



Report to the Honorable William M.
Thomas, House of Representatives

August 1999

U.S. POSTAL SERVICE

Deficiencies Continue While Antelope Valley Project Status Remains Uncertain



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United States General Accounting Office
Washington, D.C. 20548

General Government Division

B-282078

August 31, 1999

The Honorable William M. Thomas
House of Representatives

Dear Mr. Thomas:

This report responds to your December 1, 1998, request to evaluate the project approval process the Postal Service used in proposing to relocate postal operations for the Antelope Valley area from the Main Post Office (MPO) in Mojave, CA, to a new facility in Lancaster, CA. Your request stemmed from concerns over whether the Service appropriately acquired land in Lancaster and properly considered project costs. To address your concerns, we evaluated whether the Service followed its capital project approval process for the purchase of land in Lancaster. In addition, because of the incomplete status of the project, we identified the reasons for the project delays and the effects of those delays on postal operations, project costs, and affected communities.

The Antelope Valley is composed of 16 communities in northern Los Angeles County and eastern Kern County. Mojave is located in the Antelope Valley approximately 100 miles north of downtown Los Angeles, and Lancaster is located 23 miles south of Mojave. In 1989, the Service began planning for a new facility to address operational processing and delivery deficiencies it had identified in the Antelope Valley area. The rapid growth in the population and resultant mail volumes in the Antelope Valley led to space deficiencies for mail processing operations at the Mojave MPO. The growth also led to space deficiencies for carrier operations in four of the five affected post offices.

In October 1991, while the overall project was still under development and review, the Service acquired a 25-acre site in the city of Lancaster, CA, at a cost of \$6.5 million using its advance site acquisition procedures. The proposed project was suspended in 1992, shortly after the site was acquired, reinstated in 1995 as a fiscal year 1998 new-construction project and suspended again in March 1999 during the headquarters review process. The project was recently reclassified from an area-funded project to a headquarters-funded project. The project is now waiting to be included in the next 5-year prioritization process for ranking and funding capital projects, and this process is anticipated to be completed by August

2000. The total cost of the project, including land acquisition costs, is currently estimated at about \$35 million.

Results in Brief

The Service followed most of its key requirements for acquiring a site in Lancaster in 1991 prior to obtaining approval for the proposed Antelope Valley project, although some requirements were vague. One major exception was that review and approval of the proposed project justification and alternatives by the Headquarters Capital Investment Committee (CIC) did not take place prior to the advance site acquisition in Lancaster, as required by Service policies. Service guidance was unclear because it required that alternatives be identified and analyzed before a project could qualify for advance site acquisition, but it did not clearly state the type or depth of analysis required. At the time of the Lancaster site acquisition, the analysis to support the decision was incomplete. More detailed analyses, such as the space requirements and cost estimates of project alternatives, were still under development.

Moreover, we could not determine from available documentation why the alternative to construct a new facility in Lancaster was preferred over other alternatives that had been proposed or why various alternatives were not considered viable. For example, it is not clear why an alternative that was recently under consideration—the expansion of the existing Mojave facility—was not considered a viable alternative before the site in Lancaster was acquired. We could not determine whether additional justification of this proposed project or more detailed analyses of the alternatives would have been required if this project had been reviewed and approved by the Headquarters CIC or whether more justification and analysis would have affected the Service's decision to purchase the Lancaster site.

In addition, the Lancaster site purchased for \$6.5 million in 1991 has remained unused since that time due to the Service's failure to decide how and when it will resolve the long-standing problems that the proposed Antelope Valley project was to address. In particular, continuing negative effects have resulted from the incomplete status of the project for almost 10 years. Project approval and funding of the project remain uncertain due to delays resulting from two suspensions, limits on capital spending, and changes in project classification. Consequently, it is unclear how the Service intends to address the space deficiencies that have contributed to operational processing and delivery deficiencies in the Antelope Valley area.

Because of continued space deficiencies, automated equipment was sitting unused in warehouses, some mail delivery was being delayed, and the projected operating efficiencies and savings have not been realized. In addition, the Service has invested \$6.5 million in land that has been unused for nearly 8 years; such an investment has a substantial annual interest cost estimated at over \$300,000. It has also incurred additional costs to update documents required for project approval and may incur more costs if some of these documents again have to be updated when the project is reviewed for approval. Finally, the Lancaster and Mojave communities have faced uncertainty over business development opportunities as a result of the project delays.

While a determination of the most appropriate course of action was beyond the scope of our review, it remains unclear after nearly a decade how the Service intends to address the long-standing mail processing and service delivery deficiencies in the Antelope Valley area that prompted the development of this proposed project. As of July 1, 1999, the project was on hold; these deficiencies could continue, and the land could remain unused for several more years unless action is taken. Accordingly, we are making recommendations to the Service to address the concerns we identified.

Background

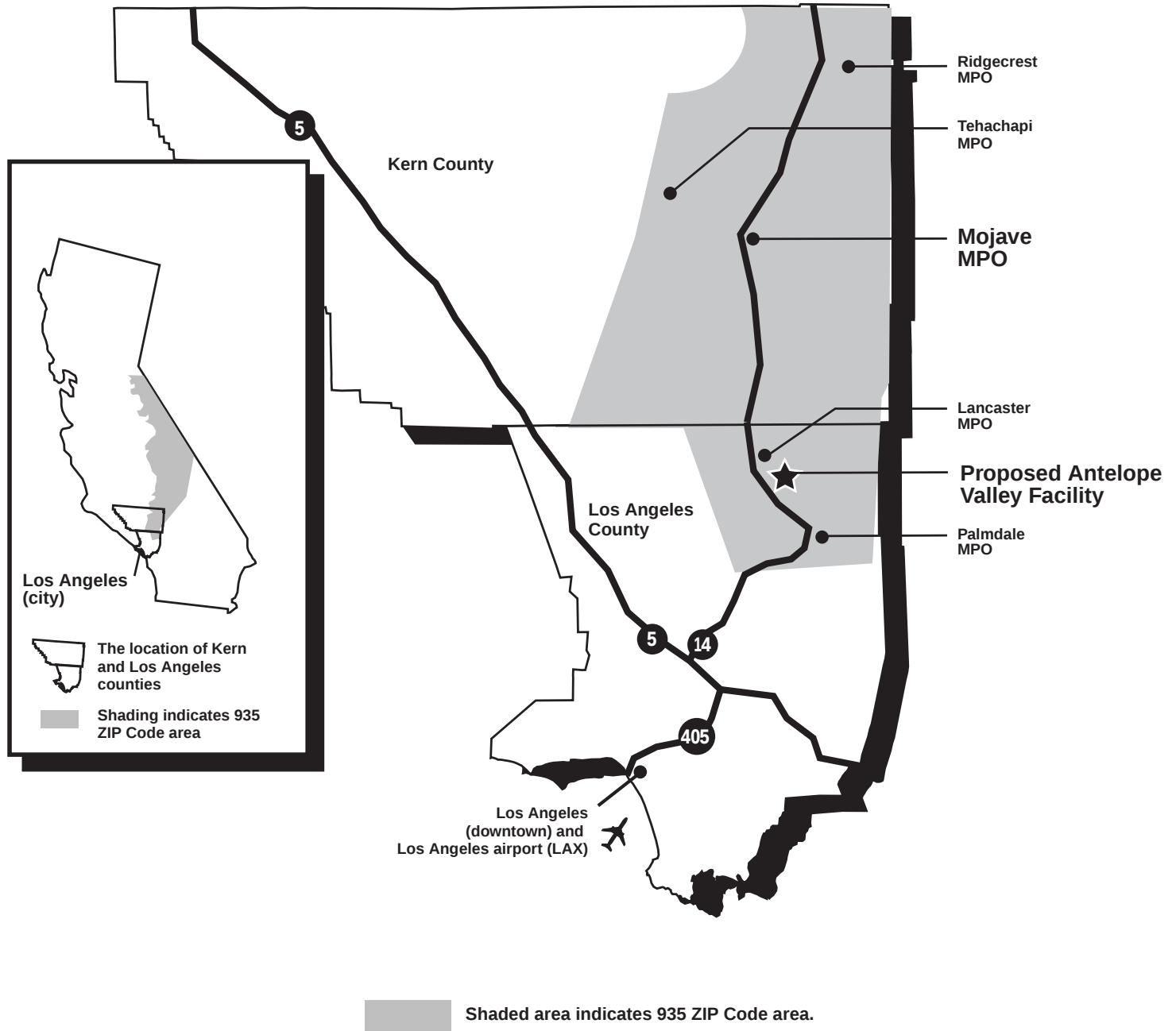
In 1989, the Pacific Area Office, then called the Western Regional Office, identified several deficiencies in the 935 ZIP¹ Code area and proposed relocating the distribution operations for five post offices in the area into a new facility. The key deficiencies identified by postal officials included the following:

- space deficiencies for mail processing operations in the Mojave MPO, which is responsible for mail processing operations for all of the post offices in the Antelope Valley;
- space deficiencies in carrier delivery operations in four of the five post offices affected by the proposed project; and
- space deficiencies in the Lancaster MPO limited the ability to meet demand for post office boxes, and parking for customers, employees, and postal vehicles.

Figure 1 shows the locations of the five affected post offices in the cities of Lancaster, Mojave, Palmdale, Tehachapi, and Ridgecrest located in the southern portion of the Antelope Valley.

¹Zone Improvement Plan.

Figure 1: Locations of the Five Post Offices Affected by the Proposed Antelope Valley Area Project



Source: U.S. Postal Service.

Since the 1980 census, the Antelope Valley area, also known as the 935 ZIP Code area, has more than doubled its population. The growth in mail volume has paralleled the population growth. As shown in table 1, growth in this area was somewhat slower in the 1990s than in the 1980s. However, current projections expect that population and mail growth will accelerate again over the next decade.

Table 1: Population, Households, and Mail Volume Data for the 935 Zip Code Area in 1980, 1989, 1999, and 2009

Year	Population	Percent change	Households	Percent change	Total mail volume	Percent change
1980 ^a	184,435		65,471		100,487	
1989	317,441	72%	106,695	63%	205,374	104%
1999 ^b	485,073	53%	161,528	51%	295,204	44%
2009 ^b	623,761	29%	215,335	33%	452,841	53%

^aThe 1980 originating mail volume excludes third-class mail, for which data were not available.

^bData for 1999 and 2009 are estimates.

Source: U.S. Postal Service data acquired from Standard & Poors.

Over half of the population growth in the 935 ZIP Code area occurred in two cities, Lancaster and Palmdale. From 1980 to 1990, Lancaster's population grew from about 48,000 to 97,300, and Palmdale's population grew from about 12,300 to 68,900. During this same period, Mojave's population grew from about 2,900 to 3,800. The Southern California Association of Governments has projected that the Lancaster-Palmdale population would increase again over 200 percent by 2010.

Mail scheduled for final delivery in the Antelope Valley originates from all over the United States and the rest of the world and is transported to the Los Angeles Processing and Distribution center located near Los Angeles International Airport. There, the mail undergoes a first-level sort by the first three digits of the ZIP Code. The mail is then transported to smaller mail processing facilities, such as the Mojave MPO, where secondary operations are performed on automated equipment to sort the mail to the five-digit ZIP Code level. Generally at this stage, some of the mail would also be automatically sorted to the carrier-route level and sequenced in the order that carriers deliver it. However, in Mojave, the necessary automated equipment is not available for sorting mail down to the carriers' delivery sequence order. Thus, the mail is transported to the postal facilities responsible for mail delivery, such as Lancaster, where the mail carriers manually sort the mail into delivery sequence order.

Administrative support and mail processing functions for mail to be delivered in the 935 ZIP Code area, as well as local retail and delivery functions, are housed at the MPO in Mojave. According to available postal

documents, the Mojave MPO was functioning at its maximum capacity in 1990. Mail processing and customer service operations competed for space in the crowded facility. Operational efficiency was beginning to suffer due to the continual shifting of equipment to allow adequate space for processing operations. More recently, postal documents noted that some automated sorting equipment intended for Mojave processing operations was being stored in warehouses due to insufficient space.

Postal documents from 1990 also reported that the Lancaster MPO had reached its maximum capacity and could not accommodate the future growth anticipated in Lancaster. Carrier operations had spread onto the loading platform, where mail was being placed to await distribution. Both employees and mail were exposed to weather conditions. There was a demand for additional post office boxes at the MPO, but there was no room to expand the box section. According to the Service, employee support facilities were inadequate; and parking facilities for customer, employee, and postal vehicles were also inadequate. Similar conditions reportedly existed in the Palmdale MPO, and a facility replacement was included in the Western Region's Five-Year Facility plan. The MPOs in Ridgecrest and Tehachapi were also reported to be experiencing space deficiencies but not to the extent of the problems in Lancaster, Mojave, and Palmdale.

The proposed new Antelope Valley facility would include mail-processing operations and support functions that are currently located at the Mojave MPO, and the secondary mail-processing operations would be relocated from the Palmdale, Ridgecrest, Mojave, and Tehachapi MPOs to the new facility. The Mojave MPO would be retained and would continue to provide retail and delivery services for the area and serve as a transfer point for those areas north and west of Mojave. The existing Lancaster MPO would be retained to serve as a carrier annex for carrier delivery operations. The Palmdale, Tehachapi, and Ridgecrest MPOs would be retained to provide full retail and delivery services for their areas.

Scope and Methodology

To evaluate the Service's approval process for this project, we performed the following:

- obtained and reviewed Service policies and guidance in effect when the project began and the policies and guidance currently in effect for facility planning, site acquisition, and project approval;
- obtained and analyzed Service documents related to the proposed Antelope Valley project and project approval process;

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- discussed the proposed project and the review process with Service officials in Headquarters, the Pacific Area Office, the Van Nuys District, and the Lancaster and Mojave MPOs;
 - observed operating conditions at the existing Lancaster and Mojave postal facilities and visited the postal-owned site in Lancaster that was purchased in 1991;
 - reviewed cost estimates for the two alternatives under consideration prior to the project being placed on hold in March 1999; these cost estimates were included in draft project approval documents that were submitted for headquarters review in February 1999; and
 - discussed the impact of the proposed project with community officials in Mojave, Kern County, and Lancaster, CA.

We did not evaluate whether this project should be approved or funded. The Service has a process and criteria for assessing and ranking capital facility projects for funding. However, we only reviewed this particular project and, therefore, did not have a basis for comparing its merits with those of other capital projects competing for approval and funding. We also did not independently verify the accuracy of the financial data included in the Postal Service's analyses of the cost of various alternatives under consideration. Postal officials acknowledged that these preliminary cost estimates might need corrections and revisions because they had not completed their review of the project approval documents. Due to the incomplete status of this project, our assessment generally covered the requirements followed and actions taken by the Service during the period (1) from project initiation in 1989 until the first suspension in 1992 and (2) since its reinstatement in 1995 to August 1999.

We conducted our review between December 1998 and August 1999 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Postmaster General. We received written comments from the Postmaster General, which we have included in appendix I. His comments are discussed near the end of this report.

The Service Followed Most of its Key Requirements for Advance Site Acquisition

The Service followed most of its key requirements for acquiring a site in Lancaster prior to obtaining approval for the proposed Antelope Valley project, although some requirements were vague. One major exception was that the Headquarters CIC did not review and approve the proposed project justification and alternatives under consideration prior to advance site acquisition, as required by Service policies. The Service's guidance allowed advance site acquisition before all analyses that were required for final project approval were completed if, among other requirements, the Service believed that the preferred site would not be available when project approval was anticipated.

Table 2 presents the key requirements in the Service's major facility project approval process and the actions taken by the Service to meet those requirements prior to project suspension in 1992. The key requirements of this project approval process include formal documentation, and the dates provided are based on available documentation.

Table 2: Key Requirements and Actions Taken by the Postal Service for Project Approval Prior to 1992

Stage	Requirements	Date action taken by Service
Initial Planning	• Identify need for facility project and include project in Five-Year Major Facility Priority process for prioritization and funding approval	• May 1989
	• Develop preliminary Facility Planning Concept document outlining functions to be performed in proposed facility and how functions will affect other postal facilities	• April 1990
	• Hold Planning Parameters meeting to finalize Facility Planning Concept and agree upon project alternatives	• June 1990
	• Hold Headquarters CIC meeting to obtain Advance Project Review approval of project justification and alternatives	• Not held
Site selection	• Define preferred site area	• February 1990
	• Advertise for suitable sites	• August 1990
	• Prepare environmental assessment as required under National Environmental Policy Act ^a	• December 1990
	• Hold Site Selection Committee meeting to choose a suitable site	• December 1990
Advance site acquisition	• Submit a request to purchase the site and certify that the following conditions have been met: — site control cannot be reasonably obtained through the period required for project approval, specify offer expiration date; — failure to control the property would result in either higher costs or the loss of the preferred site; — project is under way, alternatives have been identified and analyzed — site acquisition cost does not exceed \$10 million, and funds are available in the capital budget — project is scheduled for presentation to Headquarters CIC or Board of Governors — Planning Parameters and Advance Project Review stages must have been completed	• June 1991
	• Obtain approval from Senior Assistant Postmaster General, Administrative Services Group, Headquarters	• Signed, but undated
	• Purchase site	• October 1991
	• Develop space requirements for proposed Facility Planning Concept alternatives to determine sizes of buildings and site requirements needed to meet operational needs	• September 1991
Project approval	• Develop Decision Analysis Report (DAR) detailing economic analyses, including costs and benefits, of proposed project and alternatives under consideration to provide information necessary for approving authorities to make informed decisions and obtain all necessary approvals of DAR from Headquarters and Area CICs, Financial Investment Committees, and Board of Governors	• No action, project suspended in July 1992

^aNational Environmental Policy Act of 1969, as amended, 42 U.S.C. section 4321, et. seq.

Source: GAO analysis of Postal Service guidance and project documents.

The Postal Service's guidance detailing its investment policies and procedures for major facilities explains that its purpose is to ensure that major facility investments support the strategic objectives of the Postal Service, make the best use of available resources, and establish

management accountability for investment decisions. Postal Service policies also specify the delegation of authority for approving capital facility projects based on total project costs. All capital projects exceeding \$10 million in total project costs are considered major facility projects and are required to obtain final approval from the Postal Service's Board of Governors after being approved through appropriate area and headquarters officials, including the Headquarters CIC. Some facility projects may be funded from the area's budget. To obtain funding from headquarters capital investment funds, these proposed major capital facility projects must be prioritized along with proposed projects from all other regions/areas and included by headquarters officials in the Postal Service's Five-Year Major Facilities Priority List. This list is to be updated annually and included as part of the Service's annual budget, which is then reviewed and approved by postal management and the Board of Governors.

As shown in table 2, the Service generally followed its approval process for advance site acquisition. However, one major requirement that was not completed before the advance site acquisition was the Advance Project Review, which involves the review and approval of the project justification and alternatives by the Headquarters CIC. Postal officials told us that the project had met all of the Service's requirements prior to approval for advance site acquisition. However, the Service could not provide a date for when the Headquarters CIC meeting occurred or any documentation of the completion of the Advance Project Review stage. The purpose of the Advance Project Review by the Headquarters CIC, according to postal guidance, is "to be sure that the Headquarters CIC concurs with the scope (especially the justification, alternatives, and strategic compatibility) before the expenditure of substantial planning resources."

Site Acquisition Permitted Prior to Final Project Approval

According to the Service's requirements that were in effect in 1991, advance site acquisition was permitted prior to completion of the project approval process with the approval of the headquarters senior official responsible for facilities.² The regional postmaster general requested site acquisition in advance of project approval for the site in Lancaster on June 25, 1991. The request noted that Western Region officials had approved funding from the region's budget for site acquisition in fiscal year 1991. In addition, the request noted that the project was a headquarters-funded project scheduled to be presented to the Headquarters CIC for review in

²In 1991, advance site acquisition for facility projects with a total cost exceeding \$5 million and sites costing \$10 million or less were to be approved by a headquarters official, the Senior Assistant Postmaster General, Administrative Services Group.

mid 1992, go to the Board of Governors for review and approval in August 1992, and begin construction in fiscal year 1992.

The request also noted that control of the site³ expired on June 30, 1991, and that failure to acquire the site as an advance site acquisition may result in its loss. The total project cost was estimated at just over \$31 million, with site purchase in the amount of \$6,534,000, and site support costs of \$100,000 for a total funding request of \$6,634,000 for advance site acquisition. The request also noted that the property-owner had offered the Postal Service an additional saving of \$250,000, which would reduce the sales price to \$6,284,000, if the site acquisition were approved and closing occurred prior to August 1, 1991. The funding request was approved by the appropriate headquarters official, and the site was purchased for \$6,534,000 on October 25, 1991.

Available Analyses to Support Advance Site Acquisition Decisions Were Incomplete and Documentation Was Inadequate

Service guidance required that alternatives be identified and analyzed before a project could qualify for advance site acquisition but did not clearly state the type or depth of analyses required. At the time of the Lancaster site acquisition, some analyses, such as the space requirements (which determine sizes of buildings and site requirements for operational needs) as well as the cost estimates of project alternatives (which provide information on projected cash flows and return on investment) were still under development. Only the estimated project costs associated with the preferred alternative—construction of a new processing facility in Lancaster—were available prior to site acquisition. Moreover, the available documentation did not explain why this alternative was preferred over the other alternatives considered.

According to documentation provided to us, four alternatives were presented at the project planning meeting held in June 1990. The four alternatives, with the key differences underscored, were as follows:

(A) a new area mail processing center in Lancaster for relocated mail processing operations, distribution operations, and delivery services for the 93535 ZIP Code area; the existing Lancaster MPO would retain its retail and delivery services;

(B) a new general mail facility in Lancaster for relocated mail processing operations, distribution operations, and delivery services for the 93535 ZIP

³According to Postal officials, site control means “keeping the property off the market.” Site control can be achieved by different means, (e.g. a down payment, good faith agreement, or monthly payment). The type of site control would have to be negotiated with the seller.

Code area; the existing Lancaster MPO would retain its delivery services and retail services would be relocated in the area;

(C) new area mail processing center in the vicinity of Mojave and Lancaster for relocated mail processing operations and distribution operations; the existing Mojave and Lancaster MPOs would retain retail and delivery services for their respective communities and a new facility would be constructed in Lancaster for delivery services; and

(D) lease and modify an existing building for use as a Mail Handling Annex for relocated mail processing operations and distribution operations; the existing Mojave MPO would retain its retail and delivery services.

The proposed preferred alternative presented at the June 1990 meeting was alternative A, a newly constructed area mail processing facility located in Lancaster. The analysis related to the four alternatives consisted of brief descriptions of each alternative. However, the documentation does not explain why the recommended alternative was preferred over the other alternatives considered. The only explanation provided was included in the minutes of the June 1990 meeting as follows;

“The alternatives were discussed at length. Alternative A, B, and C were discussed. It was agreed upon that these alternatives will solve the major operating needs of the Antelope Valley, but will not address all of our needs for delivery and retail facilities. A reassessment of the proposed concept and the requirements for Lancaster and Palmdale Main Post Offices will be conducted following site selection to ascertain whether the specific site is conducive to delivery or retail activities as a result of its location.”

Further, documentation prepared for the site selection meeting held in December 1990, stated that

“The existing facilities in Lancaster, Palmdale, and Mojave could not be expanded to provide sufficient space to accommodate the current and projected growth in the Antelope Valley. Continuation of mail processing operations at the Mojave MPO will not meet corporate goals for improved delivery times and efficiencies.”

However, since the proposed project was revised in 1998, expansion of the existing Mojave facility was one of two alternatives under consideration, along with the preferred alternative to construct a new facility on the Service-owned site in Lancaster. Available documentation did not explain why expansion of the existing Mojave facility was not considered viable in 1990 but was considered a viable alternative in 1998.

Need to Improve Inadequate Documentation Previously Identified

The problem of inadequate documentation of the Service's real estate acquisition decisions is not a new issue. In 1989, we reviewed the Service's real estate acquisition process. At that time, we reviewed a sample of 246 sites purchased during fiscal year 1987 and made recommendations to improve the Service's real estate acquisition program.⁴ Our 1989 report found that the Service usually purchased sites that exceeded both its operational needs and advertised size requirements. When alternative sites were available for purchase, the Service generally selected the larger, more costly sites without requiring site selection committees to document why less expensive alternative sites were less desirable. The report raised concerns, based on the Service's requirements for advertising and purchasing practices, that the Service might be spending more than was necessary for land and accumulating an unnecessarily large real estate inventory. The report also recognized that sometimes larger, more costly sites may best meet the Service's operational requirements but that justification for such selections should be required when smaller, less costly contending sites were available.

In the Service's letter dated August 25, 1989, responding to a draft of that report, the Postmaster General agreed with our recommendation relating to more complete documentation of the selection process. He stated, "The Postal Service is concerned only with the best value and will make sure that the reasoning behind the determination of best value is more carefully documented in the future."

However, improvement in documentation was not evident in the documentation related to the proposed Antelope Valley area project, which was prepared soon after our report was issued. We identified inconsistencies in internal postal memorandums related to the required site size and disposition of any excess land. The region's June 25, 1991, memorandum requesting approval for advance site acquisition in Lancaster stated, "No excess land is expected to remain." Another internal memorandum dated October 25, 1991—the date of final settlement for the purchase of the Lancaster site—discussed preparation of the final cost estimates for the proposed Antelope Valley Area project and stated "Please note that the required site is considerably less than the selected site." Further, a February 1992 internal memorandum noted that the Lancaster site was purchased in late 1991 and that the site area exceeded Service requirements by 296,000 square feet (about 6.8 acres). The reason for the purchase of a site that was larger than needed was not explained in any

⁴See *Postal Service: Sites for New Post Offices May Be Larger Than Needed* (GAO/GGD-89-130, Sept. 1989).

available documents. More recent documents related to the proposed project alternatives also noted that the Service-owned site in Lancaster exceeds project requirements, but the alternatives do not discuss how the excess property would be disposed of.

Project Delays and Resulting Negative Effects Remain Unresolved

As of the beginning of July 1999, the Service's consideration of the proposed Antelope Valley project had been put on hold, and a decision may not be made for some time. Consequently, the status and funding of the proposed project remains uncertain almost 10 years after it was initiated. Consideration of the project has been delayed due to two suspensions, reductions in capital investment spending, and a recent reclassification of the proposed facility. As a result, processing and delivery deficiencies that were identified as critical for this area in 1989 continue to exist, and the Service has not determined how it plans to address these operational deficiencies. In addition, the Service has incurred additional costs that have resulted from the need to repeat analyses and update documents required for final project approval. With the project currently on hold, further costs may be incurred to again update required analyses. Finally, the delays have prolonged the uncertainty related to business development opportunities for the affected communities of Mojave and Lancaster.

Reduced Funding and Classification Inconsistencies Contributed to Project Delays

Initiated in 1989, with an expectation that the project would be funded in fiscal year 1992, the proposed Antelope Valley project was suspended in 1992, while the Service was undergoing a reorganization and had reduced its funding for capital facility projects. Table 3 shows that between 1991 and 1995, the Service committed \$999 million less to its facilities improvement program than it had originally authorized in its 1991 to 1995 Capital Improvement Plan.

Table 3: Comparison of Funds Authorized and Funds Committed For Facility Projects, Between Fiscal Years 1991 and 1995

Dollars in thousands			
Postal fiscal year	Funds authorized for facility projects	Funds committed for facility projects	Difference
1991	\$1,334	\$1,118	\$216
1992	1,170	940	230
1993	1,112	403	709
1994	1,048	1,048	0
1995	895	1,051	(156)
Total	\$5,559	\$4,560	\$999

Source: Postal Service Comprehensive Statements for 1991 through 1995.

Postal Service officials could not explain why the classification of this project, as a processing facility or other type of capital facility, has been

changed several times and why it has not yet been submitted for consideration in the headquarters capital facility projects prioritization and funding process. All major mail processing facilities must be funded from the headquarters capital facility budget, while other types of processing and delivery facilities may be funded from regional/area budgets. At the time that the proposed project was suspended in 1992, it was classified as a mail processing facility in the Western Region/Pacific Area Major Facility Priority List. It had also been submitted for headquarters funding consideration in the Five-Year Major Facilities Priority List for fiscal years 1991 to 1995. The project was reinstated and reclassified in 1995 as a Delivery and Distribution Center (DDC), with the expectation that it would be funded out of area funds in fiscal year 1998. The Service suspended the project a second time in March 1999, while it was undergoing review by headquarters officials. Based upon the headquarters review, the project was again reclassified from a DDC to a Processing and Distribution Center. The latest reclassification meant that the project would have to be funded by headquarters rather than the Pacific Area Office, and it would have to compete nationally for funding. This means that the project will have to await placement on the next headquarters Five-Year Major Facilities Priority List, which is scheduled to be completed by August 2000.

It is also not clear why the proposed project was reinstated and reclassified in 1995 as a DDC when the major purpose and design of this project had not fundamentally changed. Postal officials in the Pacific Area Office and Van Nuys District said that the recently proposed Antelope Valley project is essentially the same as the project that was being planned when the Service acquired the 25-acre Lancaster site in 1991. The major differences in the two projects are in nonmail processing areas.⁵ As previously mentioned, the proposed project had not had an Advance Project Review by the Headquarters CIC prior to the suspension in 1992. Such a review might have prevented the unexplained reclassifications of this project that have contributed to delays in its funding.

Operational Processing And Delivery Deficiencies Remain Unaddressed

Ten years after this project began, the operational processing and delivery deficiencies that were identified as critical for this area in 1989 still remain. Because of continued space deficiencies, automated equipment has not been deployed as scheduled, and the projected operating efficiencies and savings have not been realized. The District projected that one of the

⁵The recent proposal no longer includes a vehicle maintenance facility on the site because the District recently decided that it was more economical to contract for vehicle maintenance with the local communities as opposed to in-house maintenance. A retail operation has been added to the recent proposed Lancaster alternative to eliminate the deficiencies of limited post office boxes and customer parking in the Lancaster MPO.

benefits from automated sorting of the mail to the carriers in delivery walk sequence would be to improve delivery performance by 4.25 percent annually. This additional sorting would decrease the time that the carriers spend in the delivery units preparing the mail for delivery and increase the amount of time the carriers would have to deliver the mail. Another negative effect of the space deficiencies in Mojave was that some of the mail originating in the 935 ZIP Code area (approximately 130,000 pieces per day) was diverted from processing in Mojave to the processing facility in Santa Clarita. According to local postal officials, the effect of this diversion was to delay by 1 day the delivery of some mail that was to be delivered in the 935 ZIP Code area. The local area First-Class mail was supposed to be delivered within 1 day to meet overnight delivery standards for First-Class mail.

Since this project was initiated in 1989, the Service has taken several actions to address mail processing and delivery deficiencies in the Antelope Valley. The Service added 2,417 square feet of interior space to the Palmdale MPO by relocating the post office into a larger leased facility. Some relief was provided to the cramped carrier operations at the Lancaster MPO by relocating 15 of the 89 carrier routes serving Lancaster to the Lancaster Cedar Station. However, as we observed on our visit to the Lancaster facilities, conditions in Lancaster were still very congested. Mail that was waiting to be processed and workroom operations spilled out of the building onto the platform, exposing both employees and the mail to weather conditions.

In an effort to provide the Mojave MPO with more mail-processing space, a 2,400 square foot tent was installed in 1998, at a cost of \$30,000, next to the loading platform. The tent provided additional space for processing operations and for holding mail that was waiting to be processed, but it did not allow for deployment of any automated equipment scheduled for use in the 935 mail-processing functions. Also, we observed that the tent would not provide adequate shelter from high winds or other weather-related conditions. Some of the equipment was stored at district warehouses. Although these efforts have allowed the district to continue to provide processing and delivery service, it is not clear how the Service intends to meet the operational processing and delivery deficiencies while decisions related to the proposed facility are pending.

Delays Incur Additional Costs

Project delays have also contributed to higher costs, incurred to repeat and update some of the analyses and cost data needed for final project approval. Given that the process is not completed, additional costs may be incurred to further update required analyses. The Service has incurred

additional costs related to developing a second set of documents required for project approval, including Facility Planning Concept documents, appraisals, space requirements, environmental assessments, and DARs. Generally, the Service uses contractors to develop the environmental and engineering studies. Although the total cost of document preparation has not been quantified, available documentation indicates that the Service has incurred about \$254,000 for costs related to previous design efforts for this project.

In addition, costs that have not been quantified include staff time and travel costs associated with this project. The Area Office Operations Analyst who was responsible for preparing the DAR told us that it took him approximately a year to develop a DAR and the supporting documents and analysis. This did not include the time of the other individuals who provided him with various information needed to complete the analyses or the time of officials responsible for reviewing and approving the project. The Service has also incurred additional costs for travel associated with project reviews, such as the Planning Parameters Meeting, which involved the travel of at least three headquarters officials.

It is difficult at this stage to determine what additional analyses may be needed because the Antelope Valley project has been suspended and, according to Service officials, no further action is being taken on reviewing the project until it is submitted by Pacific area officials for prioritization. We reviewed the cost estimates for the two alternatives that were included in the draft DAR that had been submitted to headquarters for review in February 1999. We found some deficiencies in the information presented. Postal officials stated that these types of deficiencies would be identified during their review process that includes reviews by officials in three separate headquarters departments—Facilities, Operations, and Finance. They also said that the cost estimates in the DAR were too preliminary to use as a basis for assessing which of the two alternatives under consideration were more cost effective. The officials noted that significant changes could be made to the cost estimates as the project documentation completes the review process.

In addition, the Service has not realized any return on its investment in the site in Lancaster, which has remained unused since 1991. This unrealized investment has an interest cost associated with the Service's use of funds to purchase the Lancaster site in October 1991. We estimated that the interest cost associated with the Service's \$6.5 million investment totaled about \$2.9 million from the time that the site was purchased in October

1991 through June 1999 and that it would likely increase by over \$300,000 each year.⁶

Delays Create Uncertainty for Affected Communities

The uncertainty of this project over such a long period has also created difficulties, particularly related to business development planning, for the affected Lancaster and Mojave communities. Mojave community officials have raised concerns about the effect that relocating the postal operations would have on their community. They expressed specific concerns relating to the potential lost job opportunities to the Mojave and nearby California City residents and the impact that losing the postal processing operations would have on their effort to attract new homes and retail services. Postal documents indicated that while none of the Mojave employees would lose their jobs, approximately 80 employees working the evening and night shift would be relocated if distribution operations were to be relocated to a new facility in Lancaster. The Service projects that the proposed expanded Mojave Facility would create 10 additional jobs at the facility when it opens.

The project delay has also affected the business development opportunities in Lancaster. After the Service selected the Lancaster site in 1991, the Mayor of Lancaster stated in a letter to the Postal Service that he welcomed the new facility and that the facility would anchor the new 160-acre Lancaster Business Park Project. Shortly after the Postal Service selected the 25-acre site, a major mailer, Deluxe Check Printing, acquired a 12-acre site adjacent to the postal property. Recently, the Lancaster City Manager noted that not having the Postal Service facility has made marketing the Business Park to potential developers very difficult. In addition, Lancaster officials stated that the city has spent over \$20 million to provide improvements to the business park. These improvements were conditions of sale when the Postal Service acquired the site in 1991.

Conclusion

The Service followed most of its key requirements when it purchased a site in Lancaster in 1991 for the proposed Antelope Valley project before it had obtained overall project approval, although some requirements were vague. One major exception was that the Headquarters CIC did not review and approve the proposed project justification and alternatives under consideration prior to advance site acquisition as required by Service guidance. The Service's requirements for advance site acquisition were unclear because they did not specify the types or depth of analyses required. The Service's analyses of alternatives were incomplete because

⁶To develop a rough estimate of the interest cost, we used the average yield on Treasury securities at constant maturity of 1 year prevailing in December each year from 1991 through 1998.

estimated costs of the alternatives and space requirements were still under development. Also, it was not clear why an alternative that was recently under consideration, the expansion of the existing Mojave MPO, was not considered a viable alternative before the site in Lancaster was acquired.

We could not determine whether review and approval of the proposed project justification and alternatives by the Headquarters CIC would have resulted in changes in the proposed project justification and alternatives or more in-depth analysis of the alternatives. Such a review may have prevented the unexplained inconsistencies in the classifications of this project that have contributed to delays in its funding. Likewise, it is not known whether the Committee's review would have suggested a course of action other than acquisition of the Lancaster site. Further, the more recent analysis of the alternative to expand the Mojave MPO is too preliminary to assess or draw any conclusions from because the headquarters review of the proposed project has been suspended. However, what is known is that the Service spent about \$6.5 million over 8 years ago to purchase a site that has remained unused. This site may or may not be used by the Service in the future, and its investment has a substantial annual interest cost associated with it. While this interest cost continues, the mail service deficiencies identified nearly 10 years ago remain unaddressed, and projected operating efficiencies and savings anticipated from new equipment are unrealized as the equipment remains in storage.

Given this situation, it is not clear why the status of this project has been allowed to go unresolved for such a long time. It is also unclear at this time whether funding for this project will be approved and, if so, for what year of the next 5-year capital projects funding cycle. Thus, the Service's site investment in unused land and the existing operational deficiencies are likely to continue for some time, and the Service has not determined how it will address these issues if the project is not approved or funded for several years.

Recommendation

To address the long-standing uncertainties related to the proposed Antelope Valley project, we recommend that the Postmaster General take the following actions:

- Resolve the internal inconsistencies in the classification of this project, determine whether the site in Lancaster should be retained, and ensure that the project is considered in the appropriate funding and approval process, and

-
- Require the Pacific Area office to determine whether immediate action is needed to address the operational deficiencies identified in the Antelope Valley area and report on planned actions and related time frames for implementation.

Agency Comments and Our Evaluation

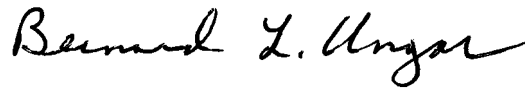
We received written comments from the Postmaster General on August 20, 1999. These comments are summarized below and included as appendix I. We also incorporated technical comments provided by Service officials into the report where appropriate. The Postmaster General responded to our conclusion that the Service did not follow all of its procedures in effect at the time that approval was given to purchase a site for a proposed facility in advance of the proposed Antelope Valley project's review and approval. He stated that the Service has revised its procedures for advance site acquisition so that proposed sites are subjected to additional review and approval. As a result, he stated that the advanced acquisition of a site for project such as Antelope Valley now must receive approval from the Headquarters Capital Investment Committee and the Postmaster General.

The Postmaster General generally agreed with our recommendations to address the unresolved status of the Antelope Valley project and the operational deficiencies in the Antelope Valley area. In response to our first recommendation to resolve the inconsistent classification of the project, he stated that the Service has determined that the proposed Antelope Valley project is properly classified as a mail processing facility. He also stated that the proposed project would be considered for funding along with other such projects during the next round of project review and prioritization. While clarification of the project's classification is a good first step, until disposition of the entire project is completed, the status of the project, including the use of the Lancaster site, remains unresolved.

Regarding our second recommendation to address operational deficiencies in the Antelope Valley area, he stated that officials from the involved Pacific Area offices have met to discuss the most workable alternatives to sustain and improve mail service for Antelope Valley customers. However, due to the complexity of issues, including the possibility of relocating some operations into leased space on an interim basis, a fully developed distribution and delivery improvement plan may take some time to implement. He agreed to provide us with action plans and time frames as they are finalized. If actions are taken as described by the Postmaster General, we believe they would be responsive to our recommendations.

We are sending copies of this report to Representative Howard (Buck) McKeon; Representative John McHugh, Chairman, and Chaka Fattah, Ranking Minority Member, Subcommittee on the Postal Service, House Committee on Government Reform; Mr. William J. Henderson, Postmaster General; and other interested parties. Copies will also be made available to others upon request. The major contributors to this report are listed in appendix II. If you have any questions about this report, please call me on (202) 512-8387.

Sincerely yours,

A handwritten signature in black ink that reads "Bernard L. Ungar". The signature is written in a cursive style with a large, stylized "B" and "U".

Bernard L. Ungar
Director, Government Business
Operations Issues

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Abbreviations

CIC	Capital Investment Committee
DAR	Decision Analysis Report
DDC	Delivery and Distribution Center
MPO	Main Post Office

Comments From the United States Postal Service

WILLIAM J. HENDERSON
POSTMASTER GENERAL / CEO



August 20, 1999

Mr. Bernard L. Ungar
Director, Government Business
Operations Issues
United States General Accounting Office
Washington, DC 20548-0001

Dear Mr. Ungar:

Thank you for providing the Postal Service the opportunity to review and comment on the draft report entitled, United States Postal Service: Deficiencies Continue While Antelope Valley Project Status Remains Uncertain.

The economic boom of the 1980s fueled significant growth in virtually every part in California. Los Angeles County in particular was challenged with unprecedented development, especially in the northeast section of the county known as the Antelope Valley. Compared to the Los Angeles basin, the cities of Lancaster and Palmdale provided affordable housing and a warm, unpolluted, high desert climate, still within an acceptable commute to the Los Angeles area. In addition, county planners were studying sites near Palmdale for a new international airport to unburden the overtaxed Los Angeles International Airport (LAX) facility. In 1991, anticipating the need to provide service to this burgeoning area, the then regional postmaster general received approval for the advance acquisition of a 25-acre site in Lancaster for a proposed facility to handle mail for the expected influx of new homes, businesses, and airport-related services. Six months later, my predecessor, Marvin Runyon, was appointed postmaster general and implemented a restructuring of our headquarters and field offices, along with a requirement that all facility projects be recertified to ensure that our capital resources were allocated to those projects having the most pressing need. Consequently, the Antelope Valley project was put on hold pending recertification.

Meanwhile, the boom of the 1980s became the bust of the 1990s, especially in California. Plans for the new airport in Palmdale were suspended and development in the Antelope Valley slowed appreciably. During the same years, we began deploying throughout the country automated mail processing equipment capable of handling 30,000 letters an hour. A new automated processing plant located in Santa Clarita, 60 miles southwest of Lancaster, was opened in 1994 and has helped us sustain processing and delivery operations for the Antelope Valley communities.

As you can imagine, forecasting where and when population growth and business development will occur is by no means an exact science. We must base our decisions on where to build new postal facilities on the best information available at the time. At times and under certain conditions, acquiring a site for a proposed facility in advance of the site's immediate need is not only a prudent business decision but a necessary one. In 1991, purchasing the 25-acre site in Lancaster made good business sense. Given the same set of circumstances today, I expect we would again opt for advance site acquisition.

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While the report does not find fault with our decision to purchase the Lancaster site, it does note that we may not have followed to the letter our procedures in effect at the time for review and approval of that decision at headquarters. Nevertheless, over the last several years, we have revised our site selection process, including the procedures for advance site acquisition. We now require that any site proposed for acquisition in advance of an approved facility project for that site be subjected to additional review and approval. As a result, the advanced acquisition of a site for a project such as Antelope Valley now must receive approval from the headquarters capital investment committee and the postmaster general.

In response to the report's first recommendation, we have reconfirmed that the proposed Antelope Valley project is properly classified as a mail processing facility. It will be considered along with other such facilities during the next round of project review and prioritization.

Concerning the second recommendation to address operational deficiencies in the Antelope Valley area, officials from the involved Pacific area offices have recently met with the Van Nuys performance cluster leadership to discuss the most workable alternatives to sustain and improve mail service for Antelope Valley customers. Part of the discussion centered on maintaining acceptable service standards while making operational and space adjustments that will improve the timeliness of deliveries. Because of the complexity of the issues, including the possibility of relocating some operations into leased space on an interim basis, a fully developed distribution and delivery improvement plan may take some time to implement. We will provide your staff with action plans and time frames as they are finalized.

If you wish to discuss any of these issues, my staff is available at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "William J. Henderson".

William J. Henderson

GAO Contacts and Staff Acknowledgments

GAO Contacts

Bernard Ungar (202) 512-8387

Acknowledgments

Teresa Anderson, Melvin Horne, Hazel Bailey, Joshua Bartzen, and Jill Sayre made key contributions to this report.

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