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**REPORT TO THE
SUBCOMMITTEE ON PUBLIC
BUILDINGS AND GROUNDS
COMMITTEE ON PUBLIC WORKS
HOUSE OF REPRESENTATIVES**



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**Planning A New Postal Facility
In Charlotte Amalie
St. Thomas, Virgin Islands
U.S. Postal Service** B.171594

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

089263

AUG. 16, 1971



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-171594

Dear Mr. Chairman:

Your letter of January 22, 1971, requested that we examine into and report to you on (1) the manner in which the Post Office Department, hereafter referred to as the Postal Service, selected the sites for the postal facilities in Charlotte Amalie, St. Thomas, Virgin Islands, and in Jersey City, New Jersey, and (2) the total anticipated cost for these postal facilities.

This report deals only with the results of our review of the Virgin Islands facility. In accordance with our agreement with you, a copy of our report to another Congressman on the Jersey City facility will be forwarded to you upon issuance.

We examined records and interviewed officials at the headquarters offices of the Postal Service, the General Services Administration (GSA), and the Department of the Interior and at their field offices in New York, Puerto Rico and the Virgin Islands. We interviewed also current and former officials of the Virgin Islands Government. We also visited the St. Thomas site leased by the Postal Service for a proposed postal facility and other sites which, we believe, might be used as alternatives.

In 1965 the Postal Service and GSA agreed that postal space would be provided in a Federal office building to be constructed in Charlotte Amalie, St. Thomas. Because GSA was having difficulty in obtaining the required funds for the construction of the Federal office building and because of the urgent need, according to the Postal Service, for a postal facility in St. Thomas, in 1970 the Postal Service withdrew most of its requirements for space in the Federal office building. The Postal Service then leased land as the site for a new, leased post office building.

As of April 1971 GSA had spent about \$88,000 for design, soil testing, and legal fees on the Federal office building project. Most of these costs will not benefit the Government

B-171594

because the change in the Postal Service's space requirements necessitates a complete redesign of the building.

It appears to us that the Postal Service, in its desire to expedite construction of a postal facility in Charlotte Amalie, did not adequately consider whether a less costly site could have been acquired. In addition, because of its design, the facility proposed for construction and lease by the Postal Service may result in a higher-than-normal construction cost per square foot and in higher rentals.

In March 1971 we discussed with the Assistant Postmaster General for Facilities the available alternative sites that came to our attention during a visit to the Virgin Islands. He subsequently informed us that plans for the leased post office building were being held in abeyance pending the results of a study of the Postal Services' construction program. We believe that, because the Postal Service has not awarded contracts for the construction of a leased post office building, it should explore the alternatives discussed in this report.

Detailed comments on these matters follow.

INTRODUCTION

The United States Virgin Islands consist principally of the islands of St. John, St. Croix, and St. Thomas.

According to the U.S. Bureau of the Census, the population of the Virgin Islands as of April 1, 1960, the date of the last published census, was 32,099--consisting of 16,201 on St. Thomas, 14,973 on St. Croix, and 925 on St. John. More recent figures published by the Virgin Islands Bureau of Vital Statistics showed that the population of the Virgin Islands had increased, as of December 31, 1969, to about 74,000--consisting of about 37,000 on St. Thomas, 35,000 on St. Croix, and 2,000 on St. John. St. Thomas is not very large--about 13 miles long and 3 miles wide.

B-171594

The postal activities in Charlotte Amalie, the capital of the Virgin Islands, are housed in three buildings (1) the main post office and customhouse, constructed in 1938, containing 13,000 square feet of space, of which the post office occupies 7,600 square feet and four other agencies occupy the remaining 5,400 square feet, (2) the Kronprindsens Gade Postal Station, containing 3,500 square feet, and (3) the Veterans Drive postal annex building, containing 4,500 square feet. The main post office and the station are located downtown within about 2 blocks of each other, and the annex is located less than a mile from the main post office. (See app. I.)

According to the postmaster at Charlotte Amalie, the volume of mail handled in St. Thomas during fiscal year 1970 was as follows:

	<u>Letters</u>	<u>Flats, magazines and papers</u>	<u>Parcel post</u>	<u>Total</u>
Incoming	22,806,200	6,333,500	527,200	29,666,900
Outgoing	32,892,000	3,856,700	216,100	36,964,800

Preferential mail, such as letters, usually arrives in St. Thomas by air, and other mail (bulk) usually arrives by barge via Puerto Rico. Preferential mail arrives daily and is transported to the main post office for processing and delivery to patrons. Bulk mail arrives at St. Thomas about twice a week and amounts to no more than about three truck trailer loads of mail. The bulk mail is transported to the Veterans Drive postal annex for sorting and transporting to other postal facilities located on the Virgin Islands or for delivery to addressees on St. Thomas. The postal employee complement totaled 76 persons for fiscal year 1970.

PROPOSED FEDERAL OFFICE BUILDING

A GSA prospectus, dated August 1, 1966, proposing construction of a Federal office building in Charlotte Amalie was approved on September 20, 1966, and October 6, 1966, by

B-171594

the House and Senate Public Works Committees, respectively. The prospectus provided that the building contain 68,000 assignable square feet, of which the Postal Service would occupy 23,000 square feet and other Federal agencies would occupy the remainder. > 3100

The original estimated total cost of the building project was \$3,965,000, consisting of \$371,000 for design, engineering, and supervision services and \$3,594,000 for construction and equipment. A site of 77,500 square feet, located about a half mile from the main post office, was acquired for the proposed building from the Virgin Islands Government in September 1966, in exchange for a credit of \$387,700 to be applied against a mortgage owed to the United States by the Virgin Islands Government on property known as the Sub Base which had been acquired from the U.S. Government.

Funds in the amount of \$265,000 for the acquisition of the site and for the design of the building were made available in GSA's fiscal year 1968 appropriation.

In June 1968 GSA awarded an architect-engineer (A-E) contract for \$17,600 to the firm of H. D. Nottingham & Associates, Inc., and Reed, Torres, Beauchamp, Marvel for the preparation of concept sketches and diagrammatic drawings. Options were available to GSA for additional drawings and postcontract award services, if needed, at a cost of \$129,400.

In June 1969 the Assistant Postmaster General for Facilities requested GSA to provide information on the current status and estimated completion date of the construction of the Federal office building at Charlotte Amalie. On August 4, 1969, GSA stated that the design had been scheduled for completion in November 1970. GSA stated also that budgetary restrictions precluded the inclusion of the building in its construction program before fiscal year 1972 and that GSA planned to award a contract in October 1971 for the construction of the building having an estimated completion date of May 1973, if funds were available for that purpose.

On September 4, 1969, the Assistant Postmaster General for Facilities in a letter to the Administrator of General Services urged him to consider including funds for the construction of the Federal office building in GSA's 1971 appropriation request to the Congress. On October 22, 1969, the Administrator replied that, because of the severe fiscal constraints imposed on GSA's construction program, the project had to be deferred. He said that, as a result of the budgetary cutbacks, the earliest that GSA could expect to obtain construction funds from the Congress would be in its fiscal year 1972 appropriation.

On March 2, 1970, the Assistant Postmaster General for Facilities visited Charlotte Amalie, St. Thomas. On this trip he discussed with postal officials and with the owner of land in an area known as Estate Thomas, located about 1-1/5 miles from the present downtown main post office, the possibility of using some of the land as a site for a postal facility. This site was eventually leased by the Postal Service. (See p. 7.)

The New York Postal Region completed a survey of postal space needs in St. Thomas on March 27, 1970. This survey showed that postal space needs had increased from 40 percent to 60 percent over those originally anticipated in the proposed Federal office building. The New York Office recommended that a firm option be obtained on about 3 acres of the privately owned site in the Estate Thomas area because the new space requirements for a postal facility at Charlotte Amalie were greater than the space that could be provided by the proposed Federal office building.

On April 22, 1970, the Assistant Postmaster General for Facilities met with the GSA Commissioner of Public Building Service, and an agreement was reached that, because the Federal office building had a relatively low GSA priority and because postal space needs in Charlotte Amalie had increased, the Postal Service should proceed to obtain its own postal facility. Therefore the Assistant Postmaster General directed the New York Postal Region, on that date, to develop plans

B-171594

using 3.4 acres of the Estate Thomas land for a new leased facility for Charlotte Amalie.

On May 15, 1970, the Postmaster General advised the Administrator of General Services of his plans, based on the prior agreement, as follows:

"Charlotte Amalie - Inasmuch as this project [Federal Office Building] also has low priority on your construction schedule, and our space requirements have increased considerably since the approval of the prospectus, your site is inadequate to accommodate the total space needs. We therefore plan to proceed with this construction of a new leased postal facility, but will retain a station either in the existing or new Federal building to be constructed by GSA."

As a result of various delays, involving consideration of potential flooding of the site and revisions to the diagrammatic drawings, GSA did not approve the A-E tentative drawings until August 1970. A GSA official informed us that, in August 1970, GSA also had suspended further work on the design of the building because of the Postal Service's reduced requirements for space in the Federal office building.

Effects of Postal Service withdrawal

As of April 1971 GSA had spent \$88,000 for design, soil testing, and legal fees on the Federal office building project. By letter dated April 21, 1971, GSA authorized its Office of Construction Management to proceed with the design of the Federal office building on the basis of the reduced space requirements for the Postal Service.

Originally the Postal Service required about 23,000 square feet in the facility. Currently GSA will provide 6,840 square feet for postal use. According to a GSA official, a new contract will be negotiated for the design of the Federal office building, because the change in space requirements necessitates a complete redesign of the building.

B-171594

Therefore it appears that about \$78,000 spent by GSA to August 1970 for design of the building was of little or no value to the Government.

ACQUISITION OF SITE
FOR LEASED POSTAL FACILITY

At the direction of the New York Postal Regional Office, the regional real estate officer in Puerto Rico visited the Virgin Islands on May 7, 1970, to negotiate an option to purchase the 3.4 acres of the Estate Thomas land as a site for the postal facility, but the owner refused to sell the property. The owner proposed a ground-lease arrangement at a minimum price of \$35,000 a year.

The regional real estate officer obtained two appraisals on the privately owned site. The first appraisal, dated September 4, 1970, estimated the value of the 3.4 acres of land to be \$592,590 and the fair rental of the land at \$59,259 a year. The records showed that the New York Postal Regional Office had rejected the appraisal because it contained deficiencies. Subsequently the regional real estate officer obtained another appraisal; this appraisal, dated October 8, 1970, estimated the value of the site to be \$440,850 and the fair rental value of the land at \$39,675 a year.

On August 31, 1970, the regional real estate officer estimated that the total annual rental for a leased postal facility constructed on the leased site would be \$155,570, consisting of \$35,000 for the land and \$120,570 for the building, including maintenance and insurance.

On November 13, 1970, an assignable ground lease was executed by the owner and the Postal Service. The assignable ground lease, which will be assigned to a contractor for the construction of a leased facility, has a basic 20-year term with five 5-year renewal options and provides for rental of \$35,000 a year.

The lease provides also that construction of a facility begin before 30 months elapse from the date of the lease and that, during this period, the Government may terminate the lease upon 30 days' written notice to the owner. Also, during this period and until the building has been accepted, the Postal Service must pay a rental of \$500 a month, or \$6,000 a year. The rental of \$35,000 a year for the basic term of 20 years is to begin on the date that the building is accepted by the Postal Service.

On the basis of our examination of the Postal Service and its regional office files and of interviews with postal and other cognizant officials, we were unable to determine conclusively how the site came to the attention of the Postal Service. Various Postal Service officials told us that no other suitable sites were available on St. Thomas. During our visit, however, we noted several federally owned sites of sufficient size to accommodate the proposed postal facility. Details on these sites are discussed on page 11.

CURRENT STATUS

On October 7, 1970, the New York Regional Office completed the preliminary design of the proposed leased postal facility, containing 35,000 square feet of space, and submitted the design to the Virgin Islands Planning Board for approval.

On October 22, 1970, the planning board approved a change in the zoning for the proposed site for use as a post office. The board stated, however, that the structure proposed by the Postal Service was unacceptable. The board's minutes did not state the reasons for the structure being unacceptable. (See app. II.)

According to the postal regional real estate officer, the planning board indicated that the building should conform to other Danish-style buildings on the Island. The New York Postal Regional Office changed the design of the building to incorporate a Danish facade for its front elevation, a peaked shingled roof, arches, and other Danish architectural features. However, our discussion with the planning board director and the minutes furnished to us of the planning board meetings did not confirm this requirement.

The new design was completed by the New York Regional Office in December 1970 and was transmitted to the planning board on January 9, 1971. The board approved the design in May 1971. As of June 5, 1971, the Postal Service had not advertised for contracts for the construction of the proposed leased facility due to its recent reorganization. According to a postal official, when construction of the new leased postal facility is completed, the Postal Service plans to abandon the Kronprindsens Gade Postal Station and to retain the other existing postal facilities.

AVAILABLE ALTERNATIVES
TO EXISTING ARRANGEMENT

We believe that the Postal Service entered into a costly ground lease for a site for the proposed postal facility without giving adequate consideration to other available alternatives. The rental of the ground lease of 3.4 acres of land will amount to \$700,000 over the basic term of the 20-year lease. Moreover the estimated rental for the leased facility, including the land, will be about \$3.1 million for the 20 years. In addition, the rental payments will be considerably higher if the facility is leased beyond the basic 20-year term.

We believe that the following less costly alternatives were, and still are, available for consideration by the Postal Service.

Purchase leased site

The Postal Service has the delegated authority from GSA to construct post offices. On July 1, 1971, pursuant to provisions of the Postal Reorganization Act, the new Postal Service acquired construction and funding authority to build needed facilities. On the basis of the Postal Service's current and projected increased mail volumes and space requirements in St. Thomas, there seems to be a long-range need for a new postal facility.

Therefore we believe that, if the site currently under ground lease is in fact the ideal location, the Postal Service could condemn the site for postal use, purchase the land, and construct a Government-owned building. The Postal Service, upon 30 days' notice, has the option of withdrawing from the ground lease at any time within the initial 30-month period. (See p. 7.)

The Postal Service did not make an analysis to determine whether it was more advantageous to buy or lease the land. According to a recent appraisal accepted by the Postal Service, the estimated value of the 3.4 acres is about \$130,000 an acre.

Our comparison between the cost of Government ownership of the land and the cost of leasing the land, using three discount rates and assuming that the residual value of the land after 20 years did not increase, is as follows:

	20-year period present value		<u>Difference</u>
	<u>Lease</u>	<u>Ownership</u>	
At 7-percent discount rate:			
Lease payments	\$370,790	\$ -	
Land cost (estimated)	-	440,000	
Residual value (cost)	-	<u>-113,704</u>	
Total	<u>\$370,790</u>	<u>\$326,296</u>	<u>\$44,494</u>
At 8-percent discount rate:			
Lease payments	\$343,635	\$ -	
Land cost (estimated)	-	440,000	
Residual value (cost)	-	<u>-94,401</u>	
Total	<u>\$343,635</u>	<u>\$345,599</u>	<u>\$-1,964</u>
At 9-percent discount rate:			
Lease payments	\$319,508	\$ -	
Land cost (estimated)	-	440,000	
Residual value (cost)	-	<u>-78,499</u>	
Total	<u>\$319,508</u>	<u>\$361,501</u>	<u>-\$41,993</u>

The table shows that, at a 7-percent discount rate, it is more economical for the Government to own, rather than to lease, the land and that, at a discount rate approaching 8 percent, a break-even point is reached. These computations do not make any allowance for future increases in land values.

The annual increase in land values on St. Thomas from July 12, 1965, to July 20, 1970, has been estimated by the Postal Service to be about 20 percent, on the basis of opinions of real estate operators and appraisers on St. Thomas whose estimates ranged from 20 percent to 40 percent, depending on the desirability of the land parcels. According to Virgin Islands Government officials, land values are expected to double within the next 3 to 5 years.

If the value of the land increases at the rate that the Virgin Islands Government officials expect, the 3.4 acres having an appraisal value of \$440,000 in 1970 would be worth about \$260,000 an acre, or a total of \$884,000, at the end of 5 years. In view of the anticipated future increases in land values, we believe that, even at discount rates higher than 8 percent, it would be more economical for the Government to purchase, rather than to lease, the land. This benefit, however, would be reduced by any condemnation costs incurred by the Government.

Locate facility on Federal property

Information obtained from the Office of Territories, Department of the Interior, indicates that the Federal Government owns various parcels of land on St. Thomas which, we believe, should be considered for a postal facility.

The Virgin Islands Government has the use of most of this land through revocable permits from the Department of the Interior. For example, one revocable permit issued by the Department is for the use of 50 acres of land, located on a main road about 1 mile from the business district, on which there is a dock where bulk mail could be received. For a map of available Federal lands see appendix I. Even though the Federal Government has transferred title to considerable amounts of land to the Virgin Islands Government, there still remains a considerable amount of federally owned acreage on St. Thomas.

We were informed by an official of the Office of Territories, that, if for some reason the Federal lands should be undesirable for postal use, the Department of the Interior probably could exchange land with the Virgin Islands Government to obtain a suitable site without exchange of funds.

Virgin Islands Port Authority landfill

The Port Authority of the Virgin Islands plans to initiate a landfill project which seems, in our view, to be in a suitable location for the proposed postal facility on St. Thomas.

On March 8, 1971, we discussed, with the executive director of the Virgin Islands Port Authority, the authority's functions, the property under its control, and the possibility that some of its land could be acquired as a site for the proposed postal facility. He told us that the port authority's functions included the management of its land, the administration of long-term leases of the land, landfill projects, and the lease of the created land.

The executive director said that the port authority would shortly start a landfill project of about 43 acres in the Sub Base area of St. Thomas and that the landfill probably would be ready so that construction of buildings could begin by the middle of 1972. He said also that the land would be located less than a mile west of the present Veterans Drive postal annex, would have docking facilities that could be used to receive bulk mail, and would be close to the airport from which other mail was received on St. Thomas.

The executive director estimated that the sales price for each acre of the created land would be about \$60,000, or about \$240,000 for the 4 acres needed by the Postal Service for its proposed facility. On the basis of the present value, at a 9-percent discount rate of the 20-year ground lease, a cost reduction of \$122,326 could be achieved if this site were purchased, rather than leased, for the proposed postal facility. At discount rates lower than 9 percent, the cost reduction would be greater.

Design of facility

The design of the proposed postal facility provides for two wings, 80 feet long and 60 feet wide, to be placed in the front of the main structure to form a U-shaped building having a covered arcade between the wings. (See app. II.) The revised design provides also for a Danish facade, including arches. (See app. III.) For comparison purposes, see appendix IV, which shows the box or rectangle design usually used by the Postal Service for this size postal facility.

According to a Postal Service official in the Building Design Division, the U-shaped building and the Danish arches, on the basis of the Postal Service's estimated construction costs, will probably increase construction costs about \$85,000.

CONCLUSION

We believe that the Postal Service did not consider available, less costly alternatives for the proposed postal facility or determine whether it would have been advantageous to procure a site and construct the postal facility for Government ownership before entering into a costly ground lease of land on which to have a leased facility constructed. In addition, we believe that the facility proposed by the Postal Service, because of its design, may result in a higher-than-normal cost per square foot, which will be passed on to the Postal Service in the form of higher rental rates.

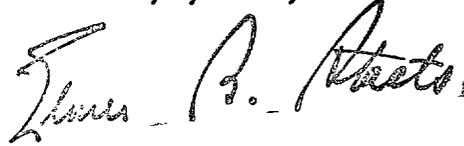
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We have not requested the Postal Service to review or to formally comment on the information in this report. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution

B-171594

only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,

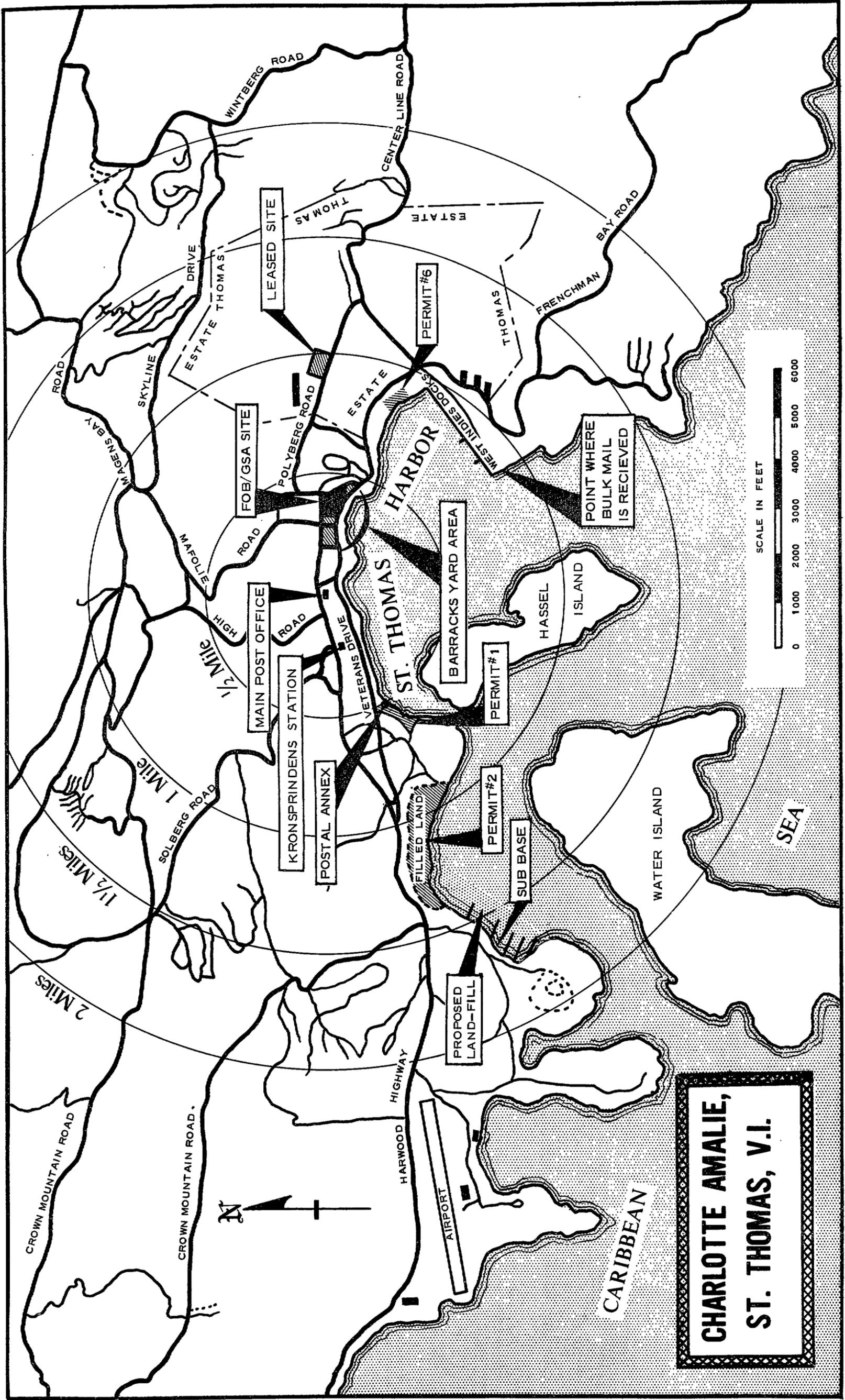
A handwritten signature in cursive script, appearing to read "James B. Axtell".

Comptroller General
of the United States

The Honorable Kenneth J. Gray, Chairman
Subcommittee on Public
Buildings and Grounds
Committee on Public Works
House of Representatives

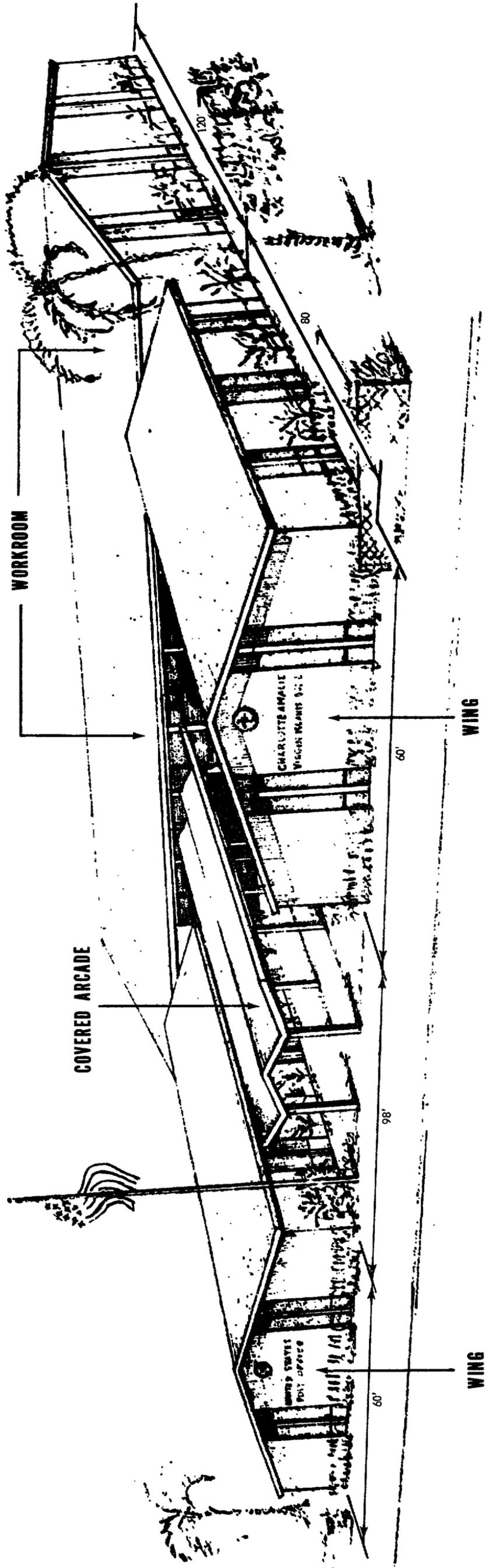
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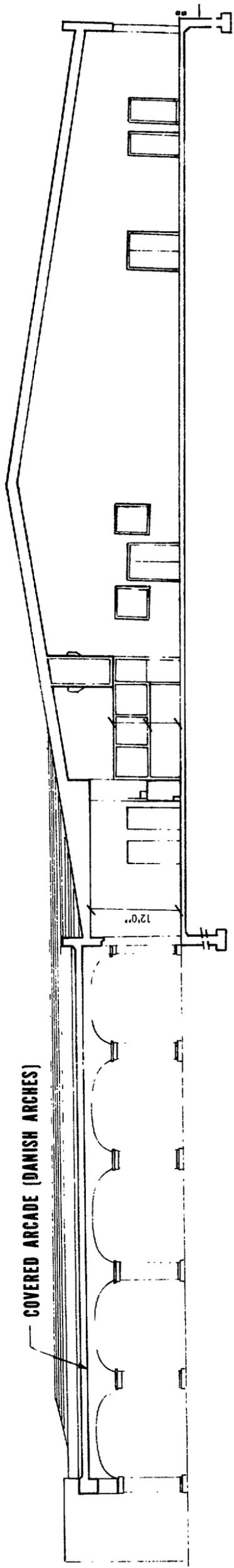


**CHARLOTTE AMALIE,
ST. THOMAS, V.I.**

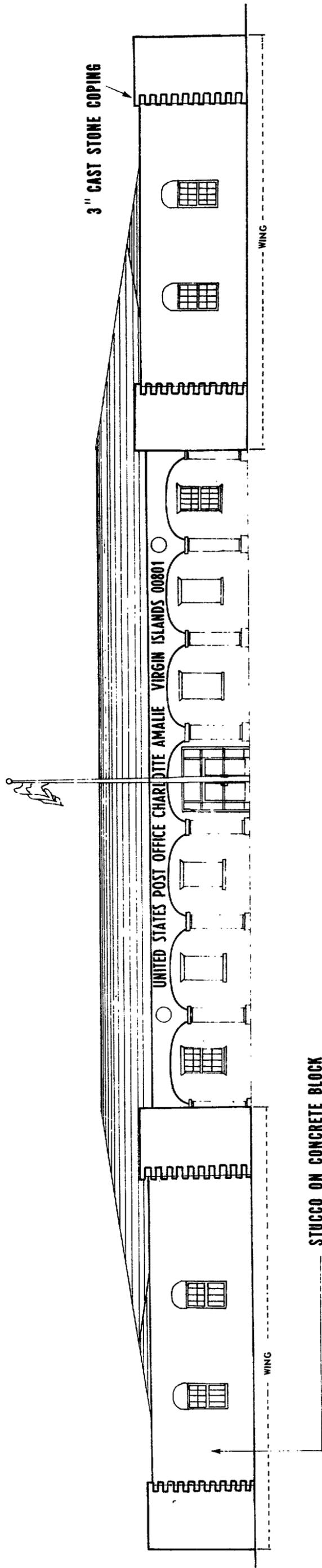
PROPOSED POST OFFICE, CHARLOTTE AMALIE, V.I.
PRELIMINARY DESIGN



PROPOSED POST OFFICE, CHARLOTTE AMALIE, V.I.
FINAL DESIGN



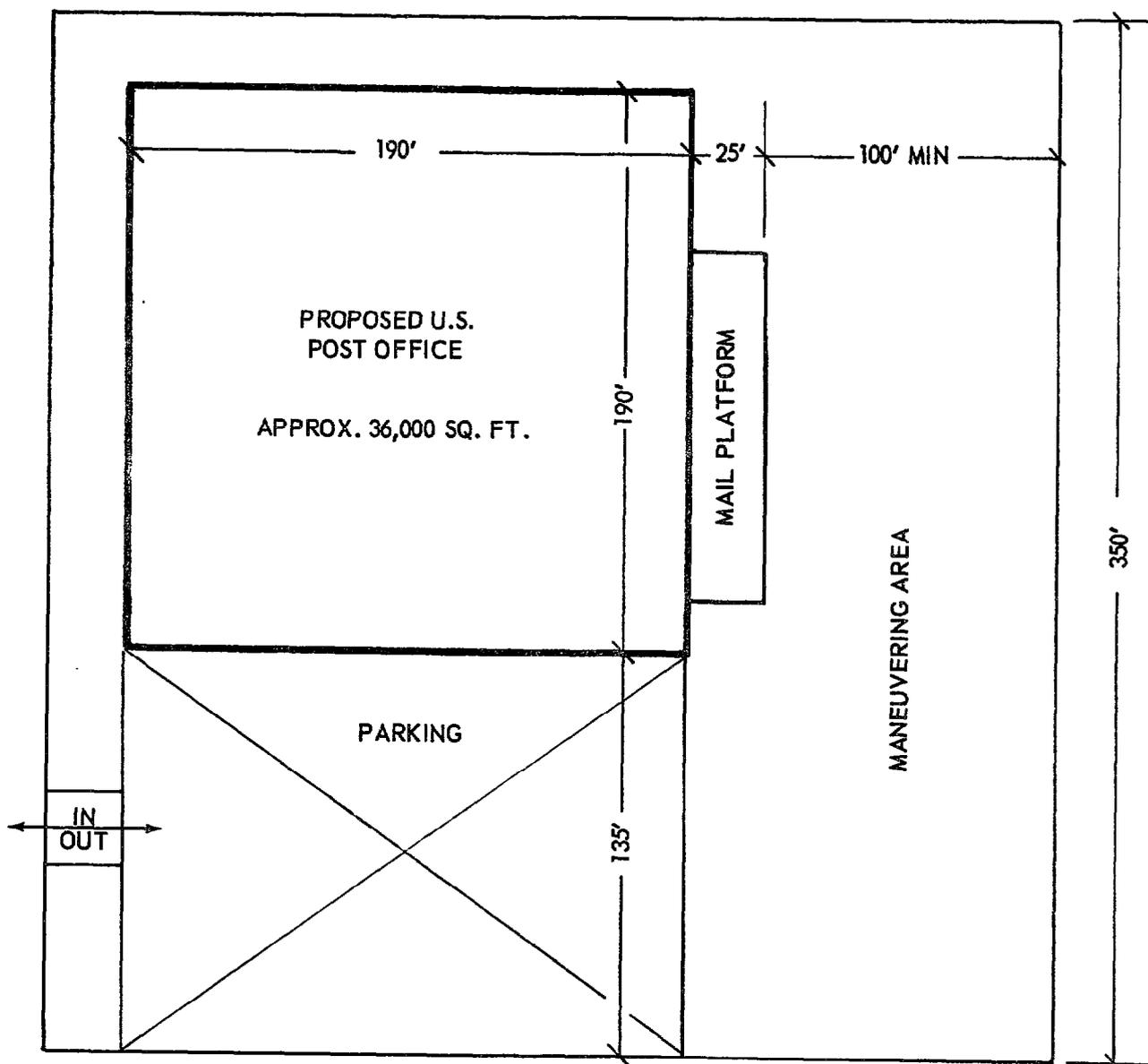
SIDE SECTION



FRONT ELEVATION

PROPOSED SITE PLANS CHARLOTTE AMALIE, V.I.

PLAN-Ⓐ



PROPOSED SITE PLANS CHARLOTTE AMALIE, V.I.

PLAN-(B)

