954 provides: "Appropriations may not be made for lease-purchase projects which have not been approved by resolutions adopted by the Committees on Public Works of the Senate and House of Representatives, respectively, before July 22, 1957. For the purpose of securing consideration of the approval the Postmaster General shall transmit to those committees a prospectus of the proposed project, including, but not limited to—

"(1) a brief description of the building located or to be erected at a given location;

"(2) an estimate of the maximum cost of site and building together with the term of years over which payments would run and the maximum rate of interest that would be acceptable for any deferred part of the cost;

"(3) a certificate of need for the space signed by the head of the agency which will use the facility;

"(4) a statement by the Postmaster General that suitable space owned by the Government is not available and that suitable rental space is not available at a price commensurate with that to be afforded through the contract proposed;

"(5) a statement of the managerial, custodial, heat, and utility services to be provided by the contractor, or an estimate of their probable cost if to be supplied in any part by the Government;

"(6) a statement of the requirements for tax liability, upkeep, and maintenance of the property by either the contractor or the Government during the period of the contract;

"(7) a statement of rents and other housing costs currently being paid by the Government for any agencies to be housed in the building to be erected; and

"(8) a statement in writing by the Director of the Bureau of the Budget that the project is necessary and in conformity with the policy of the President. The statement by the Director shall be based on budgetary and related considerations and does not constitute approval by the Director of the specific terms or provisions of any proposed agreement or of the selection of any particular contractor or lessor."

Section 7 of the Public Buildings Act of 1959 provides:

"(a) In order to insure the equitable distribution of public buildings throughout the United States with due regard for the comparative urgency of need for such buildings, except as provided in section 603 of this title, no appropriation shall be made to construct any public building or to acquire any building to be used as a public building involving an expenditure in excess of \$100,000, and no appropriation shall be made to alter any public building involving an expenditure in excess of \$200,000, if such construction, alteration, or acquisition has not been approved by resolutions adopted by the Committee on Public Works of the Senate and House of Representatives, respectively, and such approval has not been rescinded as provided in subsection (c) of this section. For the purpose of securing consideration of such approval the Administrator shall transmit to Congress a prospectus of the proposed project including (but not limited to)—

"(1) a brief description of the building to be constructed, altered, or acquired under this chapter;

"(2) the location of the project, and an estimate of the maximum cost of the project;

"(3) a comprehensive plan for providing space for all Government officers and employees in the locality of the proposed project, having due regard

for suitable space which may continue to be available in existing Government-owned buildings and in rented buildings;

"(4) a statement by the Administrator that suitable space owned by the Government is not available and that suitable rental space is not available at a price commensurate with that to be afforded through the proposed action; and

"(5) a statement of rents and other housing costs currently being paid by the Government for Federal agencies to be housed in the building to be constructed, altered, or acquired."

The statutory provisions quoted above which, according to the Comptroller General should serve as models, provide elaborate clearance procedures before the Public Works Committees. It is significant, therefore, that the Post Office Department's lease-purchase authority has proved so cumbersome that it has fallen into disuse and it is being allowed to expire without a request for extension, and that, after due consideration, the Department's lease construction and extension and modernization programs were expressly exempted (see sec. 16) from the provisions of the Public Buildings Act of 1959.

The Comptroller General says that other Government agencies are subject to the above requirements, so why not the Post Office Department. Senate Report 2217, August 1, 1950, and House Report 2339, June 26, 1950, commenting on the bill for the Department's 20-year leasing authority, which was enacted as 39 U.S. 2102, give the answer:

"This section gives the Postmaster General additional authority and freedom of action with respect to the lease of real property * * *.

"With respect to the authority in this section concerning leases, the Postmaster General is authorized to enter into leases of real property necessary in the conduct of the Department's affairs, without regard to the provisions of laws other than those specifically applicable to the Department. General provisions of law regulating the rent payable under Government leases, general provisions requiring advertising, etc., will not apply to such transactions. *It is recognized that post offices must be located to meet the needs of the public, the handling of the mail matter, and to permit economical operations of the Department, and that the statutes waived give rise to frequent difficulties in this respect.*" [Italic added].

These reasons were valid in 1950 and they are valid today. The Post Office Department is not like any other Federal agency. This has been recognized by the Congress for years. This is why Congress expressly exempted the Department's leasing program from the requirements of the Public Buildings Act of 1959 and from the many other laws which apply to the leasing programs of other agencies. There is a vast difference between supplying office buildings to house Federal employees and supplying postal plants to receive, handle, process, and distribute the mails. Flexibility is constantly needed to adopt to changing population, business shifts, and technological advances. Congress recognizes this and has given the Department the necessary tools, not needed by other agencies, to meet these situations. The Postmaster General should retain the necessary authority to enable him to exercise and carry out sound judgment with dispatch in order to meet postal needs.

Very little elaboration is needed with respect to the second suggestion of the Comptroller General which in substance pertains to cooperation between the General Services Administration and the Post Office Department. As I told the committee during my testimony, "We cooperate with the General Services Administration in acquiring new federally owned buildings wherever other agencies' needs and postal service needs can be met—all factors considered—in a combined post office-Federal building. At the present time the General Services Administration has more than 140 buildings approved and at least partially funded which will be partially occupied by the Department."

In the face of the present complete cooperation between the General Services Administration and the Department, there would appear to be no basis for the Comptroller General's suggestion that a letter from the General Services Administration be required before the Post Office Department can proceed with plans to meet its space needs through leasing.

The Comptroller General's suggestions are based on two reports submitted to the Congress by the General Accounting Office. The report of November 20, 1962, dealt with 20- and 30-year leases covering larger facilities, while the report of September 16, 1963, dealt with small- and medium-size facilities, virtually all of which were leased for 10-year terms.

Each of these reports purports to show that the Government ownership of the facilities studied would be more economical than lease construction. The Department does not agree with the conclusions reached in these reports. The General Accounting Office economic analysis in each report is faulty. For example, in arriving at the cost of a leased facility, interest on rent is added to the rent itself. We are unable to find any justification for this procedure. In addition the General Accounting Office has assumed that construction costs are the same whether the building is constructed by the Government or by a lessor. The evidence will not support this premise in most instances, yet it is used as a basis for the conclusions in the reports. These deficiencies in the General Accounting Office reports have been emphatically called to the attention of the General Accounting Office before the reports were put in final form but to no avail.

The Department is not seeking an extension of its 30-year leasing authority and the related land acquisition and disposition authority for the purpose of utilizing this authority with respect to all the facilities which it may need in the future. As pointed out in my presentation to your committee, the Department is anxious to continue the use of all methods of space acquisition in order to meet its ever-increasing requirements. And even if, as I pointed out, the Department were to develop an extensive and workable Federal construction program supported by adequate appropriations, the long-term leasing and land authority would continue to be vital to the postal service.

Sincerely yours,

TYLER ABELL,
Assistant Postmaster General.

Mr. DULSKI. Thank you, Mr. Abell.

Mr. ABELL. Thank you.

Mr. DULSKI. The committee is in recess.

(Thereupon, at 11:45 a.m., the subcommittee was adjourned.)



