

AUSPL CONFERENCE 2014

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March 2014

- **USPS – STATE OF THE UNION**
- **USPS – FACILITIES REORGANIZATION**
 - **Leasing**
 - **New - Conflict of Interest Forms**
 - **Maintenance (EMCOR)**
 - **Purchase Existing Building (PEB) considerations**
- **REAL ESTATE TAX ABATEMENT PROGRAM**
- **AUSPL/USPS COOPERATIVE OPPORTUNITIES**
- **QUESTIONS AND ANSWERS**

USPS

STATE of the UNION

- **What is the financial stability of the USPS?**

The USPS ended the first quarter of its 2014 fiscal year (Oct. 1, 2013 – Dec. 31, 2013) with a net loss of \$354 million. This marks the 19th of the last 21 quarters that it has sustained a loss. Though the Postal Service has been able to grow revenue by capitalizing on opportunities in Shipping and Package Services and has aggressively reduced operating costs, losses continue to mount due to the persistent decline of higher-margin First-Class Mail, stifling legal mandates, and its inflexible business and governance models.

- **What new avenues is the USPS considering for increasing revenue?**

- The Postal Service's shipping business continues to show solid growth. Shipping and Package revenue increased \$479 million or 14.1 percent over 2013 first quarter results, fueled by the growth of online shopping, Sunday deliveries in limited U.S. markets and the ongoing success of Postal Service campaigns to promote the value of Postal Service shipping services.
- The Postal Service continues to capitalize on its competitive advantage in providing "last mile" service, resulting in a 34.3 percent increase in revenue from Parcel Return and Parcel Select Service over the same period last year.

- **What would most likely happen if Postal Reform is not successful and the USPS runs out of money?**
 - Without legislative change, the Postal Service will be forced to default on another required \$5.7 billion retiree health benefits prefunding payment due by Sept. 30, 2014, because it will have insufficient cash and no ability to borrow additional funds at that date.
 - The Postal Service will continue to have a low level of liquidity through October 2014. In the event that circumstances leave the Postal Service with insufficient cash, the Postal Service would be required to implement contingency plans to ensure that all mail deliveries continue.
 - These measures could require the Postal Service to prioritize payments to its employees and suppliers ahead of some payments to the federal government, as has been done in the past.

USPS

FACILITIES REORGANIZATION

When - October 1, 2012

What Changed - Converted from a decentralized FSO structure to a centralized product line structure.

New Lines of Business -

- Planning
- Implementation
- Repair & Alteration
- Asset Management
- Leasing
- Program Support

BENEFITS OF NEW FACILITIES STRUCTURE:

- **Centralized management:**
 - Ability to manage the entire portfolio

- **Uniform processes and policies**
 - No varying processes and interpretations depending on the office

- **Resource management**
 - Flexibility to reach out to the entire department and adjust resources as the workload shifts

USPS LEASING

What this means for our Landlords

Lease Administration including tax & CAM payments, change of ownership, rent checks, etc.	USPS - FCT (Facility Contract Tech)
Lease Interpretations and general questions	USPS - RES (Real Estate Specialist)
RENEWAL option negotiations <u>UNDER \$25K</u>	USPS - RES (Real Estate Specialist)
RENEWAL option negotiations <u>OVER \$25K</u>	CBRE
NEW LEASE negotiations	CBRE

**Real Estate Analyst
Kiesha Chambers**

**Admin Asst
Eileen King**

**Manager Real Estate
Leasing
Karen LaFave**

**Ebuy Process
Contractors**

Denver Office

Greensboro Office

**Contracting Officer-TL
Laureen Yamakido**

**Leasing TL
Diana Alvarado**

**Contracting Officer-TL
Michael LeGrand**

**Leasing TL
Rufus Hambricht**

**Facilities Cont Tech
Reina Luongo**

**Administrative Asst
Susan Lam**

**Real Estate Spec
Debra Davis**

**Facilities Cont Tech
Shelby Hedrick**

**Administrative Asst
Susan Thompson**

**Real Estate Spec
Geoffrey Gregg**

**Facilities Cont Tech
Denise Stobbe**

**RES Prop Manager
Robb Groetzinger**

**Real Estate Spec
Perlene Campbell**

**Facilities Cont Tech
Roger Fuller**

**Real Estate Spec
John Gordon**

**Facilities Cont Tech
Diana Heyburn**

**RES Prop Manager
Brenda Myers**

**Real Estate Spec
Michael Loughnane**

**Facilities Cont Tech
Pamela Prevo**

**RES Prop Manager
Judy Starykowicz**

**Real Estate Spec
FranklinTate**

**Facilities Cont Tech
Eva Hung**

**Real Estate Spec
John Logan**

**Real Estate Spec
William McMurry**

**Facilities Cont Tech
Shirley Brown**

**RES Prop Manager
Robin Delieto**

**Real Estate Spec
Christopher Madden**

**Facilities Cont Tech
Vangie San Juan**

**Real Estate Spec
Michael New**

**Real Estate Spec
Shirley Wheeler**

**Facilities Cont Tech
Ruth Stiehl**

**Real Estate Spec
Paul Frye**

**Real Estate Spec
James Hickey**

**Facilities Cont Tech
Michelle Mohammady**

**Real Estate Spec
Dean Cameron**

**Real Estate Spec
(Vacant)**

**Facilities Cont Tech
Auman+Adams**

**Real Estate Spec
Abby Feinstein**

**Real Estate Spec
Jamie Jackson**

**Facilities Cont Tech
Laurel Palleson**

**Real Estate Spec
Yadi Semper**

**Real Estate Spec
Bob Rizzuto**

**Facilities Cont Tech
Melva Neal**

**Facilities Cont Tech
Michael Bagnuolo**

**Facilities Cont Tech
Debra Schmaus**

LEASING – POINTS OF CONTACT

LEASING – GREENSBORO OFFICE

- Eileen King (201) 714-7421 Eileen.T.King@usps.gov
 - Frances Elshahat (201) 714-7414 Frances.Elshahat@usps.gov
-

LEASING - DENVER OFFICE

- Julie Banks (415) 550-5122 Julie.A.Banks@usps.gov
 - Michelle Mohammady (415) 550-5121 Michelle.J.Mohammady@usps.gov
-

WHEN CALLING FOR QUESTIONS – PROVIDE

- Facility: Name
- Facility: Fin/Sub (xxxxxx-xxx)
- Facility: Address, City, State, Zip
- Caller: Name, phone number, email address (if available)

USPS CONFLICT OF INTEREST CERTIFICATION

What is a Potential Conflict of Interest

A Landlord who is ALSO one of the following:

- i. Is a Postal Service employee
- ii. The spouse of a Postal Service employee
- iii. A family member of a Postal Service employee (if yes...name relationship)
- iv. An individual residing in the same household as a Postal Service employee
- v. A controlling shareholder or owner of a business organization leasing space or intending to lease space to the Postal Service and I am one of the individuals listed in (i) through (iv) above.

NEW: Conflict of Interest Certification (COI) Form

Who: ALL Landlords must sign this new COI form.

What: The COI form is a one page standard format.

When: Effective - March 2014. Landlords must sign a COI form at EACH renewal and / or new lease negotiations, plus at any change of ownership.

Why: The COI form is required to satisfy Postal Service conflict of interest rules.

Goal: Leases with no conflicts of interest.

What happens if there is a potential conflict: The Legal / Ethic Department will review the lease and determine if a conflict actually exists. If a conflict exists, then appropriate measures will be taken to attempt to resolve the conflict.

What does USPS do with the Certification Form?

- **If Landlord IS NOT** any of the described categories, the Landlord checks “none of the above”, signs and returns the form. The form is filed with the lease.
- **If Landlord IS one of the described categories**, the Landlord will check the appropriate category, fill in any required information, sign and return the form to the lease negotiation point of contact. Internally, the form will be sent to the Legal / Ethics Department for review.
 - If Ethics determines NO conflict actually exists a response of “no conflict” will be sent to the TM / RES and the lease negotiations will proceed.
 - If Ethics believes a conflict DOES exist, an attempt to resolve the conflict will take place. USPS (through the TM / RES) will state any further conditions necessary for a lease to proceed. The Landlord will have the opportunity to review and agree or disagree with such conditions. Agreement would enable TM / RES to proceed with the lease negotiations.

HOW can LANDLORD HELP the LEASING TEAM?

■ CHANGE OF OWNERSHIP INFORMATION

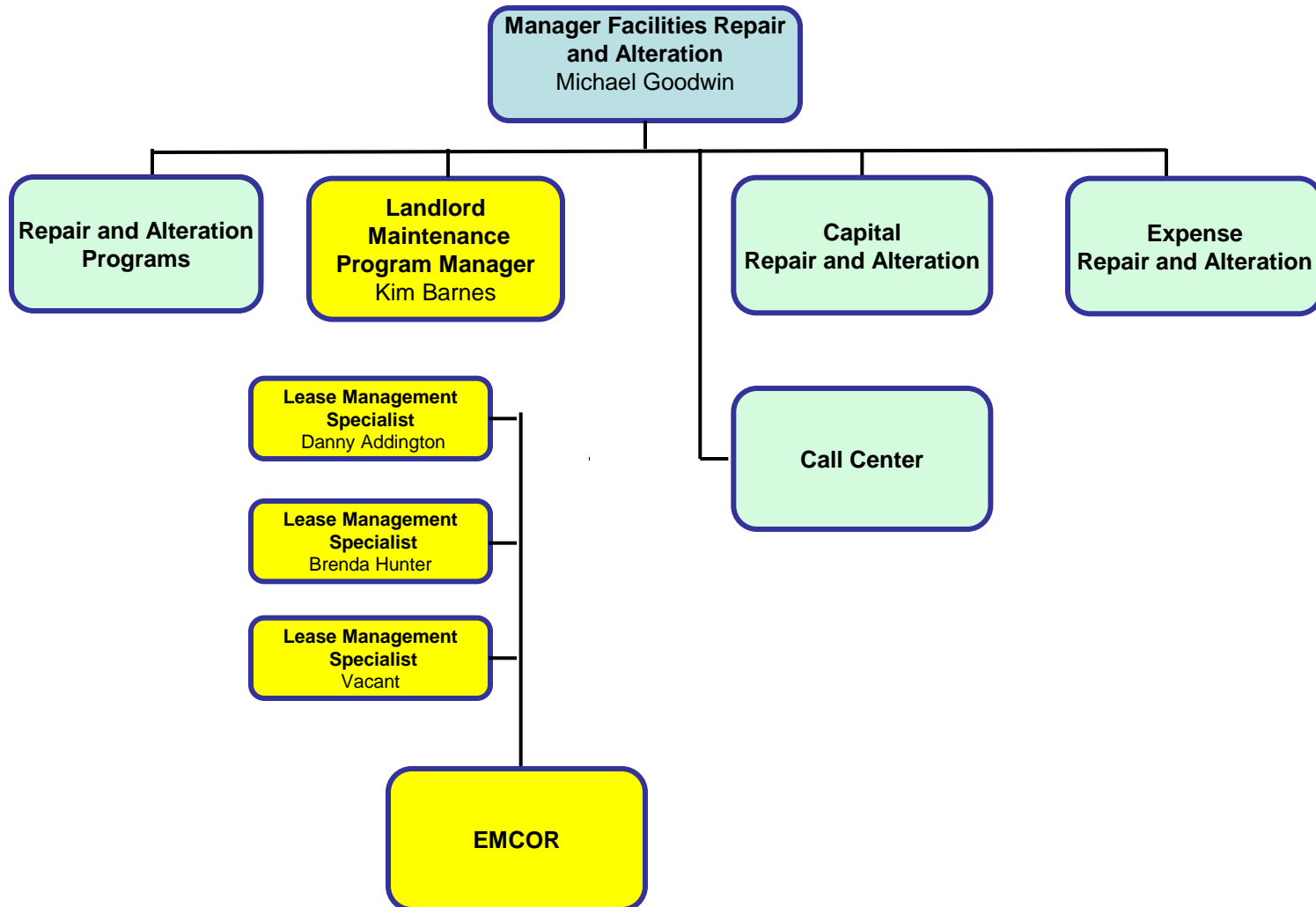
- When SELLING a Property – Landlords please contact USPS (FCT) when preparing to sell a buildings so a Change of Ownership package can be sent out in advance.
- When a party to the lease is DECEASED - USPS also needs notification so that records and contact information can be updated.

■ SHORTEN NEGOTIATION TIME

- Return the Conflict of Interest Certification within 10 days to the TM / RES.
- Minimize response times from both sides (USPS and Landlord).
- Improve Landlord's communication with CBRE TM who represents USPS. Shorten response time between parties.
- Finalize negotiations far in advance of the expiration date.
- **GOAL** – sign all lease renewals minimum of 1 year ahead of expiration date.

USPS MAINTENANCE

Facilities Repair and Alteration



MAINTENANCE TEAM

- **Full-Time USPS Program Manager for Maintenance Issues**
 - Dedicated Contracting Officer
 - More Program Visibility

- **EMCOR Customer Solutions Center**
 - Replaced in-house contractors
 - Designated sub-contractor under CBRE Real Estate Services Contract
 - Centralized staff
 - Increased focus on timely resolution of needed repairs and emergency enforcements
 - Standard Operating Procedures using Best Practices for maintenance issues
 - Phoenix location provides extended business hours coverage

MAINTENANCE GOALS & RESULTS

▪ GOALS

- Streamlining standard operating procedures to reduce cycle time
- Cleaning up backlog of aging projects
- Updating landlord notification letters
- Improving communication (both internal and external)
- Accelerate Landlord reimbursements on Postal expenditures

▪ RESULTS

- Economy of scale with centralized staff
- Communication greatly improved with single points of contact
- Common understanding of USPS leases with Maintenance Staff
- Lower overhead costs for USPS

EMCOR RESULTS

- **33,000 Problems Completed Since Beginning of Program**
 - Increased focus on prompt resolution of identified problems
- **1,447 Problems Enforced (4% of Completed Problems)**
 - Focus on accelerating reimbursements on Postal expenditures

Communication Process for Maintenance Issues

- Postmaster is primary point of contact regarding maintenance concerns.
- Postmaster contacts Repair & Alteration (R&A) Call Center to report building repair requirements.
 - Postmaster coordinates cleaning issues with Maintenance.
- USPS responsible building repairs are assigned to a project manager for resolution.
 - Kim Barnes' team is focused on landlord responsible maintenance.
- **If not satisfied with Postmaster response, contact Kim Barnes at 303-227-5635.**

HOW can LESSORS HELP the MAINTENANCE TEAM?

■ **EMERGENCIES**

- Maintain list of primary subcontractors available on short notice
- Prepare in advance of storms (board up for hurricanes, etc.)
- Make certain Postmaster and Facilities has current contact information to include cell phone and alternate contact.
- Provide on-going status of repairs following emergencies, especially those requiring evacuation of the Post Office

■ **MAINTENANCE / REPAIRS**

- Perform an annual property inspection
- Identify and proactively correct maintenance issues
- Respond promptly to USPS requests

USPS

PURCHASE OF EXISTING BUILDING PROGRAM (PEB)

Program GOALS

- **Search** - Where does USPS have an option to purchase
- **Analyze** – all available options
- **Determine** - Is owning or leasing in USPS best interest
- **Decide** - Make best decision possible

USPS

TAX ABATEMENT PROGRAM

Tax Abatement Program

- Implemented In 2005
- Goal - to **reduce** USPS overall real property tax liability
- Process - evaluate single tenant net leased properties
- Team - USPS uses 4 consulting firms specializing in property tax
- Volume - Approximately 10,000 net leases per year are reviewed
- Lease Language - This process is allowed by the Lease Rider
- Lessor Participation
 - Does not typically require participation from the Lessor
 - On occasion may need Landlord to provide specific information and/or provide signature on required form

Results – In FY13 USPS saved \$3.4M

USPS & AUSPL

COOPERATIVE IDEAS

AUSPL Suggestions:

- **Landlord managed repairs that are responsibility of USPS**
 - These types of projects require a willing and **qualified/capable** landlord and or landlord's contractors. Landlord must pay Davis Bacon wage rates, so significant cost savings are unlikely. **USPS will keep maintenance responsibility and discuss transfer to Landlord responsibility at lease renewal.**

- **Landlord finance repairs and amortize payment** over one - two year period.
 - Postal Service would pay more in the long run due to interest paid on amortization. **Could potentially be ruled in conflict with our debt ceiling.**

USPS Suggestion:

- **Development of a Green Partnership Program Pilot.**
 - Form AUSPL/USPS committee to evaluate possible energy saving initiatives and tax credits.

QUESTIONS & ANSWERS

- **What efforts is USPS making to add value services to existing offices such as banking?**

USPS is looking at every avenue we can legally do.

- **What is the USPS thinking relative to CBRE negotiations and charging a transaction fee versus a percentage commission (based on the fact that the same amount of work is involved in a lease that is \$25,000 per annum and one that is \$125,000 per annum as an example?)**

Landlord can choose to negotiate with CBRE.

- **What is the probability that the USPS will start closing more small town post offices in the near future? Don't Fed Ex and UPS rely on these buildings staying open?**

The answer is tied with the new Postal Reform.

- **Will POSTPlan post offices continue to operate long term? Are they more susceptible to closing?**

As of what is known today, the POSTPLAN determines the future of each location.

- **When USPS reduces hours from eight to six, four or two hours per day and leaves the box lobby open, who is responsible in case of vandalism?**

Per the lease. Any repairs to the building remain the same responsibility as stated in the lease.

- Can we receive written confirmation of the amount of tax being reimbursed?

If asking about the Tax Abatement Program, Yes.

- When we deal with CBRE agents it often seems as if they are lacking knowledge of the post office leasing program. What training is given individual agents before they begin working on leased facility renewals? Do you think they should be familiar with the law regarding post offices and the landlord/tenant relationship codified in US Code section 39?

CBRE is trained on USPS processes.

- Has the USPS considered selling postal owned facilities to investors, who could then lease back the desired buildings to USPS?

Yes, but this is not in the best interest of USPS.

- Given the unlikelihood of invoking termination clauses, why does the USPS still insist on including termination clauses on 5 year renewals?

USPS is focusing on termination clauses for two hour offices and other locations which need flexibility.

- In situations where the property taxes are higher than they should be, would the USPS consider filing an appeal with the lessor to reduce the assessment, even if there is some up front expense?

Good question – Yes, USPS already has a program for review of taxes and seeks tax abatement when possible.

- **When the USPS fails to perform necessary maintenance, how should the lessor address this?**
First contact the Postmaster. Postmasters are responsible for calling building related problems into the Facilities Response Line. If the landlord feels he/she is not getting an adequate response, they can elevate their concerns to Kim Barnes, Landlord Maintenance Program Manager at (303) 227-5635.

- **What can we, as an association, do to help the USPS?**
See recommendations noted in previous slides.

- **It would seem that our network of rural post office buildings could be a great resource as the parcel business continues to grow. Why doesn't the postal service work with on line retailers to encourage customers to pick up parcels at their local post office?**
Marketing works hard on this issue and we do this in some places.
 - a) **Follow-up- Both husbands and wives are working in the majority of households in America today. There is often no one available to receive parcels. Why not open for parcel pick-up at convenient non-working hours to encourage more retail traffic?**
USPS just introduced Postal Lockers for this situation.

- **Reduced operating hours at POSTPlan buildings is a better alternative than closure, but certainly is not convenient for customers. Would the Postal Service ever consider allowing communities to support their local post office and extend its hours with volunteer workers? Even if these workers could not offer full retail services, perhaps they could extend box lobby and parcel pickup hours.**
Do to the Labor structures, we cannot take USPS jobs away from paid workers.

- Postal facility reviews by the Postal Service and other oversight agencies conclude that leased and owned post offices are not being maintained to an acceptable standard. At time of renewal, why doesn't the Postal Service ask lessors to take care of necessary deferred maintenance and simply amortize the cost over the lease term?

Due to our unique financial structure at USPS this could be a problem with our Debt Ceiling.

- Lighting and HVAC equipment upgrades have a very short payback period in many markets. Why doesn't the Postal Service allow lessors to complete these upgrades and amortize the cost over the 5 year renewal? USPS would pay for the upgrades with energy savings through reduced operating cost.

Over last 5 years USPS has implemented the most aggressive energy program of all Government offices. We will continue to look at opportunities.

(a) Some energy projects such as solar make more economic sense on leased buildings than postal owned because lessors can take advantage of tax and other rebates unavailable to the Postal Service. Would you support the development of a national solar program for leased buildings?

Yes

- Many of our leases include purchase options to the Postal Service. Would you explain the criteria currently being used to determine whether or not to exercise the option?

We do a full evaluation by comparing Buy versus Lease.

- **What is the remaining term of the CBRE contract and, when it expires do you intend to seek competitive bids for real estate services? Would you consider multiple contracts instead of just one?**

After a competitive bid and evaluation process, USPS awarded a 4 year contract to CBRE in 2011 (ending in 2015), with 2 options for renewal (each renewal is for 2 additional years).

- **Will the Postal Service be moving toward transmitting all data via landlines in the near future and if so will the satellite and radio antennas installed on leased buildings be removed in the near future? There are numerous facilities where this equipment has been abandoned in place, including on the roof.**

Dealt with on a case by case basis

- **What is the USPS policy on providing notice to Lessors when modifications are made to a leased facility?**

We follow the lease language. In general, the Postal Service lease language has no obligation to notify the Landlord of modifications to a facility. There are exceptions to this rule, however (building expansions being one example), and some leases will specifically address modifications.

- (a) Do the lessors become responsible for modification if lessor has maintenance?**

If USPS adds new components to a building - USPS is responsible through the end of the existing lease term. With the new lease the new components becomes Landlord's responsibility.

If USPS replaces a component Landlord originally furnished in lease - then the Landlord is responsible. The maintenance obligation is not limited to the equipment provided at the outset of the lease.

- The Postal Service has moved to a centralized maintenance call out (EMCOR) system. Since postmasters are either no longer available or allowed to participate in maintenance decisions, would the Postal Service consider allowing lessors to call EMCOR when we find a maintenance issue the USPS is responsible for completing?

EMCOR does not have the capability to enter new problems into USPS tracking system. The Postmaster/Area Post Office (APO) Postmaster is responsible for calling in facility problems and is the Lessor primary contact for maintenance issues. If you do not get results with the Postmaster, please contact Kim Barnes.

- Fair Market Value for rural post offices is still an obstacle for positive negotiations. Most talks focus on other post offices in a 3 digit area but does not take into consideration the age or architectural amenities. The result is rents being as much as 30% apart. Would you consider working with the lessors to define the model used for rural properties? It would go a long way toward expediting a new lease.

Yes

- I would like to ask Mr. Samra to put on an "AUSPL Investor Hat" and ask him what criteria he would use to either retain an owned/leased post office or purchase one from a current investor? And, if buying or selling, what ROI would he consider to be a fair one?

We're BROKE, can't buy a thing!!

- How can so few USPS Contracting Officers adequately review all of the documents submitted to them for review prior to them approving them?

USPS has a number of individuals across the country with Contracting Officer authority.

- Will you be authorizing CBRE officials to have contracting officer authority for any type of real estate contracts?

No

- How will the new Leasing Team alignment affect lessors? Will it change who lessors contact for issues other than lease negotiations?

Contact for issues other than lease negotiations is per the Leasing Contact Chart shown earlier.

- Has the USPS engaged GSA in discussions for how they could benefit from the vast portfolio of USPS locations throughout the country? For example, could certain federal government organizations use the post office on either occasional, part-time, or a full time basis for office space or other uses?

Yes, for example the GSA leases one of USPS buildings for an immigration initiative.

- **Why can't CBRE perform all services that a career USPS Real Estate Specialist has done with us in past lease negotiations? For example, if I want to negotiate with CBRE to require the USPS to perform certain maintenance actions on the building that the USPS is supposed to do the response from CBRE is that it is not within their scope of work to negotiate such issues and cannot be made a part of the negotiations. Or, if I want to negotiate some language revisions into the Lease Agreement, the CBRE broker is clueless on what can or cannot be modified in the standard lease agreement. As a result, they must interface with someone else in the USPS or they simply try to persuade us that they cannot engage in such discussions.**

CBRE can. When the Landlord makes an offer to CBRE; state all your concerns or requested conditions, and we will respond. Please remember, certain legal requirements in the lease language must be kept.