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90-1 POST OFFICE LONG-TERM LEASING

GOVERNMENT

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HEARING
BEFORE THE
SUBCOMMITTEE ON
FACILITIES AND MODERNIZATION
OF THE
COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES
NINETIETH CONGRESS

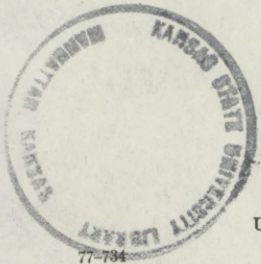


FIRST SESSION
ON
H.R. 8553 and H.R. 8554
BILLS TO EXTEND THE AUTHORITY OF THE POSTMASTER
GENERAL TO ENTER INTO LEASES OF REAL PROPERTY FOR
PERIODS NOT EXCEEDING THIRTY YEARS, AND FOR OTHER
PURPOSES

APRIL 18, 1967

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POST OFFICE LONG-TERM LEASING

TUESDAY, APRIL 18, 1967

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

The subcommittee convened at 10:10 a.m., in room 345, Cannon Building, Hon. Dominick Daniels (acting chairman) presiding.

Mr. DANIELS. The Subcommittee on Postal Facilities and Modernization will now come to order.

The subcommittee is meeting this morning to consider H.R. 8553, introduced by Chairman Pool, and H.R. 8554, introduced by me, identical bills that would extend the authority of the Postmaster General to enter into leases of real property for periods not exceeding 30 years, and for other purposes.

(The bill, H.R. 8553, is as follows:)

[H.R. 8553, 90th Cong., first 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 (a) the portion of section 2103(a), title 39, United States Code, which precedes paragraph (2) thereof is amended to read as follows:

"(a) Whenever the Postmaster General determines after consultation with the Administrator of General Services, that it is not desirable or feasible to construct a postal facility under the provisions of the Public Buildings Act of 1959, as amended (40 U.S.C. 601-615), the Postmaster General, in addition to the authority conferred upon him by section 2102 of this title may—

"(1) negotiate and enter into lease agreements which do not bind the Government for periods exceeding thirty years, on such terms as the Postmaster General deems to be in the best interest of the United States, for the erection by the lessor of special-purpose post office buildings on lands sold, leased, or otherwise disposed of by the Postmaster General to or otherwise acquired by, the lessor;"

(b) Section 2103, title 39, United States Code, is amended by adding at the end thereof the following new subsections:

"(d) As used in this section the term 'special purpose post office building' means a building which has the following characteristics:

"(1) it is situated in a particular geographical location to make it convenient for processing mail;

"(2) it is designed in a particular configuration to make it convenient for processing mail; and

"(3) it is not readily usable or convertible to use as a general-purpose office building.

"(e) At least thirty days prior to entering into a lease agreement under this section or under section 2102 of this title for a special purpose post office building having gross floor space exceeding twenty thousand square feet, the Postmaster General shall transmit to the Committee on Public Works of the Senate and the Committee on Post Office and Civil Service of the House of Representatives a

report which includes a full and complete statement concerning the need for such an agreement and the facts relating to the proposed transaction.

"(f) A statement in the lease agreement that the requirements of subsections (d) and (e) have been met, or that the lease agreement is not subject to these subsections, is conclusive."

(c) The text of section 2109, title 39, United States Codes, is amended to read as follows: "Agreements may not be entered into under sections 2104 and 2105 of this title after July 22, 1964, and under section 2103 after June 30, 1972."

Mr. DANIELS. The bills are identical to S. 1039, favorably reported from the Senate Public Works Committee and due to be called up in the Senate any day now.

By way of background I might state that this is the third time in as many Congresses that we have considered this type of legislation. In the 88th Congress the Postmaster General's authority to acquire and dispose of sites and to enter into leases for periods up to 30 years was due to expire on July 22, 1964, and by enactment of Public Law 88-480 we extended the authority until December 31, 1966. In the last Congress, by enactment of Public Law 89-637, the authority was further extended to April 30, 1967. Unless the legislation we are now considering is enacted, the 30-year leasing authority will expire at the end of this month.

I will say quite frankly that this year we were waiting for the Senate to pass its bill before taking any action here on the House side. However, the time element now dictates that we proceed as expeditiously as possible, as the continued existence of the 30-year leasing authority is vitally essential to the Post Office Department's total space acquisition program.

H.R. 8553 and H.R. 8554 would extend for an additional 5-year period, through June 30, 1972, the authority of the Postmaster General to acquire and dispose of sites and to enter into leases for periods up to 30 years. In addition, and most significantly, the bills, unlike any previous legislation on the subject, contain a number of restrictive requirements, not provided in existing law, that are directed at certain criticisms that have been leveled against the leasing program in the past few years. These new requirements are as follows:

(1) As a condition precedent to the construction of a leased building under the terms of the new legislation, the Postmaster General is required to consult with the Administrator of the General Services Administration and thereafter to determine that it is not desirable or feasible to construct a postal facility under the provisions of the Public Buildings Act of 1959.

(2) The bills provide that the construction under their provisions will be only for special-purpose post office buildings. The bills define a "special-purpose" building as being one which is situated in a particular geographical location to make it convenient for mail processing; is designed in a particular configuration to make it convenient for processing mail; and is not readily usable or convertible to use as a general-purpose office building.

(3) In addition, the bills require the Postmaster General to submit a statement explaining all aspects of the lease for each special-purpose postal facility with a gross floor space exceeding 20,000 square feet to the Committee on Public Works of the Senate and the Committee on Post Office and Civil Service of the House of Representatives at least 30 days prior to executing the lease.

We have received written reports from the Bureau of the Budget, the General Accounting Office, and the General Services Administration, all of which are in support of this legislation. Copies of the reports are on the table before you, and at the conclusion of our oral testimony this morning I will request that they be placed in the record.

Our witness this morning is Mr. Amos J. Coffman, Acting Assistant Postmaster General, Bureau of Facilities, who is accompanied by Mr. James J. Wilson, Assistant General Counsel, Real Property Division, and Mr. Dennis A. Jensen, Director, Realty Division, Bureau of Facilities.

Mr. Coffman, I welcome you to this subcommittee this morning and request that you proceed with your testimony. I notice that you have a long statement. You may read the statement or you may summarize it, and then the members of the committee will ask questions.

STATEMENT OF AMOS J. COFFMAN, ACTING ASSISTANT POSTMASTER GENERAL, BUREAU OF FACILITIES

Mr. COFFMAN. Mr. Chairman, I think I would like to proceed, if it meets the approval of the subcommittee, by summarizing the statement.

Before going into that summary, Congressman Daniels, I want to convey to you the personal appreciation of the Postmaster General for scheduling this early hearing, for putting into the Congressional Record the very succinct and clear statement about this legislation, frankly stating the predicament that we are in. I want to express also the appreciation of the Postmaster General to the other members of the subcommittee for being here on this occasion of this hearing which was called on pretty short notice.

We also appreciate, of course, Chairman Pool's complete cooperation in this matter, even though because of illness he cannot be here.

The chairman has explained to you members of the subcommittee the predicament that the Post Office Department finds itself in. Because of past history of some difficulties in the Senate and no such past history with respect to this legislation in the House we had been awaiting Senate action before proceeding here in the House of Representatives.

However, the Senate action has not been forthcoming. We do expect it today or tomorrow or the next day, whenever the tax legislation which is now pending before the Senate is out of the way. It is the next pending business in the Senate.

But having made that decision, we found ourselves in the dilemma or the problem of running out of time, and so these hearings were called on this short notice. In no way do we want to indicate that we are interested in ramroding or pushing this legislation through without careful attention.

This subcommittee and this full committee have examined it carefully with hearings in 1964. They looked at it again last year, and we are now prepared to furnish all information desired with respect to the present bill, which has some differences, as the chairman indicated, between it and the prior legislation.

The reason it has differences is because the lease program has been the subject of some criticism by the General Accounting Office, by the

Bureau of the Budget, and implicitly I think by the General Services Administration. And I think it is important that each one of those agencies are now on record in favor of the legislation that is now before this subcommittee. This is the legislation that, as has been pointed out, is identical to that of S. 1039 which is now pending in the Senate.

In summary, these three bills provide this: They provide that the present authority of the Postmaster General to enter into long-term leases be extended for 5 years. And I want to point out that it is not only the long-term leases that are involved here, but it is our land condemnation, purchase, and sale authority that goes along with it that is in the present legislation, the present statute; 39 U.S.C. 2103 contains not only the long-term leasing authority, but land condemnation and purchase and sale authority that I will point out later is so important to any leasing program. So it extends that authority for 5 years.

It provides that this authority can only be exercised after a Federal building has been found not to be desirable or feasible by the Postmaster General after consultation with the Administrator of the General Services Administration.

Now this authority is confined to special-purpose post office buildings, and special-purpose post office buildings are defined in substance in the bill as a building built for the purpose of handling mail, to differentiate them from office buildings.

It was the intention of the Public Works Committee in the Senate. I think, and it is the feeling and view of other people who have studied this program that the Department should not be in the business of building office buildings, that they should instead be in the business of building post office buildings; and since handling of mail is now a pretty specialized activity, and especially in the larger facilities is really a light industry, it was perfectly appropriate, we thought, to provide this in this legislation.

Then finally, the bill provides, most importantly, for congressional oversight with respect to all of the major facilities 20,000 square feet or over by providing what might be called a lay it on the table provision offering this committee—that is the full Post Office and Civil Service Committee, and this subcommittee would have jurisdiction—offering this committee and the Senate Public Works Committee the opportunity to examine each large project that the Post Office Department intends to go into before that project is awarded.

Now the Post Office Department supports these bills. Despite the fact that they offer certain restrictions, we think that they are workable, that they are practical, and that it is healthy to have the congressional oversight that they provide; and therefore we are supporting them wholeheartedly.

Now let me go for just a moment to the reason why we are so concerned and the Postmaster General is so concerned about the acquisition of new space for postal activities. The Postmaster General has said that the Department is in a race with catastrophe. The outcome of that race to a large degree will be determined by whether or not we can install sufficient machinery to handle the great explosion in mail volume that is occurring in the United States. You cannot install the machinery unless you have the new buildings to install it in. The old buildings are not high-ceilinged enough to take the machinery. The floors don't have the load-bearing capacity. They don't have

sufficient platforms. They don't have sufficient maneuvering area. Nine-tenths of them were built in the 1930's under Jim Farley. The postal plant is simply not adequate.

It is not adequate even in terms of raw space. It is doubly not adequate when it comes to places in which to place the mechanization that is necessary to handle this great mail explosion with which we are confronted.

So when the Postmaster General says that we are involved in a race with catastrophe, to a very substantial degree he is talking about the very thing we are talking about here, the ability of the Post Office Department to get space—pure, simple space—in which to operate and in which to place our labor-saving machinery.

I might say that the Post Office Department in recent weeks has almost pushed the Vietnam war off the front pages in some respects. Here I have "A Crisis Coming in the Mails." That is an article in the current issue of U.S. News & World Report. Last Sunday the front-page feature article of the New York Times as, "Lawrence J. O'Brien and His Efforts To Modernize the Post Office Department." In the March issue of Fortune magazine there is a full story on the efforts of the Post Office Department to modernize its plant.

The Postmaster General's sensational and very thoughtful proposal recently submitted to the President and to the American public to adopt a plan of a nonprofit corporation is receiving careful consideration, and an Executive order has been issued by the President appointing a 10-man commission to consider this.

The whole point of this is that to a very substantial degree this is a problem in acquisition of space. The population of the country is shifting, the gross national product is increasing in leaps and bounds. All of this is reflected in increased mail volume, to the extent that today we need 7 million square feet of new space each year, and we think next year we will need 10 million new square feet of space.

I don't think anyone argues much about the fact that the Post Office Department needs renovation, needs modernization, and in order to accomplish these things it needs a lot of new space, as I just specified.

Now let me spell out just very briefly the tools that we now have to obtain this space. First, we have our lease construction program, the core of which is involved in this legislation.

This program has supplied the space to the extent we have been able to get it so far. This is a competitively bid program. It provides for private financing, it provides for flexibility in that we don't have to get appropriations and prospectuses approved. The prospectus and appropriation procedure that goes along with Federal buildings is rather long and cumbersome. We have been able to utilize the lease construction to a very high degree.

We now have 85 large projects in some stage of development. Some are in the planning stage, and some are under construction. Most of those—not all of them—most of them are in the leasing program at this time.

We may make an effort, as I will explain later, to shift some of those to Federal construction for reasons that I will outline a little later. But right now the success of this program hinges—if you are going to develop it with certainty—upon the extension of the leasing authority. So we have the leasing program. That is one of the tools that we have that is at stake in this legislation.

Second, the General Services Administration can build Federal buildings for us by submitting a prospectus to the Bureau of the Budget and by having approval of that Office, the Office of the President, in other words, and submitting prospectuses to the Public Works Committees in the House and Senate and obtaining appropriations, et cetera.

That authority has been utilized, we think, to the maximum extent possible. I think the General Services Administration agrees with us. Where a combination building is needed the General Services Administration comes to us, asks if we need postal space there; if we do, we join with them for the construction of a Federal building.

Now despite this fact, despite the fact that General Services Administration served us in combination buildings, we had the idea last year—and this was supported by a blue-ribbon advisory committee composed of presidents of some of the leading corporations of the country—that we ought to have independent construction authority. So the Postmaster General wrote letters to the Speaker and the Vice President recommending such legislation.

It didn't get very far. It didn't even get introduced in the House of Representatives. It was introduced in the Senate, hearings were held, but it was not reported out of the Senate Public Works Committee.

While that legislation was pending—and I cite that little bit of history because this is the third method of acquiring space that is now open to us—the Administrator of the General Services Administration offered to delegate—under authority that he had under existing legislation, section 15 of the Public Buildings Act of 1959—to the Post Office Department, authority to build their own postal buildings that were to be used primarily for postal purposes.

That delegation of authority applied at once to 14 buildings that were listed in the delegation, and when my statement goes into the record a copy of the delegation of authority will go in with it, with the permission of the subcommittee.

It provided immediately for the delegation of 14 projects that had been approved already by the respective Public Works Committees. But it is much broader than that. It provides that in the future—for all buildings on which the Postmaster General and the General Services Administrator can agree—construction authority will be delegated to the Post Office Department. The delegation provides that prospectuses must go forward, nevertheless, through GSA and through the respective Public Works Committees, but at that juncture GSA's administration of that particular delegated construction project will cease. The Post Office Department will take over and proceed with the funding, the design, the selection of the location, and the construction of the facility.

Now the reason for this delegation I think is quite simple. The post office of today is a special-purpose building. It is a big, high ceilinged, light industry-type mail processing plant, and it is one with which the Post Office Department only is concerned, not the rest of the Government.

And given that kind of a background, I think it was the consensus of those involved in this that there is no use of having a layer of design people and a layer of contracting officers and a layer of other public

officials between the Post Office Department that needs the building designed as they need it, located where they need it, and the actual construction of the building.

So the delegation of authority lets the Post Office Department move directly under the present statute without the necessity of a new statute.

We have sought under this delegation of authority an appropriation which I will discuss in just a moment.

These are the three methods of acquiring space the Department now has. You can see by reviewing these three methods how important the leasing authority is against the other two. The leasing authority provides flexibility and allows us to use the direct approach needed to do the job—in the business oriented atmosphere that we are in—where we can't always predict what is going to happen tomorrow. It gives us that kind of authority where we badly need it. If we can predict we can use the other methods for building buildings we are talking about.

Now I want to mention just one thing about the economics of post office construction which sheds some light on the provisions of this legislation and on the policy that the Department wants to follow.

The economics of post office construction, during recent years while this leasing program has been going at a rather fast pace, has been very interesting to the General Accounting Office, the Bureau of the Budget, and other people that study the fiscal affairs of the Government.

The Post Office Department believes it is more economical to lease those small- and medium-size post offices than it is to build them as Federal construction projects. I think the General Accounting Office is now reserving opinion with respect to this.

Mr. DERWINSKI. Mr. Chairman, may I interrupt?

Mr. DANIELS. Yes.

Mr. DERWINSKI. Would you mind, Mr. Coffman, giving us a definition of what you classify as small, medium, and large? Those are rather vague terms. Do you have some space figures that would fit those classifications?

Mr. COFFMAN. I would say small buildings are, say, 15,000 square feet and under—10 to 15 thousand square feet and under. Medium size would run up toward 50,000, and the large buildings 50,000 and above.

Now we don't want to draw any precise lines. Actually the problems with respect to construction on larger buildings occur when you put mechanization in to a substantial degree. They occur at that stage, and you may put mechanization in a 40,000-foot building or you may wait until you get a 60,000-foot building. But, in other words, these are the categories.

In the small- and medium-size buildings, Federal construction so far has been fairly expensive per square foot so that increased construction cost has pretty much tended to overcome the tax advantage that goes along with a Federal building. The Federal building isn't on the tax rolls as you all know. The leased buildings are. It is taxable, it is a major economic factor. In fact, it is the major factor in the difference in cost between these two kinds of construction.

But we believe that the medium and smaller size buildings, which,

incidentally, we lease for shorter terms—5-, 10-, 15-, 20-year terms—should continue to be handled under the lease construction program. We are not frozen on that view. The General Accounting Office is going to do a restudy. We will be watching that with great interest. They are very objective about what they do.

It could be we should get into Federal construction to a greater degree on this size building. So far we are not willing to say that we should, but it is a possibility.

However, with respect to the larger buildings the economics are fairly clear. Everybody agrees, I believe, that has studied the problem, that it is considerably cheaper to build a larger building as a Federal building than it is to build it as a leased building, largely because these buildings carry, when they are leased buildings, a very heavy tax burden. Local real estate taxes are extremely heavy.

We have some of our larger facilities—Detroit, Manhattan, and places like that—that carry a \$400,000 a year tax bill. Well, pretty obviously if you have to pay out of rent \$400,000 for taxes it is going to cost you a lot more when you analyze that economically than it is if you don't have to pay the taxes.

So that putting aside for the moment the advantages of paying real estate taxes out of the Federal Treasury—which has some points—we can say that as far as the Treasury is concerned and as far as the Post Office Department appropriations are concerned larger buildings should be built as Federal buildings.

Now with this in mind, and with our delegation of authority, what we are now announcing as our policy with respect to these larger buildings is that we will to the extent possible and feasible build our larger buildings as Federal buildings and continue the small- and medium-size buildings as leased buildings under our present state of the art or under our present views.

Now if this is true, if we are going to shift with respect to these larger buildings, why are we asking for the extension of this 30-year leasing authority and the land condemnation authority that goes along with it?

The purpose of giving this background is because this subcommittee is vitally concerned with the acquisition of facilities and the modernization of them, and I think this background is significant in that regard.

Let me get to the reasons why we think we should have the leasing authority even though we intend to move as fast as we can toward Federal buildings, with respect to larger facilities, using the appropriation process and the delegation of authority.

The first reason is this: despite all of your best efforts with respect to a Federal building you may not be able to get it approved and funded in time to do the job for the Post Office Department. At the same time the economic analysis of that structure may show that you will save money even if you build it as a leased building. To avoid having to forgo those savings, even though they might be as great as they would be if you could get a Federal building, and to avoid all of the hectic problems that arise when you don't build a new facility—we think we ought to have the leasing authority.

To state it differently, if it appears that you cannot clear through the Bureau of the Budget, you cannot clear through the Public Works

Committees, you cannot get funded in time to do the job on X project, then we should go ahead with it as a leased project.

Now what is the practicality of that sort of a problem? We have 11 projects we are seeking funding of right now, 11 of the 14 projects that were delegated to us by the General Services Administration. The House Appropriations Subcommittee and the full committee and the House as a whole cut \$10 million out of the \$55 million public buildings appropriation, and it happened that \$10 million, as the legislation read, applied to site and design funding. The site and design funds are the seed money of a Federal building program. If you cut that in two it causes a lot of trouble.

So this illustrates the kind of problems that arise when you go into a Federal building program. We are not backing away from that program. We are going to push right along on it, but you have that kind of a problem arising; and where you can't get the appropriation as a practical matter in time to use it and save money then perhaps the leasing authority should be used, and we are prepared to say it should.

There are some other instances where leasing authority is essential. We have increasingly found it necessary to build buildings on airport property, not only airmail facilities, but many times a main facility for a town, as in Tampa, Fla., and other cities. Many times the main mail handling facilities ought to be on airport property that is owned by a public body. They are not anxious to have us come in and condemn property and build a Federal building on top of the current corporate or legal structure they have. It musses up their bond issues and causes lots of problems and isn't really wise as a matter of public policy.

We would like to have the authority to lease these facilities. And to get our structure there, the kind of proposition we are working out with these airport people is this: They will build a building according to our specifications and will put it out for bids, construct it, hire the A. & E., and do the whole job. They will do it with no profit. They will do it with the low interest rates they are getting on their bonds, and above all, there are no taxes on the airport buildings. So that we get all the breaks there that you get from a Federal building, and yet we are also satisfying the requirements of the airport authority that you don't superimpose on their airport a Federal building that is owned by the Federal Government outside their control. So that is an important reason to have leasing authority.

Then there is another one that is important, I think, oftentimes to an individual Member of Congress. Sometimes in getting a site or oftentimes, as a matter of fact, we are negotiating with municipalities, cities, other public bodies that own land. Sometimes they are willing to sell us the site for a very low price or even give it to us if we can build a leased building there and leave it on the tax rolls. We would like to be free to accept that kind of proposition.

To some extent that is the flavor of the proposition that we have in Dallas, Tex., where we are buying a site for \$1 a square foot, from the city council, which is probably worth twice that much.

Now I want to stress that we have not committed ourselves legally at least to any municipality that we won't build a Federal building, but we do have an equitable consideration; and, of course, under the congressional oversight provisions of this legislation all these larger buildings would be presented to this committee for—

Mr. SCOTT. Mr. Chairman, may I ask a question?

Mr. DANIELS. Yes, Mr. Scott.

Mr. SCOTT. Does that mean that you would not proceed without some approval from this committee, or would you just submit it and then go ahead with whatever you plan to do?

Mr. COFFMAN. It is what I term, Congressman Scott, a "lay it on the table" provision. The details with respect to each project would be presented to the committee and would be before them for such consideration as they want to give it and such questions as they care to ask and such objections as they care to lodge or approvals for 30 days.

Now one of the reasons that provision is the way it is is because the executive branch of the Government and the President personally has viewed committee approval as being of some questionable legality. So the Public Works Committee in the Senate has agreed to that, even though they have approval right with respect to Federal buildings. But this is a method of approaching this thing that hopefully will meet the approval of both the executive and the legislative branches.

Mr. DANIELS. Mr. Scott, will you yield?

Mr. SCOTT. Yes, Mr. Chairman.

Mr. DANIELS. In my opening statement I pointed out that under the legislation which we are now considering there are three conditions precedent. One of the conditions is that 30 days prior to executing the leasing authority the Postmaster General must submit to the Public Works Committee, which has jurisdiction on the Senate side, and to this committee, what the plans are.

Mr. SCOTT. Well, Mr. Chairman, the only thought that came to my mind was the practical effect of submitting this to the committee.

Mr. DANIELS. We are like an oversight committee here. We have the right to review it. As a matter of fact, I understand Chairman Pool proposes to make an extensive investigation of the leasing authority and property acquisition of the Post Office Department in this session of Congress.

Mr. SCOTT. As I read this, and as the witness has indicated, this is considered to be an executive department matter, and the legislative branch wouldn't have the authority to approve or disapprove. I am just wondering about the practical effect. If we didn't like what they were doing, would we just let them know we didn't like it; or could we amend the law at any time and take this authority away from them if we didn't approve what they were doing?

Mr. COFFMAN. I think the question is very good. The practical effect is the thing that you are interested in. I think the practical effect is that the Post Office Department would, of course, pay a good deal of attention to the views of the committee; whereas legally we could override the judgment of the committee, it would seem to me to be very unwise to attempt to do so. We would try to explain, if we had a difference of opinion, our viewpoint, and we would just have to take it project by project thereafter. But practically, I am certain that I speak for the Postmaster General in saying we would give the utmost consideration to the views of the committee on each project that comes up.

So far I have been mentioning why we need leasing, not necessarily why we need long-term leasing. Just let me devote a few remarks to why long-term leasing is significant.

It is significant primarily, in a nutshell, because where you can see long-term needs, where you can see you need to occupy space for 30 years you get a much better financial deal if you can offer a 30-year lease than you do if you offer only a 20-year lease, which we would have to do if we did not get this legislation through.

I have attached to my formal statement exhibit A which reflects the study of all of our leased construction projects for the last 9 years. We used 9 years because that is when the program has been going full blast. I think we had 386 20-year leases in that study, and 87 30-year leases.

Now this shows that on the basis of the percentage of total cost that your 20-year leases cost you a good deal more than do your 30-year leases if you are talking about 30-year occupancy, especially.

The problem that we are confronted with here is this. We had 87 projects in the last 9 years that we used the 30-year term on. If we didn't have this legislation we would have had to use the 20-year term, and with options to carry this on up to 30 years. But because this 20-year term is not as appealing to investors the net result would have been, had we had to use the short term on the 87 projects—we used the long term—had we had to use it, it would have cost us \$18 million more.

Now the longer you occupy the building the more it costs you as you pay the high cost of interest that goes along with the 20-year lease.

So that in a nutshell, without getting into great detail, is what the exhibit shows, and my prepared statement shows exactly how the exhibit was prepared.

I might say it was prepared on the basis of the percentage of rents, the ratio of the rent to the total cost of the building. The 30-year buildings naturally cost a little more per square foot because they are much more complicated than the 20-year buildings. In order to get a comparison, we used the ratio of rent to the total cost of the building.

When you use that, which I think is an accepted statistical method—it is not challenged by the students of that sort of thing—when you use that, you find that the 30-year term is substantially more economical than the 20-year term where you can project occupancy that far, that you actually intend to occupy it for the 30 years.

So much for the economics of the long-term lease.

Now as I said before, this legislation also carries with it land condemnation and purchase and sale authority which except for this legislation we wouldn't have at all. No leasing program, whether it is 20 years, 10 years, 5 years, or any other time, can go forward under competitive bidding practices unless you are able to control sites, and at reasonable prices, so that each person that bids is bidding on the same proposition. He is bidding on the same site for the same building, and he is in a straight competitive proposition with the other bidders. If you let everyone bid on their own site not only do you have a helter-skelter program, but you have no way of really passing judgment on competition. You open it up for the real estate officers and other people in the Post Office Department to say, "Well, I like this site over here a little better; even though it costs four times as much we will take it." Thus, the protection of competition is gone unless you have the ability to control sites.

The ability to control sites depends upon your ability to condemn the site—not that you have to condemn it very often, because you don't. Ninety-five percent of the time we don't condemn sites. But the fact that you can is the thing that enables you to get a site under control at a fair price.

Now there is listed in my formal statement a half dozen other situations where you need condemnation authority to make the program go. But I think you can see in order to clear title, in order to stop high prices, in order to get the one or two recalcitrant owners of parcels in line, et cetera, you do need condemnation authority. And I want to make it clear to the subcommittee that we use this with the utmost discretion. When we institute a condemnation proceeding we write each owner of the property a letter telling him the reason we are doing it, whatever it may be in this particular instance, and saying hopefully we will have no litigation, and through the U.S. attorney's office these can be settled.

We also use two appraisers approved by the Department of Justice in settling condemnation proceedings. Our recording settlement on those is right down close to the appraiser's appraisal in practically all instances. We have an administrative rule that we can go as much as 10 percent over, depending on the feelings of the U.S. attorney about our chances in the trial. Two of our recent cases in Birmingham and Mobile have been right down within 2 or 3 percent of the amounts.

So we feel that we are administering the condemnation authority with equity and good judgment.

Mr. SCOTT. Mr. Chairman.

Mr. DANIELS. Yes, Mr. Scott.

Mr. SCOTT. Mr. Coffman, are you saying that after condemnation proceedings are instituted you determine whether settlement shall be made?

Mr. COFFMAN. No; the Department of Justice makes recommendations to us and they seek our approval.

Mr. SCOTT. Well, Mr. Chairman, for the record let me say that the Attorney General has plenary authority to settle lawsuits, and not the Post Office Department.

Mr. COFFMAN. Well, Mr. Scott, all I am saying is the Attorney General follows the practice of asking us what we think about the proposed site.

Mr. SCOTT. All right.

Mr. COFFMAN. I understand perfectly as a lawyer that this is a prerogative of the Department of Justice.

In summary then, we think the 30-year leasing authority contained in these three bills should be continued because it is the most economical method of procuring space where long-term occupancy is projected and leasing is appropriate.

The 30-year term enables the Department to more evenly match cost and revenue, thus minimizing Treasury financing.

Even though the Department intends to greatly enlarge its Federal construction program, continued 30-year leasing authority is essential to the development of facilities where Federal ownership is inappropriate. I mentioned two or three of those.

The land acquisition authority, which is just as important as the 30-year, should also be continued because it is basic to a competitive

leased construction program irrespective of the length of the lease term.

Further, 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.

Therefore, the Postmaster General urges that this legislation should be adopted.

Mr. Chairman, I would like to request that my full formal statement be placed in the record.

Mr. DANIELS. Without objection, your formal testimony will be inserted in the record at this point.

(The prepared statement of Mr. Coffman, is as follows:)

PREPARED STATEMENT OF ACTING ASSISTANT POSTMASTER GENERAL AMOS J. COFFMAN

Mr. Chairman and members of the subcommittee, the Postmaster General has asked me to convey his personal appreciation to you, Congressman Daniels, and to the members of the subcommittee for scheduling an early hearing on these very important bills. We are grateful also to Congressman Pool, the chairman of this subcommittee, for his wholehearted cooperation in arranging for this hearing under circumstances where, because of illness, he could not be present to preside.

I am pleased to present the views of the Post Office Department on H.R. 8553 and H.R. 8554.

THE BILLS

These two bills are identical and are also identical with a bill now pending before the Senate, having been unanimously reported out by the Public Works Committee of that body. The three bills would extend the Postmaster General's authority to enter into leases of up to 30 years' duration and would also extend his authority to condemn, purchase, and dispose of land for the purpose of carrying out this leasing program. The bills would extend this authority until June 30, 1972. The present authority is contained in 39 U.S.C. 2103 and expires on April 30, 1967. It is virtually unconditional except for this time limit. These bills, on the other hand, contain a substantial number of new requirements not provided in the present statute. These requirements are as follows:

(1) As a condition precedent to the construction of a leased building under the terms of these bills, the Postmaster General is required to consult with the Administrator of the General Services Administration and thereafter to determine that it is not desirable or feasible to construct a postal facility under the provisions of the Public Buildings Act of 1959. This provision becomes very meaningful in view of the delegation of authority from the General Services Administration to the Post Office Department which I shall describe in detail later. Suffice it to say here that this delegation of authority should be a very significant factor in permitting the Post Office Department to engage in Federal construction to a much greater degree than has been true in the past.

(2) These bills will permit the construction under their provisions of only "special purpose post office buildings." The bills define this term in some detail. The substance of the definition is that buildings constructed under the act must be located and designed so as to "make it convenient for processing mail" and "must not be readily usable or convertible to use as a general purpose office building."

(3) Finally, the bills provide that, with respect to any buildings exceeding 20,000 square feet in size, which are to be built under their provisions, the Postmaster General shall transmit a report to the Committee on Post Office and Civil Service of the House and the Committee on Public Works of the Senate containing a complete statement concerning the need for such agreement and the facts relating to the proposed transaction. The bills require that this report must go to the respective committees at least 30 days prior to the execution of the lease agreement.

In summary, the bills provide that the present authority of the Postmaster

General to enter into long-term leases be extended for 5 years; that it be exercised only after a finding that a Federal building is not desirable or feasible; that the authority be confined to the leasing of "special purpose post office buildings," and the bills provide for congressional oversight with respect to the entire program.

The Post Office Department supports these bills. We believe that the requirements, definitions, and procedures provided by the bills are practicable and workable, and will serve the best interests of the postal service and the Nation.

THE NEED

The extension of the Postmaster General's long-term leasing authority and his authority to condemn, purchase, and dispose of land for the purpose of carrying out this leasing program is absolutely essential to the Department's continued ability to do its job.

This leasing and land authority is imperative because the Post Office Department today is engaged in a desperate race with an exploding mail volume—a race to determine whether new buildings and new machines can be acquired in time to contain the amazing mail volume with which we are confronted—83 billion pieces of mail annually. The mail explosion is real, and it was largely unforeseen, but it must not be permitted to overwhelm the postal service—yet that is exactly what is likely to happen unless the Department is in a position to increase its mechanization very substantially in the immediate future. And mechanization cannot be increased unless suitable buildings are at hand in which to house the huge and complicated machinery necessary to process this staggering mail volume.

The Department's authority to carry out an effective and efficient lease construction program expires just 12 days from today. Unless it is extended, the Postmaster General's all-out efforts to avoid catastrophe in handling the mail explosion will suffer a damaging and even a dangerous setback. As a measure of the importance of new buildings and machines in this race against time and increasing mail volume, the Department's appropriation request for mail-handling machinery for 1968 (\$72 million) is more than double the 1967 appropriation for this purpose and the number of major facilities scheduled for 1968 is likewise more than double those scheduled for 1967.

The Department now occupies the astounding total of 138 million square feet of building space and its need for space is constantly increasing. Increased mail volume, shifting and growing population, burgeoning new business enterprises, and obsolete space presently occupied, all combine to create a need for from 7 to 10 million square feet annually. Its annual need for space probably exceeds that of any other civilian enterprise in the country today.

All these growth and change factors contribute importantly to this need for new space, but perhaps the one most significant factor is the current phenomenal growth in mail volume. In 1963, 67.9 billion pieces of mail passed through the postal system. By 1968 this volume will have increased to nearly 83 billion—an increase of almost 23 percent.

I do not think that in view of this increase in mail volume and the other factors I have mentioned, anyone can seriously argue about the Department's need for vast amounts of new space. But let me add just one comment about the policy we follow in deciding that a newly constructed building is needed. No new building is authorized if the deficiencies found in the presently occupied building can be remedied by extension and modernization or other improvement at a justifiable cost, or if another existing building can be found which will satisfy postal needs at less cost than a new building. In other words, new construction is a last resort.

HOW THE NEED FOR NEW SPACE IS MET

The Department's new space is acquired by three methods. The lease construction program administered by the Department, the Federal construction program administered by the General Services Administration, and the postal public building program carried on by the Department under a delegation of authority from GSA.

Under the lease construction program, the Department contracts for a building of certain specifications. Usually the land is either under option to or owned by the Department, and depending upon the size of the building, plans may be drawn by a POD-hired architect for buildings over 50,000 square feet, or merely out-

lined in a document of specifications. Buildings ranging in size from 4,000 to 50,000 square feet are bid on tentative drawings and firm construction requirements. The successful bidder is then required to retain an architectural engineering firm and submit detailed drawings to the Department for approval. For the smallest facilities, prototype plans are used, together with construction requirements, and the successful bidder need not retain an architectural engineering firm except where local regulations require it.

The length of the desired lease term is determined on the basis of foreseeable occupancy needs. Generally this is related to the size and cost of the facility, with a 30-year term being used on the larger facilities, a 20-year term in the medium-size category, and less than 20 years on the smaller buildings. Five-year renewal options are required as follows: four on a 10-year basic term; five on a 15-year basic term; six on a 20-year basic term; and eight on a 30-year basic term.

Bidders agree to construct the building called for by the design data and rent it to the Department for the term and the renewal options in the bidding documents. Funds expended by the Department for sites and architectural engineering fees are repaid to the Department by the successful bidder so that the project is fully financed by the successful bidder.

The Department has a fund in the nature of a revolving fund of approximately \$30 million to finance temporary outlays for sites and architectural engineering fees. Reimbursements are paid back into the fund and it remains available for future projects on a continuing basis.

The entire lease construction program under the so-called 30-year leasing authority is carried out under competitive bidding procedures.

I realize that this committee is familiar with the construction carried on by the General Services Administration, but for the record, I would like to briefly outline how it relates specifically to postal projects.

The General Services Administration is the agency authorized by law to construct all office, warehouse, and other general-purpose buildings for the entire Government. Post offices are considered general purpose under the law and construction of post offices for Government ownership is the exclusive province of GSA.

Under the General Services Administration construction program, the Department is informed by GSA of locations where the needs of other Federal agencies indicate the possibility of a Federal building and is asked to provide postal space requirements if the Department is in need of new space in the city under consideration. By law, Federal buildings (with exceptions which are not relevant) must be "distributed equitably throughout the United States" (40 U.S.C. 611(e)) and a prospectus covering each building recommended by GSA and the justification therefor must be submitted to and approved by the Public Works Committees of the House and the Senate.

After the requisite committee approval, GSA submits an appropriations request to the Independent Offices Appropriations Subcommittee of the Appropriations Committees of the House and the Senate covering each project. The appropriations request is usually divided into two parts and submitted to two different sessions of Congress. Funds for site procurement and buildings design are first sought, followed in a year or so by a request for construction funds. These appropriations, of course, must follow the usual legislative procedure and are not available until the appropriations act of which they are a part becomes law.

The architectural engineering firm is employed by GSA and preliminary and final drawings are submitted to the Department for review to the extent considered necessary to insure that postal requirements are met. This becomes a very involved procedure where a complicated mechanized mail-handling facility is to be included in the structure and machinery layout and related structural requirements must be reflected in the detailed drawings.

As the committee is aware, the Postmaster General asked the Congress last year for authority to build postal buildings independently of GSA. This was done after a blue-ribbon advisory committee of business executives recommended that such authority and full leasing authority were both necessary if the Department was to be fully equipped to acquire buildings when and where needed. The recommendation of the Committee appearing at the beginning of its report to the Postmaster General reads as follows:

"This Committee is of the unanimous opinion that the Post Office Department should have permanent authority to acquire, construct, and own buildings for postal purposes as well as the present authority to lease such buildings; and

that the decision as to which method should be used in each case should be made by the Post Office Department with due regard to economic considerations."

A bill providing for independent construction authority was introduced last year by Senator Young of the Public Works Committee. Hearings were held, but it was not reported out of committee. The bill was not introduced in the House.

In the meantime, while the bill was pending before the Senate committee, the Administrator of the General Services Administration, Mr. Lawson Knott, offered to delegate authority to the Postmaster General to design and construct Federal buildings to be used for postal purposes as he was authorized to do under section 15 of the Public Buildings Act of 1959. Subsequently, on November 10, 1966, the Postmaster General wrote to the Administrator indicating that he would be glad to accept this delegation of authority. And on December 1, 1966, the formal delegation of authority was forwarded by the Administrator to the Postmaster General. I would like to offer a copy of the formal delegation and Mr. Knott's covering letter dated December 1, 1966, for inclusion in the record.

Why was this delegation of authority offered and accepted?

The answer lies in the fact that the post office of today, especially the big city post offices, bears little resemblance to the post office of former years. It is oftentimes a vast mechanized postal plant with fixtures, equipment, and machinery devoted exclusively to receiving, handling, processing, and distributing mail. The planning, designing, and construction of these buildings to meet and fulfill postal operating needs logically falls within the function of the Postmaster General. These postal plants are of a special-purpose nature which should be the Postmaster General's responsibility from the initial stage of planning to meet the postal needs right through design, construction, occupancy, and operation. A modern postal plant is not designed or constructed for office or storage or other general-purpose space except as an incidental adjunct to processing the mails. Mail processing is now a unique, highly industrial operation requiring special equipment and facilities.

The delegation of authority requires that all prospectuses must go through GSA to the respective Public Works Committees of the Senate and the House. It provides that no project shall be delegated until the Postmaster General has consulted with the Administrator on the public buildings requirements in the community and the Administrator has determined that the proposed building would not be incompatible with his current or long-range plans for meeting the space needs in the community.

It is the view of the Post Office Department that this delegation of authority, plus the consultation requirement in the bill here under consideration, seals a partnership between the General Services Administration and the Post Office Department under which the maximum number of the Department's larger buildings can be built either as Federal buildings or as leased buildings depending upon all the facts and circumstances related to the building in question.

THE ECONOMICS OF POST OFFICE CONSTRUCTION

The Department's studies show that the hundreds of small- and medium-sized buildings constructed under lease contracts for 5-, 10-, and 15-year occupancy can more economically be constructed and occupied under a leasing program than under a Federal construction program. These same studies demonstrated that with respect to large facilities—say those in excess of 50,000 square feet in size—Federal construction and ownership was generally more economical than private construction and ownership.

There is one significant cost of leasing which has no counterpart in Government ownership and that is local real estate taxes. A leased building is privately owned. It is subject to local real estate taxes. A Federal building is not. This creates a critical cost difference. The local real estate taxes on some of our larger postal plants exceed \$400,000 per year. Where construction costs are about equal as between Government and lease construction, as is true with respect to larger buildings, these local taxes are decisive in comparing the cost of the two different types of construction. However, where construction costs are not equal, as we believe is true with respect to small- and medium-size buildings, or where short-term occupancy is advantageous, these taxes are not decisive in such a comparison.

FUTURE POLICY

The General Accounting Office, the Post Office Department, and I might say, the Bureau of the Budget, are all agreed on one proposition; namely, that the

larger major facilities required by POD can generally be constructed as Federal buildings more economically than they can be provided as leased buildings. This consensus then is the basis for the future policy of the Department. That policy is that to the extent possible and desirable, including availability of funds, our larger facilities will be constructed as Federal buildings either by the Department under its delegation of authority or by GSA as combination post office and Federal office buildings.

REASONS FOR THE ENACTMENT OF H.R. 8553 AND 8554

Why then should one of these bills be enacted? Because there will always remain some circumstances where long-term leasing authority and land condemnation authority will be needed—where, in other words, Federal construction is not possible or it is not desirable. Some examples of such circumstances are as follows:

(1) Situations where for one reason or another the approval and funding of a Federal building is not possible to meet postal requirements. In such circumstances, where an economic analysis shows that a leased building is more economical than no building at all, then the Department would be justified in using its leasing authority for the acquisition of this building.

(2) Where the site needed for a postal facility is not for sale and is owned by a public body, such as an airport authority or a port authority against which condemnation is not considered appropriate. Many airports, for example, are willing to provide a facility at their cost, free of taxes, but are not willing to sell the land for the construction of a Federal building. They simply do not want any ownership other than their own at the airport and this is understandable. Leasing authority enables the Department to lease such facilities from the airport authorities under agreements which provide for reimbursement of costs only through the payment of rent.

(3) Where a city or other taxing authority is willing to donate land or sell it for a low cost in return for a structure that will remain on the local tax rolls. The Department's leasing authority enables the acceptance of such a proposition. Without the leasing authority such acceptance would be impossible.

(4) Other unusual situations not now foreseeable may arise where it can be established that leasing is desirable in lieu of Federal construction.

These are the kinds of circumstances under which the long-term leasing authority provided in these bills would be used; but always subject to the oversight provisions of the bills.

WHY LONG-TERM LEASING

Where leasing is desirable, as indicated above, and where long-term occupancy can be foreseen, the 30-year lease term is more economical than the shorter 20-year term that the Department would be required to use if this bill is not passed.

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 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. 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 because the cost of the building must be amortized over a shorter period.

For example, the Department's net rent for our new facility at Houston, Tex., under a 30-year term is \$661,376 annually—or \$1.23 per square foot. If a 20-year term had been used, the rent would have been \$772,200 annually—or \$1.44 per square foot which is a 17-percent increase. 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, an 11-percent increase.

It is true, under a 30-year term, total interest is paid but this is to be weighed against the considerably lower cost to the Government each year of the term which results in minimum Treasury financing. Treasury financing is not interest free either. Interest on the national debt is \$12.3 billion per year, computed as of February 28, 1966.

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 9-year period from July 1, 1957, to July 1, 1966. This analysis is attached hereto as exhibit A. This analysis includes all the 20- and 30-year leases executed by the Department during this 9-year period covering buildings having renewal options up to 50 years. On this basis, the analysis includes three hundred and sixty-eight 20-year leases and eighty-seven 30-year leases.

There are 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, and 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.

Exhibit A shows that under 30-year leases the cost of rent averaged 6.17 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 6.42 percent of initial costs. As the exhibit shows, this is a difference of 4 percent in favor of the 30-year term. The exhibit also shows that if occupancy goes to 40 years the advantage is 7.4 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 11.8 percent.

Exhibit A also shows the 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 87 projects where the 30-year term was actually used the additional rental cost to the Government over the 30 years would have been \$18.2 million. 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 \$42.4 million and that this amount would increase to \$79.1 million if occupancy were extended to 50 years.

These significant savings have accrued because the Department has been authorized to use the 30-year lease term, and they indicate this authority should be continued.

THE LAND ACQUISITION AND DISPOSITION AUTHORITY CONTAINED IN THESE BILLS IS
ESSENTIAL TO THE ENTIRE LEASING PROGRAM

The land acquisition and disposition authority contained in these bills may be used in connection with all leases entered into under such authority, 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.

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 now contained in 39 U.S.C. 2103, the expiring statute. The mere existence of the authority is enough in almost all cases to enable us to obtain assignable options. However, suitable sites are sometimes not obtainable under assignable 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 are willing to give a ground lease, but, for tax and other reasons, decline to sell outright; and
- (7) 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 as provided in these bills is vital to the Department's entire leasing program.

SUMMARY

To summarize, the 30-year leasing authority contained in these bills 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) Even though the Department intends to greatly enlarge its Federal construction program, 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 these bills, 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) 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.

We believe that the Department's needs, as outlined herein, require that every possible tool be made available to it with which to enlarge its plant and equipment.

The passage of one of these bills is essential if this end is to be achieved.

EXHIBIT A
Comparison of 20- and 30-year base term lease agreements awarded during 9-year period—July 1, 1957, to June 30, 1968

[Based on ratio: Net rents/acquisition cost]

Type lease	Number of agreements analyzed	Interior space plus platform	Estimated acquisition cost	1st 30-year period		1st 40-year period		1st 50-year period	
				Average annual net rent	Annuity factor	Average annual net rent	Annuity factor	Average annual net rent	Annuity factor
20-year base term	308	Thousands 6,026	Thousands \$124,515	Thousands \$7,991	0.0642	Thousands \$7,769	0.0624	Thousands \$7,559	0.0607
30-year base term	87	10,577	\$246,892	\$15,237	.0617	\$14,344	.0581	\$13,416	.0543
Net savings per year, 30-year lease over 20-year lease (percent)				4		7.4		11.8	
Net savings, 30-year over 20-year leases based on applying 20-year rate to 30-year net rents:									
Per year				\$609		\$1,061		\$1,583	
Cumulative, per period				\$18,270		\$42,440		\$79,190	

Mr. DANIELS. Now in addition thereto, you said you had some authority that was given to the Department which you desired to have inserted in the record.

Mr. COFFMAN. Yes; the delegation of authority given to the Post Office Department by the General Services Administration.

Mr. DANIELS. Without objection, the delegation of authority will be printed in the record at this point.

(The delegation of authority is as follows:)

GENERAL SERVICES ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., December 1, 1966.

HON. LAWRENCE F. O'BRIEN,
Postmaster General, Washington, D.C.

DEAR MR. O'BRIEN: In your letter of November 10, 1966, you stated that you are agreeable to the delegation of authority proposed in my letters to you dated June 22, September 13 and 14 subject to working out the specific language of the delegation in a mutually satisfactory manner.

The delegation of authority submitted herewith as enclosure No. 1 to the Postmaster General to design and construct public buildings to be devoted primarily to postal purposes has been revised to reflect the understandings arrived at during discussions between representatives of our respective agencies.

You will note that one of the revisions which has been incorporated at the request of your representatives is paragraph 5 expressly providing that the delegation of authority covers those projects which were the subject of our letters of September 13 and 14, 1966. This revision has been incorporated with the understanding that you nevertheless desire that we proceed, as provided for in our September 14 letter, to complete site acquisitions for the projects at Van Nuys, Calif., Akron, Ohio, and San Antonio, Tex.

The "standards promulgated by the Administrator of General Services" made applicable by paragraph 3 of the delegation of authority are described in enclosure No. 2. We recognize, in view of the current trend toward mechanized mail processing plants, that modification of our standards may be necessary in their application to such facilities. We will, of course, cooperate fully with you in this regard.

Sincerely yours,

LAWSON B. KNOTT, Jr.,
Administrator.

Enclosures 2.

DELEGATION OF AUTHORITY

(1) Pursuant to the authority vested in me by section 15 of the Public Buildings Act of 1959, 73 Stat. 479, as amended, there is hereby delegated to the Postmaster General, with authority to redelegate, the authority vested in me by said act to acquire sites for and to acquire, design, construct, and alter public buildings to be devoted primarily to postal purposes.

(2) This delegation of authority may be exercised with respect to a particular public building to be devoted primarily to postal purposes only after the following conditions have been met:

(a) Consultation with the Administrator on the public buildings requirements in the community, and

(b) The Administrator determines that the acquisition, design, construction or alteration of a proposed public building to be devoted primarily to postal purposes would not be incompatible with his current or long range plans for meeting the Federal space needs in the community.

(c) The prospectus required by section 7(a) of the Public Buildings Act of 1959, supra, for the proposed project has been submitted to the General Services Administration for submission to the Bureau of the Budget and the Congress; or

(d) The report of a building project survey requested by resolution of either the Committee on Public Works of the Senate or the Committee on Public Works of the House of Representatives pursuant to section 11(b) of the 1959 act, supra, has been made; and

(e) The prospectus has been (1) approved by the Bureau of the Budget after submission by General Services Administration as required by section

4 of Executive Order 9384 dated October 4, 1943; (2) submitted to the Congress by the Administrator of General Services as required by section 7(a) of the 1959 act, supra; and

(f) The prospectus or report has been approved by resolutions adopted by the Committees on Public Works of the Senate and the House of Representatives, respectively, as required by section 7(a) of the 1959 act, supra; and

(g) Required funding for the approved project has been obtained in appropriations to the Post Office Department.

(3) The authority herein delegated to the Postmaster General to design, construct and alter public buildings to be devoted primarily to postal purposes encompasses all of the correlative authorities vested by the 1959 act, supra, such as but not limited to the authorities vested by sections 2, 3, 5, 6, 8, 9, 10, 11(b), and 12(c), and all other such authorities the delegation of which is not precluded by the said act, provided, however, that the design, construction, and alteration of public buildings devoted primarily to postal purposes under the authority delegated herein shall be performed in accordance with standards promulgated by the Administrator of General Services, and provided further that the exercise of all authorities herein delegated shall be exercised pursuant to the provisions of said 1959 act.

(4) The Postmaster General shall submit to the Administrator of General Services not later than each January 10 a report showing the location, space, cost, and status of each public building to be devoted primarily to postal purposes the construction, alteration, or acquisition of which is to be under this delegation of authority and which was uncompleted as of the date of the last preceding report under this paragraph 4 for inclusion in the report the Administrator is required by section 11(a) of the 1959 act, supra, to submit to Congress each January, promptly after the convening of Congress.

(5) It is understood that notwithstanding the provisions of paragraph 2 above, this delegation of authority shall include the following postal projects: Van Nuys, Calif., Akron, Ohio, San Antonio, Tex., Tucson, Ariz., West Los Angeles, Calif., Jacksonville, Fla., Atlanta, Ga., Carbondale, Ill., St. Louis, Mo., New York (Morgan Station), N.Y., Syracuse, N.Y., Charlotte, N.C., Rapid City, S. Dak., and Roanoke, Va.

LAWSON B. KNOTT, Jr.

Administrator of General Services.

STANDARDS APPLICABLE TO EXERCISE OF AUTHORITY TO ACQUIRE, DESIGN, CONSTRUCT, AND ALTER PUBLIC BUILDINGS TO BE DEVOTED PRIMARILY TO POSTAL PURPOSES UNDER DELEGATION OF AUTHORITY TO THE POSTMASTER GENERAL

- (a) Federal procurement regulations;
- (b) General Services Administration procurement regulations, chapter 5B;
- (c) Design and construction standards of the General Services Administration;
- (d) National building codes as minimum requirements;
- (e) Every effort shall be made to insure that the design will provide facilities economical to operate and maintain and that the architectural style and form will give visual testimony to the dignity, enterprise, vigor, and stability of the American Government; and
- (f) In the siting and locating of buildings on selected sites the Department will work with local officials in seeking to conform as closely as possible to local zoning regulations.

Mr. DANIELS Mr. Coffman, the proposed legislation will extend the present authority from April 30, 1967, for an additional period of 5 years. Why is it necessary to have such an extension for such a long period of time?

Mr. COFFMAN. Well, it is extremely important to have continuity in planning postal facilities. One of the reasons that the Postmaster General suggested a corporate setup for the Post Office Department was this very reason, to get continuity so that plans can be made ahead of time.

It takes 3 or 4 years to develop, plan, and award a major mail-handling plant, and unless we know that our authority is going to continue as we go along we are constantly in some difficulty.

Now, of course, you can come back to the Congress in 2 years, as we have done. But nevertheless, if you are planning these lease construction programs you really should have a long time to develop them; and 5 years would seem to me to give Congress a chance to review the program again, and it has been reviewed twice in the last 21½ years and, of course, the oversight provisions give this committee and the Public Works Committee of the Senate continuing authority to review these practices.

So with that kind of congressional oversight in the picture it would seem to me that 5 years would not be too long, and we strongly urge the 5-year term.

Mr. DANIELS. To what degree has the mail volume been exploding in the last few years? Can you give us any figures?

Mr. COFFMAN. In the last 4 years it has gone up 23 percent. I have the figures in my formal statement. I think 67 billion pieces to 83 billion pieces; and, of course, the percentages may drop a little bit, but the number of pieces continue to increase.

It isn't only the population that has increased; mail volume has increased much faster than the population; per capita mail is greater. It is not only the increase in mail volume, but the change in the location of the mailers and the change in the habits of the American public, and so forth, that causes us to have to change plants and build a new one here and abandon one there.

The change in transportation patterns alone has been one of the great factors in requiring us to build new facilities. The biggest post office in the world is sitting astride all those railroad tracks in Chicago and is probably the least efficient in the world. It has very little platform space where trucks can get in. It has virtually no maneuvering area where we can bring trucks around and handle them. It serves the trains very well, but the trains don't serve it very well any more because most of them have been taken off. As a result, we are trying to build in the outskirts of Chicago, about a million square feet of space to meet that problem.

But it is the antiquated, out-of-date facility that occurs because of changed transportation and population patterns that causes us a good deal of trouble in addition to the mail explosion, and that is serious enough.

Mr. DANIELS. Do you anticipate the mail volume will increase in the future as well?

Mr. COFFMAN. Yes, the official estimate of the Post Office Department which we use for appropriation purposes shows an increase for 1968 of about 4 percent, and that is a very substantial increase. It does go down and up, but it levels off some. But I would say that 3½ percent per year from now on, based on what I know about our method of estimating these things, would be a very conservative statement.

Mr. DANIELS. Is it proposed to use more modern, efficient, and mechanized methods for the handling of mail in your building program of the future?

Mr. COFFMAN. Yes, that is the keystone of the Postmaster General's solution to the problem of mail explosion.

The point that I made, I think, earlier, and which I think your question brings out again, is that the new buildings are basically there to house the new machinery. The old buildings won't take care of the machinery. That is in general terms. We can put letter sorters in some buildings, and so forth. But generally speaking, you can't utilize an old building for new machinery. You can't do a modern job of it.

Mr. DANIELS. You testified that at present you will need 7 million square feet of space and probably next year you will need 10 million square feet of space. Now, how do you propose to utilize your authority? You have three methods of acquiring property. One is the Federal building; second, the special-purpose building; and third is this leasing. Has the Department arrived at any determination as to how this new building program will proceed?

Mr. COFFMAN. I think I can give you some information that will be helpful, not the complete decision, but of some significance.

We have 85 projects now in the planning stages or under construction. Now, those include the ones, of course, that will come into being in 1968. Out of those we will take the 20 and 25 awards that we can make in 1968 which will be substantially more than we have ever awarded before. So starting with that 85 figure, we have about 22 that are now awarded that are under construction. If you take the 22 out that leaves you about 63. Now out of that 63 we have 14 that are earmarked as Federal buildings. Eleven of those are involved in the appropriation I spoke about earlier. Three more of those, Akron, San Antonio, and Van Nuys, Calif., I believe are projects on which General Services Administration had already gotten site and design money which they are transferring to us so we don't have to go for appropriations on those.

So we have 14 projects out of the 85 that are already Federal buildings. So that leaves 49 projects.

Out of those 49 we would anticipate that we could move a very substantial number, I would hope perhaps half of them, into the Federal construction category, leaving half of them in leasing construction.

Now, it is right in this area that it is very difficult to estimate at the present time. There is, for example, this kind of problem we are confronted with today. The executive branch has a rule that no prospectuses can go forward because of this dispute about approval as distinct from the "lay it on the table" matter. Well, that has to be overcome. The Postmaster General will be giving that consideration.

But while that is pending we can't send prospectuses up. If we can overcome that I personally think that we should send up a substantial number of prospectuses even before this session of Congress is over and perhaps talk about funding those in a timely fashion, whether it is supplemental or whether it is only in the 1969 program.

We would envision out of the 49 that remain out of that 85, turning a very substantial number of those to Federal construction. On the other hand, the reasons that I gave you here why you can't sometimes turn a building to Federal construction even though it may save you a little money are valid. If we have to have a building, which is going to save us a million dollars a year, even if we build it as a leased building, we better go ahead and build it. That is the kind of thing we are confronted with.

Mr. DANIELS. In the last 3 years, this legislation has come before the Congress just as many times.

Mr. COFFMAN. Yes.

Mr. DANIELS. Each of these three times General Accounting Office raised certain objections to the extension of this authority. I indicated in my statement at the opening of this hearing that they have withdrawn their objections. Now principally, Mr. Coffman, what was their objection in the past?

Mr. COFFMAN. I think perhaps the most important objection of the General Accounting Office—the bill as we have had it before, and they did object to it as it was written, they suggested amendments, they were constructive about their suggestions—was the fact that it had no congressional oversight. It permitted the Department to proceed to contract for buildings as they desired to do so, and the only check then was whether or not we could get the Appropriations Committee when the rent bill came due to appropriate enough money to pay the rent.

Well, since we had this broad authorization, why, of course, the rent appropriation would be forthcoming. The net result of that was that there was no congressional supervision, and the Bureau of the Budget joined in that fear because there wasn't any supervision by the Bureau of the Budget either.

We think we handled it with a good deal of good judgment, and we did get a lot of facilities. We are not afraid to expose this entire leasing program, as I did to Senator Williams in the Senate. I gave him complete details on all projects of any size, of \$250,000 and more, in the last 10 years.

We think that the program can stand scrutiny from top to bottom; but nevertheless, the General Accounting Office thought that supervision by both the Bureau of the Budget and by Congress was in order.

Mr. DANIELS. The Bureau of the Budget, the General Accounting Office, and the General Services Administration all approve of the proposed legislation which contains three conditions precedent, is that correct?

Mr. COFFMAN. That is correct.

Mr. DANIELS. The first condition precedent is the Postmaster General is required to consult with the Administrator of the General Services Administration.

Mr. COFFMAN. Right.

Mr. DANIELS. Secondly, this legislation only calls for special-purpose buildings; and thirdly, before you proceed with any such contract you must give 30 days' advance notice to both the Senate Committee on Public Works and this committee of your proposed intention.

Mr. COFFMAN. Right, and with a full report covering the details of the project and the analysis of it.

I might say the General Accounting Office was interested in all those three points. These are recommendations they have made over the past 3 years.

Mr. DANIELS. The gentleman from California, Mr. Wilson.

Mr. WILSON. What happens if the bill is not passed, Mr. Coffman?

Mr. COFFMAN. We would then be relegated to using 20-year leasing authority on projects that we have underway which would be considerably more expensive. We would have projects on which we had already purchased sites, perhaps we would have to get a legal opinion

on whether we could use—you see, this land authority would expire along with it and——

Mr. WILSON. In other words, you don't have condemnation authority at the present time?

Mr. COFFMAN. No; we don't have that legislation so the land authority would expire with it. First, we wouldn't be able to use long-term leases. It would cost us a lot more. Second, our entire leasing program would be jeopardized, and it would really be catastrophic if we didn't get an extension.

Mr. WILSON. Actually, the 5-year program is pretty important, because of the nature of some of the larger facilities that had been planned. You have to know that you are going to be able to have this much time in order to plan for the larger postal facilities, is that correct?

Mr. COFFMAN. Yes; that is exactly correct.

Mr. WILSON. What is the difference between a special-purpose building and a general-purpose office building?

Mr. COFFMAN. Well, in terms of this statute, a special-purpose building is one that really is located for and designed for mail handling and not for anything else. It can't be readily converted to office space even, and most of our post offices really fit that category today. Some of the smaller ones may not. The workroom area set up for mail handling with small offices in front, that is a typical little office.

A big office is just loaded with machinery, conveyor belts, et cetera, and has these 22-foot ceilings and lookout galleries—all the features designed for that special purpose and not readily usable for anything else.

This again is the test that the General Accounting Office thought was appropriate.

Mr. WILSON. That is all I have, Mr. Chairman.

Mr. DANIELS. The gentleman from Illinois, Mr. Derwinski.

Mr. DERWINSKI. We are not operating under the 5-minute rule here, are we?

Mr. DANIELS. No.

Mr. DERWINSKI. First, Mr. Coffman, to follow out the point Mr. Scott raised. The bill states: At least 30 days prior to entering into the lease, and so forth, the Postmaster General shall transmit to the Committee on Public Works of the Senate and House Committee on Post Office and Civil Service a report which includes a full and complete statement concerning the need for such an agreement and the facts relating to the proposed transaction.

For practical purposes—and you may dispute me—all this means is that you submit this report to the committee and it will be buried in the committee records. I can understand it is better than no provision at all; but for practical purposes, what do we do with it? What would we do, and what attention will you pay to even an individual objection?

Mr. COFFMAN. Well, let me say first, Congressman, that respectfully I do not agree that the practical effect is that it doesn't have any force. I think the practical effect is that it does have force, and all that has to happen is for the staff of the committee to examine the reports and advise the members through machinery that this subcommittee itself can set up. The legal effect rather, I would say, is what you suggest,

that legally we could override objections from the committee. But it affords chance for objections.

Mr. DERWINSKI. May I respectfully correct you? You don't really have to override our objection, because the language doesn't even provide for our objecting. All the language says is that you shall submit the report to us. I suppose you could say it is understood, but that would be stretching the language a bit.

Mr. COFFMAN. Perhaps the committee report would make it clear that it is there for examination.

Mr. DERWINSKI. Then to digress for a moment, noting our distinguished and beloved chairman here and our very efficient acting chairman of the subcommittee—for the purpose of committee records—maybe we could establish machinery that when a report does come in it is immediately communicated to the members of the subcommittee. In other words, we could do more with it than I am afraid the language provides.

Mr. DANIELS. I propose to recommend to the full committee that a copy of that report be sent to every member of the committee, particularly the members of this subcommittee.

Mr. DERWINSKI. I would be pleased to join in making that a bipartisan recommendation.

Mr. WILSON. If the gentleman will yield just a minute. To follow this up, your recommendation is that the report include in it some of the specifics as to what authority we may have, as to review, and so forth?

Mr. DERWINSKI. No; I am merely concerned that the reports which come in from the Postmaster General gather dust in our files. I would like to make this a meaningful provision, and to have our fatherly advice at least be noted in the Department.

Mr. WILSON. I feel this is important.

Mr. DERWINSKI. Frankly, the reason I am afraid of this is that as a member of the Foreign Affairs Committee we tack all sorts of restrictions into the foreign aid program saying the President shall in 30 or 60 days report to the Congress. We have checked instances where that report hasn't even been issued, because there are no teeth in the provision. The whole procedure becomes meaningless. I wouldn't want that to happen here.

Mr. DANIELS. I share your concern, and I think you are making a good point here. I will recommend to the full committee that when the report comes in that a copy of it be sent to each member of this subcommittee.

Mr. DERWINSKI. Mr. Coffman, I looked at your formal statement and you didn't have some figures I am interested in. I would like to know the annual rental cost to the Department of all the buildings you are now leasing and the projected 1968 budget figures that you have for the Federal rental cost.

Mr. COFFMAN. All right, I will be glad to supply those. Actually the 1968 rent is about \$124 million, and that is about \$15 million more than it was in 1967; and our request for appropriations for postal public buildings, as we call it, those 11 we need to fund, is \$55.8 million for 1968.

Mr. DERWINSKI. You mention in your complete statement, page 3, that it is the intention of the Department to engage in Federal

construction to a much greater degree than has been true in the past. Is that because of the occasional heat you have on the Hill for the leasing program, or is that because you anticipate having additional funds to put into a Federal construction program?

Mr. COFFMAN. I think it is a combination of the two, Congressman. We have felt that we should achieve the economies on larger facilities that are related to Federal construction, the demonstrated economies at least as far as the Federal budget is concerned.

We also are anticipating a sharply increased facilities and modernization program in 1968 and subsequent years; so the two of them together.

Now for 1968, for example, we hope to award more than 20 major facilities, and all of those will be coming before this subcommittee for examination; if they are leased facilities, and many of them will be. We won't have time to change them actually even if we desire to do so. So it is a sharply increased program.

Mr. DERWINSKI. On page 5 of your testimony you referred to the fact that mechanization cannot be increased unless suitable buildings are at hand in which to house the huge and complicated machinery. Is my interpretation correct that most of the mechanization will be installed in federally constructed buildings rather than leased facilities?

Mr. COFFMAN. No; the method of acquiring a building doesn't dictate what kind of machinery you put in it. The size of it and the location of it and the requirements for mail handling do dictate that. So the larger ones will have the mechanization in them, the smaller ones will not have; and because they are smaller, 100-percent leased—the large will be a 50-percent leased—you would have that kind of a breakdown.

Mr. DERWINSKI. The implication I draw from this is that the larger buildings would tend to have the machinery.

Mr. COFFMAN. That's right. Your conclusion is correct.

Incidentally, on the leases, as you perhaps noted, we control the buildings for 70 years with eight 5-year renewal options after the 30-year term, so we are not in a position where we have to rip out our machinery in 30 years in case it is not obsolete, which undoubtedly it would be.

Mr. SCOTT. Would the gentleman from Illinois yield a moment?

Mr. DERWINSKI. Yes.

Mr. SCOTT. Do these leases also include any provision for option to purchase?

Mr. COFFMAN. Yes; they have a purchase option which the Department is not obligated to use, of course, since it is an option, at the end of the basic lease term and at the end of each 5-year term thereafter.

I want to say, Congressman Scott, about that, because it is a matter some critics have used a good deal against us, that we do not envision—in the first place, we would have to get specific congressional authority to exercise any option. We don't have authority at the present time to do that. We would have to go through the regular appropriation prospectus procedure to buy a building under that term when it ripened.

Second, of course, we are not obligated to use the option, and we view it as something that would protect us in case of a rising market.

In the case of a market going down, real estate market, building market going down when we desire the building, then we would have condemnation authority and, of course, the negotiating authority that would be supported by that. So we don't believe that the options—they can be helpful, and I don't think they can hurt us.

Mr. SCOTT. Well, I would share that view. I think it is a good position.

Mr. DERWINSKI. Do you have any other questions, Mr. Scott?

Mr. SCOTT. No.

Mr. DERWINSKI. Mr. Coffman, I would like to have you submit the figures to us of what percentage of total facilities available to the Post Office are now in leased buildings and what percentage of your total operations are in Federal General Services Administration buildings of various sorts, because this would be an interesting figure—just to what extent this 10-year program is working out for you.

Mr. COFFMAN. The current figure on that is roughly 55 percent of our space is leased space and 45 is Federal space. But the 45 percent handles a very high percentage of the mail. Our antiquated space in big cities is in that 45. We build a lot of little post offices and lease them, as you perhaps know. So that that figure used to be 50-50, and it is moving up now. We would hope to arrest that with this policy. We have to some degree, but that is the situation.

Mr. DERWINSKI. Now just as an aside, I regret that Mr. Gross, of the full committee, isn't here. You made reference to your concern over the national debt and the interest on the national debt. He is always accusing bureaucrats of completely neglecting both the growing debt and the cost of financing it. I think you would have received a pat on the back from Mr. Gross, so in his absence I am taking the liberty of complimenting you for that reference.

On page 21 of your testimony you referred to the fact that your direct land acquisition authority is desirable to control speculators. What problems have you had in combating the situation where you were being held up by land speculators?

Mr. COFFMAN. Well, we have endeavored to not announce our new buildings until after we have a site under control, and thus we minimize the possibility of speculators becoming involved.

Nevertheless, in some instances if a real estate man walks into a town and starts making inquiries, unless we want to do a complete undercover job, it is apt to get out. The undercover job isn't healthy either.

So in that situation you sometimes have someone getting an option on a site and then wanting to peddle it to us.

One of the reasons we have that to a minimum degree is because we don't deal with the real estate agents, with all due regard to that profession. We deal only with the owners or with their exclusively authorized agent. If a person wants some one attorney or real estate man to represent him and sell his property we have to deal with that person. But we do not assign real estate agents the task of going out and locating things for us. We take all the steps we can to prevent that.

Nevertheless, in a few instances we have had some threats of that happening. We don't think we have ever been hooked on it. But we recently had one in New England where I think one of the Senators

got wind of the fact that someone had purchased—he thought, at least, had gotten some inside dope, purchased a piece of land, and wanted to sell it to us. That was a General Services Administration project, but it was thoroughly investigated and really didn't pan out that way.

We haven't had as much trouble about that as you might think.

Mr. DERWINSKI. Mr. Chairman, I have a few more questions, but I would prefer to yield to Mr. Scott and Mr. Thompson. When they are through I would appreciate another shot at the witness.

Mr. DANIELS. All right, Mr. Scott, you may proceed.

Mr. SCOTT. Mr. Coffman, you spoke, broadly, about the Post Office Department not wanting to be in the construction business. I am curious in the whole purpose of this bill, of having the Post Office Department lease the property rather than the General Services Administration. Now why is this?

Mr. COFFMAN. Well, I think it is because the building is to be used solely for postal purposes and General Services Administration would have a minimum role to play in such a transaction.

Now if we are getting space in a building that is going to house other Federal agencies we do utilize the General Services Administration and they really have a role to play; and they, of course, manage a good many Federal buildings where other agencies are involved as well as ours. Where we are the sole tenants, we go ahead and lease the facility directly ourselves rather than going to them and having them do it.

We are equipped to do it. They would have to add staff in order to cover our thousands of transactions each year. They wouldn't be administratively equipped to do it, so it is not a matter of saving manpower.

Mr. SCOTT. In fact, isn't that one of the major purposes for having a General Services Administration—to handle land acquisition?

Mr. COFFMAN. I think where various agencies have some requirement in common then General Services Administration would meet that common requirement. But it was our view, and I think generally agreed, that where you have a special requirement, it doesn't really involve any other agency except your own, that it is just as efficient, perhaps more efficient, to go and deal directly with the entrepreneur.

In the supply area where we have the same problem, Congressman, we have just completed a study under which we have turned over several thousand items to the General Services Administration that they will distribute through their supply centers, but nevertheless we still have a supply system of our own that is essential to keep the post office operating, even though we do our utmost—

Mr. SCOTT. Then so far as leasing is concerned, you prefer to be in the real estate business in the Post Office Department?

Mr. COFFMAN. We would prefer the right of being able to specify the kind of space that was going to be built for us, and we don't see any need for going through another agency in that regard.

Now as far as disposal of Federal property is concerned—that sort of thing—the General Services Administration handles all that.

Mr. DANIELS. Will the gentleman yield?

Mr. SCOTT. Yes.

Mr. DANIELS. Is it not true that the Post Office Department is the largest holder of real estate of any Federal agency?

Mr. COFFMAN. I think we are the largest real estate operator outside of the Defense Department.

Mr. SCOTT. Will these leases which you enter into be for multi-purpose use in conjunction with other departments, or be exclusive for the Post Office Department?

Mr. COFFMAN. They will be for exclusive post office use except in a few instances. When we temporarily have excess space, this will be made available to other agencies.

But the intent and the language of the delegation is that primarily for postal purposes the General Services Administration wanted it that way rather than exclusively for postal purposes, to better serve the communities where they are building them.

Mr. SCOTT. You spoke, Mr. Coffman, about using airport facilities sometimes that are under control of localities or public—

Mr. COFFMAN. That is under the control of port authorities or airport authority.

Mr. SCOTT. Have you given any consideration to using the Dulles International Airport for mail in the Washington metropolitan area? The Federal Government owns that land.

Mr. COFFMAN. I don't think we have. We have what is now a small mail-handling facility at Dulles, and we were recently looking, I must admit, for a rather large tract of land out in that area. But the Dulles location was considerably further out and was not close enough to the beltways and the throughways to enable us to use their property even if they would have given us the 15 or 20 acres we thought we needed. So we did not go to them other than to examine it in that fashion.

Just transportationwise—as you know, they have that separate road into Dulles, and they are not on the throughways and the beltways as our present location is.

Mr. SCOTT. Well it is my understanding—and I have driven it many times—that you can drive from Washington to Dulles without even going through a stoplight. If you go out the George Washington Memorial Highway, it leads you onto the beltway, and then you get on the Dulles access road without having to pass a stoplight.

Mr. COFFMAN. Good access, but it would have cost us a substantial amount in yearly operational cost to shuttle the mail that additional distance, aside from the fact that the airport might not be happy about letting us have 20 acres of property.

Mr. SCOTT. I notice in the letter from the Comptroller General that he says when the Department acquires title to the property and subsequently sells it that it is sold to the successful bidder, at the lower of cost or current market value. Why would it be sold at the lower of the market value or the cost?

Mr. COFFMAN. The Bureau of the Budget's view has been that it should be the higher of the two rather than the lower of the two—cost and market—when excess Federal property is involved. Perhaps Lloyd Smith, who is here from the Bureau of the Budget, could explain that. I don't think that is our policy as of now with respect to land acquired by the Department under the leasing authority. We dispose of property acquired under this authority at the lower cost. This, of course, tends to give us a little lower rent in case the cost is below the market.

Mr. SMITH. I am here from the General Accounting Office, not the

Bureau of the Budget. It is my understanding you are still following that lower of cost or market basis.

Mr. COFFMAN. That letter is a General Accounting Office letter.

Mr. SCOTT. Yes, it is. It is a letter dated April 17 of this year.

Mr. COFFMAN. I think we will have to clear that up for the record, Congressman, because this matter has been a matter of concern to a good many people, and I recall having two or three very high priced federally owned sites that were a matter of quite a bit of discussion between ourselves and the Bureau of the Budget, and I think that they convinced us since they had the authority actually to approve the transaction that we ought to go for the market value if it exceeded cost, and not give the lessor a break there.

Mr. SCOTT. Mr. Chairman, it seems ridiculous to me that Government property is being disposed of for a lower figure, unless it is going to a public authority of some sort. The Post Office Department or any other Government agency ought to get the best price they can.

Mr. COFFMAN. Congressman, the dispute arose on some property owned by the General Services Administration, the same principle would apply, and the Bureau of the Budget agreed with your position in respect to some sites they had control of. Now, where we have bought a piece of property particularly for a post office under our lease construction program and used a revolving fund that we have for that purpose it has been decided that it wasn't the intent of Congress that we should buy that land with the idea that it would go up in price and we would be turning that over rather rapidly, and that policy would apply to that sort of purchase. But it does not apply where the Government already owns the property and you had a substantial gap here between the two, and I think it is a very good point.

Mr. SCOTT. Thank you.

Mr. Chairman, Mr. Coffman referred to the proposed Government corporation, and I believe he mentioned postal rates. Actually, are these two matters tied in with this proposed bill in any way, and if so, how are they tied in with the bill we have here under consideration?

Mr. COFFMAN. Well, I don't think there is any direct relationship between this bill and the proposal of the Postmaster General which is being examined by the President's Commission.

The point I did make is that the ability to carry on a policy with some assurance of continuity is one of the reasons that the corporation idea was submitted, and continuity with respect to planning facilities of this complexity is very important—continuity of authority. That is about the only thing.

I don't really want to get into, of course, the area that the Postmaster General has been testifying about in the Senate, incidentally, how our rates and the corporate structure are related.

Mr. DANIELS. Mr. Thompson.

Mr. THOMPSON. Mr. Chairman, I believe most of the questions have already been asked and the answers given. However, there are several items that I would like to discuss.

Mr. Coffman, have you had any experience with the lessors going bankrupt, and if so, does this result in any legal entanglements?

Mr. COFFMAN. We have had a few experiences where a lessor in process of construction goes bankrupt. Of course, if he has completed the building and we have accepted it for our long-term leasing, or even 5 or 10 years, then the fact doesn't make any difference to us.

But when we get in trouble is when he is unable to finance himself while the building is under construction, and we have had some bankruptcy situations there, and of course, it is very disrupting and your building comes to a halt and you have to go to the bonding company.

We do have extensive bonds on these. We have a bid bond, a performance bond, a labor and material bond on all of these, and in very substantial amounts. But that doesn't mean that you are home free.

Now more significant than bankruptcy is the fact that we have some builders who either because they are short of money or because they are short of competency, who qualified for the bid in every respect, put up the bond, are low bidders, are not able to perform according to the contract. We have to default them. And the things that precede the default as the community watches the building go to pot and then come to a halt, causes plenty of trouble. It is not a happy situation at all.

Mr. THOMPSON. Well, that was another question I was going to ask. Do you have any problems, when the building is to be built to your order, with the contractors not following specifications?

Mr. COFFMAN. We do have—I would be less than frank if I said we didn't have difficulty in that area. We do have difficulty. Our effort in the last few years has been to tighten that up as much as possible to insure we get a building that is built according to specifications and drawings. But when you have the lessor with a profit motive based on his ability to cut some corners and to build it a little less costly than we would like to have it, or a little less quality, then you have got a problem in administration.

We recognize that problem. We are facing up to it. We have had some trouble in that regard, and we hope to minimize it. But you can't avoid it completely. The low bidder is apt to be the very one who is in a position because of his low bid to have to cut corners.

Mr. THOMPSON. If Congress were to refuse, under an appropriations bill, a particular construction project or a land purchase for a particular post office, could you then go in under the lease proposal and construct this facility?

Mr. COFFMAN. Yes; we would like to reserve that right subject to the review of this committee. Under the provisions of the bill the project would have to be submitted to the committee. We would like to reserve that to avoid being put in a desperate situation. If for some reason the appropriations committee stops your project and still it is vital to you, and that can be demonstrated, why, we would like a chance to demonstrate it, that's all.

Mr. THOMPSON. Mr. Chairman, I believe that answers all the questions I have.

Mr. DANIELS. I have two short questions. How many bidders, on the average, do you have on a 30-year lease?

Mr. COFFMAN. On a 30-year lease we average about seven. Now some we have only two, some we have 10 or 15. I wish we had 10 or 15 on all of them.

Each bid is analyzed from a standpoint of profit and loss to the bidder, and from the standpoint of the market value of the rent that he offers us; market data, we call it. And even if we only have two or three bidders which we sometimes have on a complicated New York City structure—it seems to be where we get fewer bidders—and if our

analysis shows that we have a sound low bid and it seems competitive we would make the award even if he didn't have—

Mr. DANIELS. You award to the lowest responsible bidder?

Mr. COFFMAN. The statute has always required and still requires strict competitive bidding procedures.

Mr. DANIELS. Do you take into consideration any provision for parking for patrons and employees?

Mr. COFFMAN. Yes; we do.

Mr. DANIELS. Do your future building plans take that into consideration?

Mr. COFFMAN. Yes. This had been a matter of contention among the unions and among patrons, also, that we have adequate parking, and one of the things we are doing with respect to these new facilities is to get them out in an area where you can get the 20 acres I spoke about or the 35 or 40 acres so you can provide adequate parking for employees and for patrons. Employee parking has been especially getting attention, because as you go out farther you start getting away from where you have public transportation, and you have to provide that your employees can get there.

Mr. DANIELS. I believe my good friend and colleague from Illinois has a few more questions to ask.

Mr. DERWINSKI. Yes. First I would like to point out to the chairman of the subcommittee that my intention was to raise every possible obstacle to the passage of this bill primarily because I don't like the idea of the House being told that because the other body doodled along that, therefore, we have to do something; in other words, we have to take their bill down to the last comma. By nature I am a gentle soul, so I am not going to raise any obstacles, but I am going to try to insert as much material into the report as I can to justify our position.

Also I am concerned in many areas with this tendency for the House committee to very routinely and expeditiously cooperate with the Department and then have individual Senators raise havoc with the Department operations. This happens in other fields, but I would like to see the Department give a little more attention to the House Post Office Committee rather than take us for granted.

I think when I make this protest I do so on behalf of all the members of the committee even though they don't authorize me to do so.

Mr. COFFMAN. Sir, could I comment just a minute? I do believe that the Department views this committee as much as the Treasury Department views Ways and Means Committee as the place where things are initiated and given a first airing.

Our problem here was a little bit different. When we sent this bill to the Senate, instead of being assigned to our parent committee, it was sent to the Public Works Committee, a committee not primarily concerned with postal affairs, and this raised questions that kind of led to the strategy.

But I do apologize for this haste, nevertheless.

Mr. DERWINSKI. I am not asking for an apology. I am just emphasizing a few things for the record.

Just to clear up some loose ends: First, there have been repeated references to the fact that this committee had extensive hearings in 1964 and again reviewed the subject in 1966. I feel this has to be challenged, since my record shows that five of the members of our

subcommittee weren't members of this full committee in 1964. In fact, four of the five weren't even in the Congress at the time. So, really, this is a new subject both to our subcommittee and to the full committee. We shouldn't fall back, even for sake of an argument, on the fact that in 1964, and in 1966, this received consideration, because in terms of our membership it didn't.

And then for the sake of our distinguished chairman, I would like to point out that in 1966, when this bill was politely slipped through, I expressed the hope that we would give this more thorough study the next time around. Well, here we are a year later and we have to expeditiously vote out the bill. This doesn't at all meet the objections as stated a year ago, so I have to restate them with perhaps a good bit more vigor.

I have two last questions. One is: What is the broad policy in the Department in giving priority to the site and location of leased facilities? Do you do this on a regional basis, or just how do you decide in what community, in what area, or where the priority falls?

Mr. COFFMAN. Well, first we develop a list of need cases for observation of places; where we have a split operation, where we have two or three post offices handling the mail it obviously costs us a lot of money to haul the mail back and forth. In other words, we develop a list, say, now of a couple hundred serious need cases, in talking about major facilities. Now after we develop those we conduct an economic analysis of each project to show where we have the most savings. We would hopefully—now this is not an exact science—we would attempt to go ahead with those first. Those are the 85 active projects. Back of those we have 100 that are not active, but we have them scheduled for the years ahead, approximately 25 each year, under the present plans. This plan is pretty much based on projects where a combination of desperate need because of mail explosion, and the California-Florida population growth situation, or the fast-moving suburban growth such as around Washington create desperate need and we can demonstrate that we will save very substantial sums if we build a new facility.

So it is our economic analysis plus the physical need situation, kind of a combination of the two.

Mr. DERWINSKI. Well, it would seem from your testimony, sir, that there are two problems. One is the replacement of obsolete buildings.

Mr. COFFMAN. Right.

Mr. DERWINSKI. And the second is the almost insurmountable problem the Post Office Department has in keeping up with the spread of the suburbs.

Mr. COFFMAN. That is exactly right.

Mr. DERWINSKI. Then you are forever falling behind, so to speak. I don't say that critically, but I say that objectively. It would seem then, that you have suburbia and the Chicago-type facilities that caused such chaos. Would it be fair to say those areas get priority?

Mr. COFFMAN. Yes; I think among those two you have to give priority to a big mail-handling plant where we can get the machinery in as distinct from, say, the 10,000 to 15,000 square-foot suburban post office where you wouldn't use much machinery. But they both have a high priority and actually they both demand solution.

Mr. DERWINSKI. Do you have a scientific way of establishing this priority when you finally get down to, let's say, a suburban community versus a——

Mr. COFFMAN. We have a planning staff that Mr. O'Brien inaugurated about a year ago, and that is one of the problems they are wrestling with. You have so much trouble comparing the service aspects which you get in the suburban—which is the advantage you get out of a new suburban post office—with the money saving you get out of a new mail-handling plant—labor saving and so forth—it is hard to compare the two.

What the experts are in process of doing is what they call quantifying the service aspect so you can compare them. They haven't come up with a complete answer yet. They are working on it.

Mr. DERWINSKI. I feel Mr. O'Brien should be complimented for his broad proposals to take the Post Office Department out of politics and renovate it, so to speak. I was wondering, in the process, if the accidental manner in which more new locations seem to pop up in districts represented by members of the majority party would also be changed when you get out of politics. Maybe that pattern will be changed.

Mr. COFFMAN. The decision to build a new post office and where to locate it is a matter of study to come up with exactly the kind of answer that you are suggesting. Although I might say that we believe our record of location in the past has been pretty equal as between the political parties, but we are working on that to make it a scientific matter.

Mr. WILSON. Out in the growing Los Angeles area the postal facility with the top priority is in Congressman Bell's district, West Los Angeles, and it is getting preference over a couple even in my district. It is a two-way street, I will tell you that.

Mr. DERWINSKI. That's why I think members of this committee ought to get some attention. [Laughter.]

Mr. SCOTT. Mr. Coffman, is it your testimony then that these sites are assigned on the basis of need in the locality and partisan politics does not play a part in this?

Mr. COFFMAN. Well, I can't say that the interest of the Congressman, irrespective of his party, is disregarded by the Department. Of course we pay attention to it. But in making the final decision to go ahead with facilities the primary consideration is the critical need that is involved.

I think our record of construction over the past few years will demonstrate this, and I have here a list of the numbers of post offices under the lease program in 1966, and it is perfectly apparent that they are in every State and every congressional district in the United States.

Mr. SCOTT. And if you pay attention to the desires or the opinions of a Congressman that is on a nonpartisan basis?

Mr. COFFMAN. That is correct.

Mr. SCOTT. Do you keep Congressman advised——

Mr. COFFMAN. Yes, sir; all Congressmen that ask for advice.

Mr. SCOTT. On a nonpartisan basis?

Mr. COFFMAN. Right.

Mr. DERWINSKI. One last question, Mr. Chairman. Mr. Coffman,

you have been basically responsible for administering this program, is that right?

Mr. COFFMAN. That's right.

Mr. DERWINSKI. Are you familiar with the Murray Hill postal station in New York, Manhattan?

Mr. COFFMAN. Yes.

Mr. DERWINSKI. What is the standard architectural engineering fee on this project?

Mr. COFFMAN. On that—

Mr. DERWINSKI. That one or a similar one.

Mr. COFFMAN. We negotiate architectural fees in essentially the same way as General Services Administration. We approach it a little bit differently because we do some in-house work, and if I can get into technical language, we do the preliminary tentative drawings and the tentative drawings in the Post Office Department. Then we hire the architect, and therefore we pay him a little less than he would be paid by the General Services Administration, and our fees run about 4 to 4½ percent.

The General Accounting Office again is continually interested in this factor. We believe our fees are completely reasonable. The architects think they are too small, and we think they are about right.

Mr. DERWINSKI. How was this architectural engineering firm selected, on the basis of bid or basis of—

Mr. COFFMAN. No; on professional services, whether it is a law firm or a technical firm or a doctor, competitive bidding is not used because it just doesn't offer a measure of value received. What we do there is to have our Bureau of Research and Engineering review carefully the technical qualifications of all those who indicated any kind of interest in the project.

That was done with respect to Murray Hill. It is done with respect to every one of our projects. They come up then with a list of four or five firms that are well qualified. They rank them, they express their views about their qualifications, and then a choice is made from among those top firms as to which ones will design it.

Mr. DERWINSKI. The reason I ask the question—I just happened to check into this Murray Hill postal station, and I noted that the architect was a firm by the name of Frank Grad & Sons, Newark, N.J. Just by a coincidence, a Mr. B. J. Grad, same address as Frank Grad & Sons, contributed \$1,000 to the President's Club in September 1965 and December 1965. Now I raise the natural question: What effect did that have on their selection as architects for this project or others?

Mr. COFFMAN. None that I know of. In the first place, the contribution was made after they received this award, a substantial time after they received this award. We have no knowledge of the political contribution habits of the architects and engineers that we employ.

The last one we employed in New York City was a matter of a good deal of discussion. As near as I can tell, the firm selected was one of the most eminent and best qualified available for the job. That is what we thought.

Now Dr. Packer, head of our Bureau of Research and Engineering, makes that decision, after a careful technical examination.

Mr. DERWINSKI. Mr. Chairman, I think this is a good program,

but if something like this—which I admit is an isolated case that just came to my attention—is prevalent, it casts greater controversy over the operations of the Post Office Department at a time when we are struggling to help the Post Office meet its growing volume of mail.

Mr. COFFMAN. The Grad firm is extremely well qualified in this area. I know about their work, of course. I wasn't the Assistant Postmaster General when they were selected, but I know about their work, and they have done very, very good work for us, and they also have a good deal of ingenuity and imagination about the development of this particular project which calls for a post office below and the commercial building above so we can get the advantage of those commercial rents and lower rent for ourselves if the building comes out right on it.

Mr. DERWINSKI. Mr. Chairman, I presume you want to pass this bill out before noon. I have no more questions.

Mr. DANIELS. Mr. Coffman, I want to thank you for a very fine statement and for your very frank responses to all the questions that were asked this morning. I also at this time want to thank the gentlemen who accompanied you here from the General Accounting Office and the General Services Administration.

Before we conclude the hearings, however, I would like to offer, without objection, the formal written reports from the Post Office Department, General Accounting Office, General Services Administration, and Bureau of the Budget.

(The reports received from the agencies mentioned above are as follows:)

THE POSTMASTER GENERAL,
Washington, D.C., April 18, 1967.

HON. THADDEUS J. DULSKI,
Chairman, Committee on Post Office and Civil Service,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to the request for a report on H.R. 8553 and H.R. 8554, identical bills to extend the authority of the Postmaster General to enter into leases of real property for periods not exceeding 30 years.

Under present law (39 U.S.C. 2103), the Postmaster General is authorized to enter into long-term lease agreements for periods not to exceed 30 years. To carry out this leading authority he is authorized (1) to acquire land through purchase, condemnation, lease, donation, or otherwise; and (2) 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 due to expire on April 30, 1967 (39 U.S.C. 2109).

The purpose of the bills is to revise certain statutory requirements in the present law, and to extend the Postmaster General's authority to June 30, 1972.

The authority of the Postmaster General under the bills would be permitted only after he has consulted with the Administrator of General Services and determined that construction of a postal facility is neither desirable nor feasible under the provisions of the Public Buildings Act of 1959 (40 U.S.C. 601-615). The buildings and improvements to be constructed would be specifically described as "special purpose post office buildings," defined as a building that is (1) situated in a particular geographical location to make it convenient for processing mail; (2) particularly designed to make it convenient for processing mail; and (3) not readily usable or convertible to use as a general-purpose office building.

The bill provides that at least 30 days prior to entering into a lease agreement under sections 2102 or 2103 of title 39, United States Code for gross floor space areas over 20,000 square feet the Postmaster General shall submit a complete statement concerning the need for such agreement and the facts relating to the proposed transaction to the Senate Committee on Public Works and the Post Office and Civil Service Committee of the House of Representatives.

We favor the enactment of this legislation. The long-term, 30-year lease authority provides us with a practical means for timely acquisition of modern

and properly located facilities in those cases where use of the leasing authority is considered 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. This would mean higher rentals to the Department. In addition, the Department would lose the essential land acquisition authority which has proved invaluable in assembling sites with multiple ownership; sites where owners demand unreasonable prices; and sites to which the title is defective, and sites owned by local units of government, fiduciaries and the like where the owner may lack authority to sell.

In the case of larger facilities, 30-year lease terms are more advantageous to the Government where leasing may be considered the appropriate vehicle, than 20-year leases. The longer basic lease term attracts investors who are willing to accept a lower rate of the annual rent than on shorter term agreements. The result to the Government is lower annual rent expenditures.

The Bureau of the Budget has advised that from the standpoint of the administration's program there is no objection to the submission of this report to the committee.

Sincerely yours,

LAWRENCE F. O'BRIEN.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., April 18, 1967.

HON. THADDEUS J. DULSKI,
*Chairman, Committee on Post Office and Civil Service,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to an informal request on April 13, 1967, from Mr. Irvine of your committee staff for the views of the Bureau of the Budget on H.R. 8553 and H.R. 8554, identical bills "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."

The present authority to enter into lease agreements for periods up to 30 years will expire on April 30, 1967; H.R. 8553 and H.R. 8554 would extend it for 5 years and revise certain provisions of the present law.

In a separate report to your committee, the Postmaster General favors enactment of this legislation because it would allow the Post Office Department to continue to acquire modern facilities promptly when a lease arrangement is desirable and appropriate.

Accordingly, the Bureau of the Budget recommends enactment of this legislation.

Sincerely yours,

WILFRED H. ROMMEL,
Assistant Director for Legislative Reference.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., April 17, 1967.

HON. THADDEUS J. DULSKI,
*Chairman, Committee on Post Office and Civil Service,
House of Representatives.*

DEAR MR. CHAIRMAN: Your letter of April 13, 1967, requests our comments on H.R. 8553 and H.R. 8554. These identical bills propose, among other things, to extend until June 30, 1972, the authority of the Postmaster General to enter into leases of real property for periods not exceeding 30 years, as provided in section 2103 of title 39, United States Code. The Postmaster General's authority under section 2103 will expire April 30, 1967, unless extended by the Congress.

The bills also propose to (1) limit the Postmaster General's leasing authority under section 2103 to special purpose post office buildings having certain specified characteristics, (2) require the Postmaster General, before entering into a lease agreement under the authority conferred by section 2103, to determine, after consultation with the Administrator of General Services, that it is not desirable or feasible to construct a postal facility under the provisions of the Public Buildings Act of 1959, as amended (40 U.S.C. 601-615), and (3) require the Postmaster General, at least 30 days before entering into a lease agreement under either sec-

tion 2102 or 2103 for a special-purpose post office building having gross floor space exceeding 20,000 square feet, to transmit to the Senate Committee on Public Works and the House Committee on Post Office and Civil Service a report which includes a full and complete statement of the need for the agreement and the facts relating to the proposed transaction.

In our opinion, the Postmaster General has need for the authorities contained in section 2103 of title 39 to acquire title to sites and to enter into leases for periods not exceeding 30 years, and we recommend that these authorities be extended. We also believe that H.R. 8553 and H.R. 8554 not only would provide the needed authorities but also would provide certain needed controls over the Post Office Department's leasing program, and we recommend that the legislation be considered favorably by your committee.

In our comments to your committee on June 6, 1966, on H.R. 14548, a bill introduced in the 89th Congress which proposed to extend indefinitely the Postmaster General's leasing authority under 39 U.S.C. 2103, we referred to several of our prior reports in which we had pointed out that the costs of leasing postal facilities for initial terms of 20 and 30 years substantially exceeded the costs of Government ownership. We also pointed out that there was no requirement for the Postmaster General to coordinate the planning of new leased facilities with the General Services Administration and that the Post Office Department had entered into long-term leases of postal facilities in certain areas where we believed it would have been advantageous to the Government to have constructed multipurpose buildings to meet the needs of all Federal agencies in the area.

In addition, we pointed out that the Post Office Department used its own standards in planning for space in both leased postal facilities and Government-owned buildings and that, in a review then in process, we had found that the Department's standards provided for administrative office space which on the average exceeded, by about 33 percent, the space that would have been provided under standards established by the General Services Administration for offices of employees of other Federal agencies. We expressed the opinion that in most cases the administrative operations of postal facilities could be carried out without loss of efficiency in offices of the sizes authorized under the General Services Administration's standards.

To provide certain controls over the Department's leasing program, we recommended the enactment of amendments to the leasing authorities contained in sections 2102 and 2103 which would provide, in effect, that—

- (1) No contract for the lease or lease construction of a major facility shall be executed under the authority of either 39 U.S.C. 2102 or 39 U.S.C. 2103 unless the Department shall have submitted to the appropriate committees of the Congress, at least 60 calendar days previously (or other appropriate period while the Congress is in session), written justifications in the form of a prospectus similar to that provided for in the Public Buildings Act of 1959 (73 Stat. 479), 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) In planning for the acquisition of leased space for a major facility, the Department shall furnish to the appropriate committees of the Congress, along with the prospectus, a statement by the General Services Administration as to the space needs of other Government agencies in the particular area and the feasibility of a Federal building to satisfy the needs of the Post Office Department and other Government agencies; and

- (3) The General Services Administration shall be responsible for either establishing or approving the standards to be used in planning the office space to be provided for the Post Office Department's administrative activities in both leased facilities and Government-owned buildings.

We believe that the bills currently under consideration would achieve the general objectives of the first two of our prior recommendations and that actions planned to be taken by the Post Office Department and the General Services Administration may result in achieving the objectives of our third prior recommendation without legislation.

On the basis of various studies, including a study by an advisory committee composed of prominent business executives, the Post Office Department concluded that constructing large postal facilities for Government ownership generally would be more economical than acquiring such facilities under lease-construction contracts. On December 1, 1966, the Postmaster General accepted from the Administrator of General Services a delegation of authority under section 15 of the Public Buildings Act of 1959, as amended.

Under the delegation of authority, the General Services Administration will continue to submit the prospectuses required by the Public Buildings Act of 1959, but the Post Office Department will otherwise be responsible for carrying out each project in its entirety, including site selection and acquisition, supervision of the architect-engineer contract, design and approval, and construction contracting and supervision. We understand that, to date, only 14 such delegated projects have been approved by the Senate and House Public Works Committees. Officials of the Department have advised us, however, that in the future most major postal facilities and some small and medium size facilities will be proposed for construction under the delegated authority.

In view of the Postmaster General's continuing authority under 39 U.S.C. 2102 to lease postal facilities for periods up to 20 years and the delegation of authority to construct postal facilities for Government ownership, questions may be raised as to whether the leasing and site acquisition authorities contained in 39 U.S.C. 2103 will be needed. We believe that the Department needs these authorities in order to carry out its space acquisition programs in an efficient and economical manner.

The Department's leasing authority under 39 U.S.C. 2103 differs from its leasing authority under 39 U.S.C. 2102 in two important respects in addition to the differences in the maximum duration of leases. Under 39 U.S.C. 2103, the Postmaster General is authorized to acquire real property and interests therein by purchase, condemnation, lease, donation, or otherwise, and to sell, lease, or otherwise dispose of such property; under 39 U.S.C. 2102, the Postmaster General is not authorized to use postal funds to acquire title to real property, although he may use such funds to acquire assignable purchase options on such property. Under 39 U.S.C. 2103, advertising procedures are required to be used; under 39 U.S.C. 2102, the Postmaster General is not required to use advertising procedures, although the Department follows a general policy of advertising and obtaining competitive bids for all lease-construction contracts.

To insure that facilities are built on sites suitable for postal operations and to avoid possible speculation by bidders regarding site costs, the Department follows a policy of selecting and obtaining control of sites prior to advertising for bids on lease-construction contracts. Data regarding the costs, locations, and physical characteristics of the controlled sites are made available to prospective bidders so that all bids may be on a true competitive basis.

The Department's preferred method of obtaining control of desired sites is to negotiate assignable purchase options with the property owners, and this is the method used in controlling the sites under most lease-construction contracts. The Department usually assigns the purchase options to the successful bidders without taking title to the sites.

In some cases, the Department acquires title to properties by purchase or condemnation and subsequently sells these properties to successful bidders at the lower of cost or current market value. This method generally is used only in cases where the Department considers the preferred method to be impracticable, as, for example, in cases where property owners demand unreasonable purchase option prices, where there are defects in property titles or other problems in acquiring control of the properties, or where the planning for the facilities cannot be completed before expiration of the assignable purchase options and the property owners are unwilling to extend the options.

We believe that the site acquisition authority in 39 U.S.C. 2103 is a necessary adjunct to the Department's leasing authority under 39 U.S.C. 2102 in order to keep rental costs to a minimum. We also believe that there may be areas where leasing is the only practicable means of obtaining needed postal space, as, for example, at certain airports. Since annual rental costs for 30-year leases generally are less than the annual rental costs for basic periods of less than 30 years, we believe that the Postmaster General should have authority to enter into 30-year leases in cases where leasing is determined to be the most desirable method of obtaining space for postal facilities.

Our report to the Congress on review of policies and procedures used in determining the administrative office space to be provided in major postal facilities (B-153129 dated December 27, 1966) disclosed that the 10 major postal facilities covered by our review contained, or were planned to contain, offices considerably larger than would have been provided if the facilities had been planned on the basis of standards developed by the General Services Administration for offices of employees of other Federal agencies having similar duties or responsibilities. The General Services Administration's standards were developed, with the cooperation and concurrence of more than 60 Federal agencies, on the basis of

studies made to determine the amounts and types of space required for efficient operations.

In commenting on our draft report, the Postmaster General stated that the Department had initiated a study of administrative office space standards prior to our review and that the Department's proposed new standards would result in adjustments more in line with current needs and General Services Administration allowances. In a letter to the Director, Bureau of the Budget, dated February 2, 1967, relating to our report, the Postmaster General stated that the Department had received an invitation from the General Services Administration to participate in a joint effort to issue an Occupancy Guide or something comparable for the Department's administrative office space. He also stated that the Department planned to work with the General Services Administration on this proposal.

We believe that, if appropriate actions are taken by the Post Office Department and the General Services Administration on the above matter, there would be no need for legislation to make the General Services Administration responsible for either establishing or approving the standards to be used in planning the office space to be provided for the Department's administrative activities. Moreover, in view of the reporting requirements proposed in H.R. 8553 and H.R. 8554, we believe that the House Committee on Post Office and Civil Service and the Senate Committee on Public Works would be in a position to determine the reasonableness of the Department's plans for administrative office space in leased special purpose post office buildings having gross floor space exceeding 20,000 square feet.

We shall be pleased to have members of our staff discuss with your committee any matters concerning either our comments on H.R. 8553 and H.R. 8554 or our audit work relating to the Post Office Department's real estate activities.

Sincerely yours,

FRANK H. WEITZEL,

Assistant Comptroller General of the United States.

GENERAL SERVICES ADMINISTRATION,

Washington, D.C., April 17, 1967.

HON. THADDEUS J. DULSKI,
*Chairman, Committee on Post Office and Civil Service,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to the telephonic request of a member of your staff on April 13, 1967, for an expression of the views of the General Services Administration on H.R. 8553 and H.R. 8554 of the 90th Congress, identical bills 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.

The purpose of the bills is to amend section 2103(a), title 39, United States Code, to extend the lease construction authority of the Postmaster General from a terminal date of April 30, 1967, to June 30, 1972. This authority permits the Postmaster General to enter into agreements for the leasing for postal purposes of buildings to be constructed by lessors for terms not exceeding 30 years and to acquire and dispose of land incidental to the performance of such agreements.

The bill would also require the Postmaster General to consult with the Administrator of General Services before exercising the authority in determining that it is not desirable or feasible to construct a postal facility under the provisions of the Public Buildings Act of 1959, as amended (40 U.S.C. 601-605), rather than under section 2103(a), would confine the authority to "special purpose post office buildings," and would require the Postmaster General to transmit to the Committee on Public Works of the Senate and the Committee on Post Office and Civil Service of the House of Representatives a report of the need of the lease construction agreement.

GSA recommends the enactment of either H.R. 8553 or H.R. 8554.

The Bureau of the Budget has advised that, from the standpoint of the administration's program, there is no objection to the submission of this report to your committee.

Sincerely yours,

LAWSON B. KNOTT, Jr.,

Administrator.

Mr. WILSON. I would like to state for the record, Mr. Chairman, in connection with Mr. Derwinski's comments about political contributions, that I am sure if we check the records of both political parties we will find that many of these top architectural firms in the country have probably contributed to both sides. I know that several large and qualified firms in California have participated in campaigns on both political sides, and such contributions are certainly not restricted to the Democratic Party.

Mr. COFFMAN. Mr. Chairman, let me again thank you and all the members of the subcommittee for attending this hearing today, and for the contribution that they made by posing some lively questions. I think Congressman Derwinski is right, these things need to be discussed; and as far as we are concerned, we will be glad to discuss them as fully as possible.

Thank you very much.

Mr. DANIELS. Thank you.

The subcommittee will meet in executive session.

(Whereupon, at 11:55 a.m., the subcommittee went into executive session.)



Mr. Huxley, I would like to say for the record, Mr. Chairman, in connection with Mr. Huxley's committee, which is a committee of the House, that I do not see how it is possible for the record of such political parties to be kept in the country. I know that several large and published names in the country have participated in campaigns on both political sides, and such contributions are certainly not restricted to the Democratic Party.

Mr. Chairman, let me again thank you and all the members of the subcommittee for attending this hearing today, and for the contribution that they made by posing some lively questions. I think Congressman Detering is right, these things need to be discussed; and as far as we are concerned, we will be glad to discuss them as fully as possible.

Thank you very much.

Mr. Chairman, Thank you.

The subcommittee will meet in executive session.

(Whereupon, at 11:05 a.m., the subcommittee went into executive session.)