

Update Notice

Handbook F-66, *General Investment Policies and Procedures* November 2005

(Note: The vertical bars adjacent to the text in this online *General Investment Policies and Procedures* indicate *Postal Bulletin* updates have been incorporated.)

Handbook F-66, *General Investment Policies and Procedures*, published November 2005, has been updated with *Postal Bulletin* articles through October 11, 2007, as follows:

This chapter, subchapter, part, or section...	titled...	was updated to...	in <i>Postal Bulletin</i> issue number...	with an issue/effective date of...
Chapter 2, Delegations of Approval Authority				
2-4	Delegated Authority for Capital Investments	clarify the delegation of approval authority for capital investments.	22178	4-13-2006
Exhibit 2-1	Delegations of Approval Authority	specify that only the vice president of Facilities has the authority to approve repairs and alterations capital investments up to \$5 million.	22217	10-11-2007
		clarify the delegation of approval authority for capital investments.	22178	4-13-2006

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General Investment Policies and Procedures

Handbook F-66

November 2005
Transmittal Letter

- A. Purpose.** This revised edition of Handbook F-66, *General Investment Policies and Procedures*, updates the policy and procedures for Postal Service investments to ensure that projects adhere to the *Strategic Transformation Plan 2006–2010* strategy to reduce costs, including the commitment to enhance corporate financial responsibility and to continue to invest in equipment, technology, and facilities. This handbook replaces the February 2002 edition.
- B. Explanation.** The following manuals are the source information related to the Postal Service's investment policies and processes. This handbook is one of six modules that are published and distributed separately. The following handbooks (and the F-66 itself) are used to address the unique requirements associated with specific investment types:
- Handbook F-66, *General Investment Policies and Procedures*.
 - Handbook F-66A, *Investment Policies and Procedures — Major Facilities*.
 - Handbook F-66B, *Investment Policies and Procedures — Major Equipment*.
 - Handbook F-66C, *Field Investment Policies and Procedures*.
 - Handbook F-66D, *Investment Policies and Procedures — Business Initiatives, Alliances, Real Estate Development, and Major Operating Expense Investments*.
 - Handbook F-66E, *Postal Support and Information Systems*.
- C. Changes.** The revised Handbook F-66, provides updated guidance concerning investment policies and procedures for Postal Service investments. It includes the requirements for preparing Decision Analysis Reports (DAR) and DAR Modification Requests, and defines the thresholds for preparing DAR Compliance Reports.
- D. Online Availability.** You may view this handbook in electronic format on the Postal Service PolicyNet Web site.
1. Go to <http://blue.usps.gov>.
 2. Under "Essential Links" in the left-hand column, click on *References*.
 3. Under "Policies" on the right-hand side, click on *PolicyNet*.
 4. Click on *Hbks*.

General Investment Policies and Procedures — Major Facilities

E. Comments and Questions. Address comments or questions to:

CAPITAL AND PROGRAM EVALUATION
US POSTAL SERVICE
475 L'ENFANT PLAZA SW ROOM 8541
WASHINGTON DC 20260-5231

F. Effective Date. This revision is effective November 2005.

A handwritten signature in black ink that reads "Lynn Malcolm". The signature is written in a cursive, flowing style.

Lynn Malcolm
Vice President, Controller

Contents

1	Introduction	1
1-1	Scope	1
1-1.1	Other Handbooks in the F-66 Series	1
1-1.2	This Handbook	2
1-2	Purpose	2
1-3	Overview of the Investment Process	3
1-3.1	Investment Proposal	3
1-3.1.1	Decision Analysis Report	3
1-3.1.2	Justification of Expenditure	3
1-3.1.3	Major Operating Expense Investment	4
1-3.2	Project Review and Approval	4
1-3.3	DAR Compliance	4
1-3.4	DAR Modifications	5
1-4	Types of Investments	5
1-4.1	Capital Investments	5
1-4.1.1	Real Property Investments	5
1-4.1.1.1	Leasehold Improvements	6
1-4.1.1.2	Development of Excess or Underutilized Real Property	6
1-4.1.2	Personal Property Investments	6
1-4.1.2.1	Equipment	6
1-4.1.2.2	Vehicles	7
1-4.2	Expense Investments	7
1-4.2.1	Lease and Rental Agreements	7
1-4.2.2	Research and Development Projects	7
1-4.2.3	New Products and Services	8
1-4.2.4	Business Initiatives and Corporate Alliances	8
1-4.2.4.1	Business Initiatives	8
1-4.2.4.2	Alliances	9
1-4.2.4.3	Capital and Expense Investment	9
1-4.2.5	Major Operating Expense Investments	9
1-4.2.5.1	Definition	9
1-4.2.5.2	Example	9
1-4.2.5.3	Exceptions	10
1-4.2.5.4	Calculating the Cost	10
1-4.2.6	Expense Investment Review	10
1-5	Investment Strategy	10
1-5.1	Objectives	10

1-5.2	Required Economic Return	11
1-5.2.1	Generative and Sustaining Investments	11
1-5.2.2	Discount Rates and ROI Factors	12
1-6	Other Investment Considerations	12
1-6.1	Unitary Plan Concept	12
1-6.2	National Environmental Policy Act Compliance	13
1-6.3	National Performance Assessment System	14
2	Delegations of Approval Authority	17
2-1	Scope	17
2-2	Purpose	17
2-3	Sources of Delegation Authority	18
2-3.1	Capital Investment Plans	18
2-3.2	Expense Budget	18
2-4	Delegated Authority for Capital Investments	19
2-5	Delegated Authority for Expense Items	20
2-5.1	Lease and Rental Agreements	20
2-5.2	Research and Development	21
2-5.3	Major Operating Expense Investments	22
2-6	Approval Authority for Other Items	22
2-6.1	Supplies and Services	22
2-6.2	Contract Postal Units	22
2-6.3	Outsourcing Initiatives	23
2-7	Approval Authority for Local Buying	23
2-8	Exceptions to Approval Authority Thresholds	23
2-8.1	Establishment of Classified Unit	24
2-8.2	Establishment of Independent Post Office	24
2-9	Special Situations	24
2-9.1	Preapproved Expenditures	24
2-9.1.1	Planning, Development, and Preliminary Design Costs	24
2-9.1.2	Advance Site Acquisition	24
2-9.1.3	Land Banking	25
2-9.2	Projects Requiring Re-Approval or Additional Approval	26
2-9.3	Disposal of Excess or Underutilized Real Property	26
3	Project Review and Approval	33
3-1	Scope	33
3-2	Purpose	33
3-3	Validation	34
3-3.1	Accuracy and Integrity	34
3-3.2	Performance Metrics	35

Contents

3-3.2.1	Process	35
3-3.2.2	Selecting/Developing Metrics	35
3-3.2.3	Incorporation of Metrics into DAR	36
3-4	Field Review and Approval	36
3-5	Headquarters Review and Approval	37
3-5.1	Headquarters CIC	37
3-5.1.1	CIC Charter	37
3-5.1.2	CIC Membership	37
3-5.1.3	Functions of the CIC Chair	38
3-5.1.4	Functions of the CIC Secretary	38
3-5.2	Postmaster General/Chief Executive Officer	39
3-5.3	Capital Projects Committee	39
3-5.4	Board of Governors	39
3-5.5	Concurrence	40
4	Investment Planning and Tracking	45
4-1	Scope	45
4-2	Purpose	45
4-3	Five-Year Capital Investment Plan	45
4-3.1	Purpose of the Plan	45
4-3.2	Responsibility	46
4-3.3	Process	46
4-3.4	Plan Preparation	46
4-3.5	Plan Approval	47
4-3.6	Periodic Plan Adjustments	48
4-3.7	Adherence to Plan	48
4-3.8	Funds Certification	48
4-4	Capital and Expense Items for Facility Projects	48
4-4.1	Capital Items	48
4-4.1.1	Initial Construction, Purchase, or Installation	49
4-4.1.2	Improvement, Modernization, and Major System Replacement Projects	50
4-4.2	Expense Items	50
4-4.3	Combined Capital and Expense Projects	51
4-5	Capital and Expense Items for Equipment Projects	51
4-5.1	Capital Items	51
4-5.2	Expense Items	52
4-6	Reporting and Tracking Systems	52
4-6.1	Corporate Planning System	52
4-6.1.1	Facility Projects	52
4-6.1.2	Equipment Projects	53
4-6.2	FMSWIN Transactions	53

4-7	Financial and Management Reports	54
4-7.1	Financial Performance Report	54
4-7.2	National Trail Balance Report	55
4-7.3	Purchase Request Forms	55
4-7.3.1	Headquarters Organizations	55
4-7.3.2	Area Organizations	55
5	Economic Analysis	57
5-1	Scope	57
5-2	Purpose	57
5-3	Definitions	57
5-4	Discounted Cash Flow Method	58
5-4.1	Determining Viable Alternatives	58
5-4.2	Determining Baseline Costs	59
5-4.3	Applying a Sustaining Baseline	59
5-4.4	Determining the Analysis Period	60
5-4.4.1	Selecting the Zero Point	60
5-4.4.2	Determining the Number of Years	60
5-4.4.3	Comparing Alternatives with Different Investment Periods	61
5-4.4.4	Comparing Alternatives with Different Useful Lives	61
5-4.5	Calculating Investment Costs	61
5-4.6	Accounting for Advance Site Acquisition, Advance Site Funding, and Land Banking in the Economic Analysis	62
5-4.7	Advance Funding	63
5-4.8	Calculating the Disposal Value of Facility Assets	63
5-4.9	Determining Residual Value	63
5-4.10	Excluding Costs From a Cash Flow	64
5-4.11	Identifying Operating Variances	65
5-4.11.1	Nonpersonnel Operating Expenses	66
5-4.11.2	Personnel Costs	66
5-4.11.3	Facility Maintenance and Utility Costs	66
5-4.11.4	Facility Start-Up Costs	67
5-4.11.5	Equipment and System Relocation Costs	68
5-4.11.6	Facility Project Transportation Costs	68
5-4.11.7	Material Handling Costs	68
5-4.11.8	Nonquantifiable Costs and Benefits	68
5-4.12	Discounting the Cash Flow and Calculating Economic Indexes	69
5-4.12.1	Net Present Value	70
5-4.12.2	Return on Investment	70
5-4.12.3	Net Present Value Comparison for Projects without a Positive ROI	70

Contents

5-5	Risk	70
5-5.1	Definition	70
5-5.2	Management	71
5-5.2.1	Risk Identification Process	71
5-5.2.2	Risk Quantification — Element Ranking	72
5-5.2.3	Risk Analysis	72
5-5.2.3.1	Risk Analysis — Using the Risk Analysis Matrix	72
5-5.2.3.2	Sensitivity Analysis	72
5-5.2.3.3	Contingency Funding	73
5-5.2.3.4	Discount Rate	73
5-5.2.4	Risk Response Control	73
5-5.2.4.1	Project Development — Risk Control	73
5-5.2.4.2	Production/Implementation — Risk Control	74
5-5.3	Lessons Learned	74
5-6	Multiple Facilities in a Single DAR	74
5-7	DAR Backup Requirements	75
5-7.1	Required Components	75
6	Leasing Guidelines	87
6-1	Scope	87
6-2	Purpose	87
6-3	Determining the Lease Cost and Level of Approval Authority	87
6-3.1	Calculating Total Discounted Lease Cost	88
6-3.2	Excluded Lease Costs	88
6-3.3	Estimating Future Lease Payments	89
6-3.4	Ground Leases	89
6-3.5	Leases with Purchase Options	89
6-3.6	Networks with Multiple Leases	90
6-4	DAR Cash Flows	90
6-5	Sensitivity Analyses	91
6-5.1	Lease Versus Own Analysis	91
6-5.1.1	Lease Versus Own Analysis — Equipment/Systems	92
6-5.1.2	Lease Versus Own Analysis — Facilities	92
6-5.2	Real Estate Taxes	94
7	Project Compliance and Cost Studies	99
7-1	Scope	99
7-2	Purpose	99
7-3	Tracking Project Costs	100
7-3.1	Tracking Facility and Equipment Projects Separately	100
7-3.2	Collecting Data on Multiple Projects	100

7-3.3	Recording Baseline and Actual Project Costs	101
7-3.4	Determining Cash Flow Costs	101
7-3.4.1	Initial Cash Outflows	101
7-3.4.2	Ongoing Project Costs	102
7-3.5	Determining Cash Flow Savings	102
7-3.6	Collecting Data	102
7-3.6.1	Types of Data	103
7-3.6.2	Data Sources	104
7-3.6.3	Retention Modes	104
7-3.7	Measuring Costs	104
7-3.8	Record Retention	105
7-4	Decision Analysis Report Compliance	105
7-4.1	DAR Modification Requests and Other Forms of Notification to the Approving Authority	106
7-4.2	Compliance Report Procedures	106
7-4.2.1	Compliance Reporting Timeframe	106
7-4.2.2	Basic Information Requirements	106
7-4.3	DAR Compliance — Headquarters Projects	107
7-4.4	DAR Compliance — Headquarters Projects That Require Board Approval	107
7-4.5	DAR Compliance — Headquarters Projects That Do Not Require Board Approval	107
7-4.5.1	Compliance — Headquarters Projects More than \$7.5 but Less Than \$25 Million	108
7-4.5.2	DAR Compliance — Headquarters Projects \$7.5 Million or Less	108
7-4.6	Compliance Responsibility for Facility Projects	108
7-4.6.1	DAR Compliance Subcommittee for Facility Projects	108
7-4.6.2	DAR Compliance Subcommittee Responsibilities	108
7-4.6.3	Area Review of Compliance Reports	109
7-4.7	Compliance Report Input Format	109
7-4.7.1	Standard Compliance Report Input Format	109
7-4.7.2	Exceptions to Standard Compliance Report Input Format	109
7-4.7.2.1	Exceptions for Facility Investments	109
7-4.7.2.2	Exceptions for Field Investments	109
7-4.8	Compliance Report Transmission	110
7-4.8.1	Non-facility Projects	110
7-4.8.2	Facility Projects	110
7-4.8.3	Facility Projects Consolidation	110
7-5	Headquarters Compliance Oversight	110
7-5.1	Headquarters Staff	110
7-5.2	Field Personnel	111
7-6	Area and Field Compliance Responsibilities	111

Contents

7-7	Cost Studies and Audits	111
7-7.1	Cost Study Procedures	111
7-7.2	Responsibility for Cost Studies and Audits	112
7-7.2.1	Distribution of Cost Studies	112
7-7.2.2	Joint Reviews	112
7-7.3	Internal Control Group	112
7-7.4	Office of the Inspector General	112
7-7.5	Government Accountability Office	113
Glossary		123
Related References		129

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Exhibits

Exhibit 1-1	
Projects Requiring a Justification of Expenditure (JOE)	15
Exhibit 2-1	
Delegations of Approval Authority	27
Exhibit 2-2	
Delegations of Approval Authority — Capital and Non-Lease Expense Investment Process Overview	28
Exhibit 2-3	
Delegations of Approval Authority — Facility and R&D Lease Investment Process Overview	29
Exhibit 2-4	
Advance Site Acquisition Briefing Sheet	30
Exhibit 2-5	
Sample Advance Funding Request Letter	31
Exhibit 3-1	
Capital Investment Process	41
Exhibit 3-2	
Membership of Headquarters Capital Investment Committee	42
Exhibit 3-3	
Decision Analysis Report Review/Concurrence Form (Sample)	43
Exhibit 5-1	
Residual Value Formulas	76
Exhibit 5-2	
Table of Residual Value Factors	77
Exhibit 5-3	
Risk Identification Matrix	78
Exhibit 5-4	
Risk Analysis Matrix	79
Exhibit 5-5	
Sample Facility DAR Alternatives Analyzed Section and Financial Summary	80
Exhibit 5-6	
Sample Equipment DAR Alternatives Analyzed Section and Financial Summary	82
Exhibit 6-1	
Correct and Incorrect Lease Computations	95
Exhibit 6-2	
Lease Versus Own Analysis — Shared Energy Savings Proposal	96
Table 7.4.3	
Compliance and Program Status Reporting Responsibilities	107
Exhibit 7-1	
Compliance and Oversight Hierarchy	114

Exhibit 7-2	
Investment Highlights Quarterly Compliance Report Input Form — Sample	115
Exhibit 7-3	
Instructions for Compliance/Investment Highlight Report	119

1 Introduction

1-1 Scope

This handbook and the companion handbooks that comprise the F-66 series establish policies, procedures, and responsibilities for investments made by the United States Postal Service. The policies and procedures in this handbook apply to all types of investment programs and projects undertaken by the Postal Service, regardless of size, cost, or complexity. The vice president of Finance, Controller, must approve exceptions to these policies in advance. The sponsor must document requests for exceptions and approvals.

1-1.1 **Other Handbooks in the F-66 Series**

The companion handbooks in this series provide more specialized and focused information applying to certain types and sizes of investments as summarized here:

- a. Handbook F-66A, *Investment Policies and Procedures — Major Facilities*. Provides guidance concerning facility projects that require Headquarters approval including new construction, purchase of buildings, lease and rental agreements, repairs and alterations, and major expansions of facilities.
- b. Handbook F-66B, *Investment Policies and Procedures — Major Equipment*. Provides guidance concerning equipment projects that require Headquarters approval including purchases of vehicles and other support equipment, material handling, automation and mechanization, and research and development (R&D) proposals.
- c. Handbook F-66C, *Field Investment Policies and Procedures*. Provides guidance concerning field-initiated facility and equipment investments that the field may approve (area or plant/district level).
- d. Handbook F-66D, *Major Operating Expense Investments, Business Initiatives, Alliances, and Real Estate Development Investment Policies and Procedures*. Provides guidance concerning other types of investments including major operating expense investments, developmental real estate proposals, and new products and services.
- e. Handbook F-66E, *Postal Support and Information Systems*. Provides guidance concerning the requirements for initiating major postal support and information systems investments; preparing the required

documentation; reviewing, validating, and approving investments at the Headquarters level; tracking compliance with the approved plan; and requesting modifications if necessary.

Each of these handbooks describes the requirements for documenting a proposed investment using a Decision Analysis Report (DAR), Justification of Expenditure (JOE), or major operating expense investment (MOEI), including required backup documentation, review and approval procedures, validation, compliance report requirements, and DAR modification procedures. Each handbook also provides sample documents for further guidance — including sample DARs and JOEs, validation memos, Compliance Reports, and DAR Modification Requests.

1-1.2 **This Handbook**

This handbook provides background information and more in-depth discussions than the companion handbooks on the following topics:

- a. Investment types and strategies (see subchapters 1-4 and 1-5).
- b. Delegations of approval authority (see chapter 2).
- c. Headquarters review and approval process (see chapter 3).
- d. Investment planning and tracking, including the Five-Year Capital Investment Plan (see chapter 4).
- e. Economic analysis, which is required of all economically justified projects and projects that require a DAR, cash flow, or financial analysis (see chapter 5).
- f. Leasing guidelines for projects that involve the leasing of facilities or equipment (see chapter 6).
- g. Tracking of project costs following project approval to meet DAR compliance requirements and to provide data for the cost study (see chapter 7).

This handbook also provides a reference list of related Postal Service publications and a glossary of investment-related terms (see the Glossary and Related Reference at the end of this handbook).

1-2 **Purpose**

The overall purpose of the policies and procedures in the F-66 handbooks is to ensure that the capital and expense investments of the Postal Service provide the necessary facilities, vehicles, and equipment to meet its goals relating to customer and employee satisfaction and revenue generation while ensuring accountability, credibility, and competitiveness.

The policies and procedures in these handbooks must be followed closely to ensure that decision makers have the information they need to make informed investment decisions. However, management and staff who are involved in making investment recommendations and decisions are expected to interpret the intent of these policies and use prudent business judgment to

arrive at solutions that are in the best interest of the Postal Service. Questions may be addressed to Capital and Program Evaluation, Finance.

1-3 Overview of the Investment Process

1-3.1 Investment Proposal

An investment must be requested using the required documentation — either a DAR (see section 1-3.1.1) or a JOE (see section 1-3.1.2). The total cost of the project must be shown, including the planning, start-up, and direct costs of a project, as well as all related costs and expenditures, both capital and expense, necessary to complete the project, bring it to operational status, and fund it through the economic analysis period (generally the service life of the asset not to exceed 10 operating years) displayed in the cash flow. In addition, related projects having a common objective must be presented as a single (unitary) plan (see part 1-6.1). Projects may not be split to avoid a higher level of management approval (see subchapter 2-4).

Approval authorities must use good judgment when establishing documentation requirements for a project. The justification needed and the staff time required to prepare a request for a \$25,000 investment will be very different than for a \$25 million investment.

1-3.1.1 Decision Analysis Report

The Decision Analysis Report (DAR) is a document prepared by the requiring organization to recommend an investment for approval. The DAR describes the problem or opportunity and details the need for the expenditure. All investment projects must be justified either as an economic opportunity or as a means of sustaining existing postal operations into the future by correcting or eliminating a problem.

In either case, the DAR must provide sufficient detail, including backup documentation, to enable the approving authorities to make an informed decision regarding the use of postal funds. All major investments require Headquarters approval and must be documented with a DAR. For specific DAR requirements and sample DARs, refer to the applicable handbook in the F-66 series.

1-3.1.2 Justification of Expenditure

The Justification of Expenditure (JOE) is a 1-page document used to request approval for postal support systems and small field projects and Headquarters projects, including postal support systems that do not require a more formal DAR. It is intended to provide sufficient information about a proposed project without making small investment decisions unduly burdensome. It briefly defines the problem or need for an investment; describes operational improvements; identifies alternatives; identifies operational costs or savings and service impacts; includes a

recommendation, justification, and pertinent budget information; and provides appropriate backup information.

A JOE provides uniformity in documenting approval for small investments (see project thresholds in exhibit 1-1). Unless the approving authority requires a JOE, investments below the lower thresholds can be approved using the funding document alone (i.e., eBuy.). Investments above the higher thresholds for a JOE require a formal DAR (see chapter 3).

1-3.1.3 **Major Operating Expense Investment**

A major operating expense investment (MOEI) is an investment that includes a significant one-time expense outlay associated with a new initiative, program, or project. A MOEI requires that a sponsor develop a DAR, which Capital and Program Evaluation (CAPE) validates. A detailed definition of MOEI and the associated investment approval process is described in section 1-4.2.5.

1-3.2 **Project Review and Approval**

Investments documented by a JOE or DAR (including a MOEI) must be reviewed and approved by the appropriate level of approval authority. The Delegations of Approval Authority issued by Finance is used to determine the approval required for different types and sizes of projects (see chapter 2). The approving authority is responsible for ensuring compliance with the general investment requirements of the Postal Service as well as the specific requirements relating to a given type of investment. For additional guidance, consult the responsible organization (e.g., Delivery, for vehicle projects; Information Technology, for computer projects; Engineering, for material handling projects; or Facilities, for facility projects). Review and approval procedures and requirements are described in more detail in chapter 3, as well as in the other handbooks in the F-66 series.

1-3.3 **DAR Compliance**

DAR Compliance Reports are required to track and report the progress of an approved project and its compliance with the investment, operational, real estate (if applicable), and financial plans set forth in the approved DAR, DAR backup, and any approved DAR Modification Requests. DAR Compliance Report procedures are intended to ensure the following:

- a. Sponsors are accountable for implementing projects in accordance with the approved DAR.
- b. Savings materialize as outlined in the DAR.
- c. Changes from the approved DAR are adequately justified and approved.

To determine the specific DAR Compliance Report requirements for a project, refer to chapter, and the applicable F-66 handbooks.

1-3.4 **DAR Modifications**

A DAR Modification Request is a request to depart from the approved plan (that is, the approved DAR and any approved modifications). This request must be submitted and approved before any action (including the commitment of additional funds) may be taken that departs from the approved DAR and approved modifications.

DAR Modification Request requirements are intended to accomplish the following:

- a. Control funds for a project as set forth in the approved DAR.
- b. Allow the manager to adjust to opportunities or problems during the project's life cycle.
- c. Ensure that changes to investments and significant changes to operating plans are properly documented and approved.

To determine the specific requirements for modifying an approved project, including sample DAR Modification Requests, refer to the applicable handbook in the F-66 series.

1-4 **Types of Investments**

An investment is an expenditure designed to acquire an investment (e.g., facilities, vehicles, or equipment, postal support systems) or to fund initiatives or strategies required to meet Postal Service goals. Generally accepted accounting principles and Postal Service corporate policy determine whether an expenditure is considered a capital or expense investment. Routine operating expenses associated with the day-to-day business of the organization are not investments.

1-4.1 **Capital Investments**

Capital investments are investments in real property or personal property that are charged to an asset account. For a list of specific items that are capitalized for facility and equipment projects, see subchapters 4-4 and 4-5.

1-4.1.1 **Real Property Investments**

Real property investments are investments in land or buildings, including new construction, repairs and alterations, and improvements to leased facilities (leasehold improvements). Such investments are treated as capital expenditures when either of the following conditions is met:

- a. The project provides new land or buildings, regardless of cost.
- b. The project costs \$5,000 or more and provides at least one of the following:
 - (1) Useful features not previously available.
 - (2) Increased space.
 - (3) Significant extension of useful life.

Projects that do not meet either of these requirements are expensed. This includes capital-type projects that cost less than \$5,000 and routine maintenance and repair projects.

1-4.1.1.1 **Leasehold Improvements**

Leasehold improvements are costs incurred by the Postal Service to provide additional leased space or improve existing space in a leased facility. These improvements (e.g., installation of ventilation systems, retaining walls, and partitions) are paid for by the Postal Service but revert to the property owner upon termination of the lease (unless otherwise specified in the lease). Leasehold improvements are capitalized if they meet the requirements in section 1-4.1.1. Projects that do not meet these capitalization requirements — including capital-type projects that cost less than \$5,000 and routine repair and maintenance projects for leased buildings — are expensed.

1-4.1.1.2 **Development of Excess or Underutilized Real Property**

The Postal Service may develop or dispose of excess or underutilized real property by sale, outlease, or sublease. These transactions are conducted under market conditions. Real property interests may include fee simple ownership (indicates ownership of all rights to the property) of land, buildings, and air rights; leasehold and leased fee interests (interests resulting from a division of property rights due to leasing); and other developmental rights.

The Postal Service may participate in the joint development of excess real property with qualified third parties to maximize the value of its real property interests. Developmental projects may also involve Postal Service-occupied facilities with ongoing operations that substantially underutilize real property interests, such as air rights.

The approval authority required to dispose of excess property is discussed in part 2-9.3. Approval of developmental projects follows the approval requirements for real property investments (see Handbook F-66D for more detailed information). The as-is value of the property to be developed is one of the considerations used in determining the level of approval authority required.

1-4.1.2 **Personal Property Investments**

A personal property investment is an investment in equipment or vehicles.

1-4.1.2.1 **Equipment**

Equipment investments are treated as capital expenditures when all of the following conditions are met:

- a. The equipment has a service life of more than 1 year.
- b. The equipment project has an initial per-item cost of \$3,000 or more.
- c. The equipment can be readily and continuously identified as an item of property when put to use.

Before an item of equipment may be charged to a capital investment account, it must be assigned a property code number (PCN) and a budget index code

(BIC). Handbook F-43, *Property Code Numbers*, provides necessary guidance.

1-4.1.2.2 **Vehicles**

The Postal Service capitalizes the cost of all postal-owned motor vehicles, regardless of cost. The cost of a vehicle — including the purchase price, less discounts, plus applied freight — is capitalized in the month of receipt. The cost recorded on Postal Service books is the capital cost less an established salvage value for that make and model of vehicle. This cost is depreciated over the established service life for that make and model of vehicle.

The cost of auxiliary equipment (e.g., lift gates, power tailgates) that is permanently attached to a Postal Service-owned vehicle at the time of purchase, or purchased and attached later, is added to the vehicle cost and depreciated over the remaining life of the vehicle. All such equipment is capitalized, regardless of cost.

Vehicle investments are unique in that when vehicles reach the end of their service life, mileage limit, or repair cost limits, disposal may be considered. Vehicles that are designated for disposal may be either sold or cannibalized.

1-4.2 **Expense Investments**

Expense investments may include leases, rental agreements, research and development (R&D) projects, new products and services, and major operating expense investments.

Note: Routine operating expenses associated with the day-to-day business of the organization are not considered to be expense investments.

1-4.2.1 **Lease and Rental Agreements**

A project involving the lease or rental of real property or equipment must include all the attendant costs associated with the lease or rental (including renewal options, renovations, start-up costs, maintenance, and utilities), even though the project consists solely of the lease and rental agreement or the agreement is a component of the project. Although lease and rental agreements are considered an expense investment, any related capital expenses (e.g., leasehold improvements, as defined in section 1-4.1.1.1) must be included where appropriate. Lease costs are shown as operating variances in the project cash flow. Lease and rental agreements are discussed in detail in chapter 6.

1-4.2.2 **Research and Development Projects**

R&D efforts typically precede project inception and deployment planning for equipment programs. Research and development are defined as follows:

- a. Research involves critical investigation aimed at discovering knowledge that will prove useful in developing a new project, service, or technique or in bringing about a significant improvement to an existing process or program.

- b. Development is the translation of research findings into a plan or design for a new product or process or a significant improvement to an existing product or process. It includes the conceptual formulation, design, and testing of project alternatives, construction and evaluation of prototypes, and operation of pilot sites.
- c. Development and implementation of proof of concept to identify issues and requirements for potential full implementation.
- d. Development and implementation of a pilot system to identify issues and requirements for potential full implementation.

As a general rule, R&D costs are expensed. However, capitalization is allowed if the equipment meets the requirements in section 1-4.1.2.1, and the equipment is retained and used as an asset. Approval authority thresholds for R&D projects are identified in the Delegations of Approval Authority chart (see exhibit 2-1). As is the case for all projects, R&D projects must be presented for approval at the appropriate level prior to commencing any work or expending any funds. For a more detailed discussion of R&D projects, refer to the investment policies contained in Handbooks F-66B, F-66D, and F-66E.

1-4.2.3 **New Products and Services**

Proposed new products and services, including enhancements to core business products, may be capital or expense investments, or a combination of both. These types of investments are defined as follows:

- a. New products and services are developed primarily by the marketing function to complement products and services that are currently provided by the Postal Service.
- b. Enhancements to core business products involve expansions or additions to products and services currently being provided by the Postal Service (e.g., domestic and international expedited products and services, retail products and services, stamps, and advertising mail).

For a more detailed discussion of the financial review and analysis requirements for new products and services proposals, see Handbook F-66D. Questions as to whether a proposed initiative constitutes a new product or service or an enhancement to an existing product or service should be directed to the manager of Business Evaluation, who will reach concurrence with the chief marketing officer.

1-4.2.4 **Business Initiatives and Corporate Alliances**

This section describes business initiatives and corporate alliances and identifies the investment review/approval process that must be followed.

1-4.2.4.1 **Business Initiatives**

A business initiative is a proposal to enhance service and/or financial performance. Proposals may define new products and services, or enhancements to existing products, services, and operations. Business initiatives may originate from within the Postal Service, from customers, or

from current or potential business partners and may result in a purchase contract or alliance agreement.

1-4.2.4.2 **Alliances**

Alliances are strategic, cooperative arrangements between the Postal Service and one or more parties, designed to enhance business performance by increasing revenues, reducing costs, or improving customer satisfaction. Alliances combine the strengths or needs of the Postal Service with the attributes of other public or private sector organizations. Alliance partners work collaboratively to achieve goals of mutual interest, while sharing risk and reward and must be approved by the Board of Governors (BOG).

1-4.2.4.3 **Capital and Expense Investment**

If a capital investment, and under certain conditions, an expense investment, are required to implement the initiative or alliance, the sponsor must consult with the manager of Capital and Program Evaluation, Finance, to determine whether a Decision Analysis Report (DAR) is required in addition to the information provided in the business plan. Where a DAR is required, the appropriate capital/expense investment process must be followed. See Handbook F-66D and Handbook F-66E, *Investment Policies and Procedures — Postal Support and Information Systems*, for specific requirements related to these types of investments.

1-4.2.5 **Major Operating Expense Investments**

When an expense investment is required to implement a business initiative or corporate alliance, the investment may meet the criteria for a MOEI. A MOEI requires a DAR in addition to the information provided in the business plan. Where a DAR is required, the appropriate investment process must be followed. See Handbook F-66D and Handbook F-66E. The sponsor may contact the manager of Capital and Program Evaluation with questions as to whether the initiative/alliance may be a MOEI.

1-4.2.5.1 **Definition**

A MOEI is an expense investment associated with a new initiative, project, or program and *must include* a one-time expense outlay. MOEIs may also include ongoing operating expenses associated with the initiative, as well as capital expenditures that may fall under the \$5 million capital DAR threshold. When the total investment is less than \$5 million, and the total of all *new expenditures* exceed \$7.5 million, the investment is classified as a MOEI and a DAR is required.

1-4.2.5.2 **Example**

An example of a MOEI is an expense investment that consists of a one-time expense outlay associated with a contract for the development of software. There may also be capital components of the investment (e.g., for computer hardware) as well as ongoing system administration and maintenance operating expenses. When the new initiative results in a combination of *new* one-time expense investment, *new* capital investment, and *new* operating expense that exceeds \$7.5 million, the investment is classified as a MOEI.

Various combinations of capital investments, expense investments, and lease and contract costs may add-up to the \$7.5 million threshold requiring that the new project, initiative or alliance be supported with a DAR.

1-4.2.5.3 **Exceptions**

Actions taken to comply with a legal requirement or regulation — such as Occupational Safety and Health Administration (OSHA) standards or Architectural Barriers Compliance (ABC) requirements — *are not considered* to be a MOEI. Routine operating expenses associated with the day-to-day business of the organization *are not considered* to be MOEIs. Additional examples of routine operating expenses are transportation contracts, refuse disposal, or ongoing maintenance agreements. Expenses related to the consolidation of existing contracts are not classified as a MOEI, even if the expenditure exceeds \$7.5 million.

1-4.2.5.4 **Calculating the Cost**

Costs that must be considered in determining whether a project meets or exceeds the approval threshold include new one-time expense investments and ongoing expenditures such as personnel, outside contracts, supplies, services, development, training, start-up, operations, maintenance, and measurement systems. Costs are calculated for the service life of the project, not to exceed 10 operating years.

Note: If a proposed new operating expense investment, capital expenditure, and related operating expense together exceed the \$7.5 million threshold, the entire project must be recommended by the Headquarters Capital Investment Committee (CIC) and approved by the postmaster general/chief executive officer.

1-4.2.6 **Expense Investment Review**

Business Evaluation is responsible for reviewing business cases developed for initiatives and strategic alliances that have a component, which includes the generation of new revenue (see Handbook F-66D). When the investment for these initiatives/alliances meet the \$7.5 million threshold (described in section 1-4.2.5.1), they are categorized as a MOEI and therefore will need to undergo a more rigorous review process that includes the development of a formal DAR.

1-5 **Investment Strategy**

1-5.1 **Objectives**

The investment strategy of the Postal Service has the following objectives:

- a. To invest in buildings, equipment, and other corporate initiatives to attain maximum operating efficiency or an overall acceptable return on investment (ROI).
- b. To invest in facilities and equipment that provides desirable working conditions for Postal Service employees.

- c. To provide convenient access to existing and future transportation networks and facilities.
- d. To control costs.
- e. To support the strategies of the *Strategic Transformation Plan*, Five-Year Strategic Plan, and the goals of the National Performance Assessment (NPA) performance management system.
- f. To ensure adequate security of Postal Service employees, the mail, and Postal Service assets.
- g. To improve the level of services offered and respond to customer needs.
- h. To enhance material handling, transportation, retail, postal support systems, and administrative operations.
- i. To invest in revenue-generating programs.

1-5.2 Required Economic Return

The vice president of Finance, Controller, periodically publishes a memo updating the required ROI for investment projects. The memo establishes the current cost of borrowing and risk factors, which are used to determine the discount rate used in the cash flow to calculate the net present value (NPV) of a proposed investment. The NPV determines whether a project meets the investment standards of the Postal Service. This memo also provides updated DAR factors for escalation of baseline costs, service-wide costs, productive workyears, and facility start-up costs. Updated Decision Analysis Report factors/Cost of Borrowing updates can be found on the Finance Web site; go to <http://blue.usps.gov/finance>. Workhour rate updates can also be found on the Finance Web site at <http://blue.usps.gov/finance/reports/WorkHourRatesForFiscalYears2004-2006.pdf>.

1-5.2.1 Generative and Sustaining Investments

Different discount rates apply, depending on the type of project and whether the investment is generative or sustaining:

- a. **Generative investments** are driven by economic considerations. They must not only measurably enhance postal operations but must demonstrate the potential to provide economic benefits (i.e., an ROI that equals or exceeds the established minimum ROI).
- b. **Sustaining investments** assure the continuation of ongoing operations (e.g., by correcting or eliminating a problem) while maintaining security, service, and appropriate working conditions. Economic benefits, if any, are generally secondary.

While investments in real and personal property (buildings, vehicles, and mechanization equipment) may be either sustaining or generative, all high-technology and new ventures are considered to be generative investments (i.e., their approval must be based on economic considerations).

1-5.2.2 Discount Rates and ROI Factors

The discount rates (ROI thresholds) that are used to evaluate investment projects are a function of a risk factor and the cost of capital:

- a. **Risk factor** — Takes into consideration such characteristics as obsolescence, the service life of the asset, and the uncertainty of inflation. The risk factor varies by type of investment (sustaining or generative) and project category (buildings and vehicles, mechanization/automation, high technology, and new ventures).
- b. **Cost of Capital** — The weighted average of the long-term cost of borrowing funds and the cost of equity (see part 1-6.3).

Finance provides start-up costs via a chart that is updated regularly and available at <http://blue.usps.gov/finance>.

1-6 Other Investment Considerations

1-6.1 Unitary Plan Concept

All projects and agreements undertaken as part of a single or unitary plan (i.e., either for one location or for contemporaneous or sequential development in several locations) must be considered as one project. Related projects, agreements, equipment, and costs that are necessary to reach a common goal or to support a network must be presented as a single plan. The following are examples of related projects that should be considered as a single plan:

- a. Multiple investments that are related or are necessary to the completion of a major facility project. For example, if a new postal facility requires the installation of modular furniture, carpeting, and a new telephone system within the first year after move-in (all of which would not have been purchased if the new facility had not been constructed), the cost of this equipment must be included in the investment plan for the facility.
- b. An existing facility that is being replaced by more than one new facility (e.g., a main Post Office being replaced by two delivery distribution facilities).
- c. Related modifications, repairs, or alterations to a facility that are performed simultaneously and are part of a defined plan. For example, the rewiring of a facility and the simultaneous expansion and construction of a new dock at the same facility are related if the dock could not function properly unless the facility were rewired.
- d. The purchase of individual pieces of equipment that are tied to a common distribution strategy or network. For example, purchases of multiline optical character readers (MLOCs), carrier sequence bar code sorters (CSBCs), delivery unit computers (DUCs), and the Computerized On-Site Data Entry System (CODES) are treated as unitary plans.

- e. Identical upgrades to multiple facilities or a restructuring or redefining of a national system (e.g., identical upgrades to more than one bulk mail center (BMC) as part of an area plan or a restructuring of the national BMC system).
- f. Various phases of a project requiring implementation over a period of several years. For example, a plan to upgrade a processing and distribution center (PDC) in three phases must be presented as a unitary plan.
- g. Extensive repairs and alterations that are required because normal maintenance of a facility was deferred over a period of time to the extent that a special project is required to bring the facility up to Postal Service standards.

Projects that are not considered as a single plan include the following:

- a. Similar projects that arise simultaneously in a number of Post Offices (e.g., the replacement of the Springfield BMC and the addition of a new BMC in Miami).
- b. Routine maintenance, alterations, and repairs that are required to keep a facility in operational condition. These are funded through the normal operating budget process.
- c. Unrelated projects in a facility, even if they are performed simultaneously by the same contractor (e.g., the rewiring of a facility and the unrelated expansion and construction of a new dock at the same facility).
- d. Purchases of large parcel sorters and other material handling replacements for a specific facility that are not part of a national program.

1-6.2 **National Environmental Policy Act Compliance**

The DAR should reflect a project's compliance with the National Environmental Policy Act (NEPA), if applicable. Examine all investments at the outset to determine whether analysis under NEPA is required. Note that NEPA has sweeping applicability, and is not limited to facility projects. The purpose of NEPA is to identify and consider a project's potential impacts on the environment, rather than cleaning up contaminated property.

Under Postal Service regulations implementing NEPA (see 39 CFR Part 775), an environmental assessment (EA) must be prepared for all investment projects unless one of the regulations' categorical exclusions is applicable. The approving authority uses the EA to determine whether a project can be pursued without the preparation of a more detailed environmental impact statement.

For further guidance, see Handbook RE-6, *Facilities Environmental Guide*, for facility projects; or Management Instruction AS-550-96-4, *National Environmental Policy Act Operational Guidance* (May 17, 1996), for other investment projects.

1-6.3 **National Performance Assessment System**

The Postal Service has implemented the National Performance Assessment (NPA) System to ensure that all non-bargaining employees have a direct stake in the success of the organization. This system is linked directly to the pay-for-performance plan that the Postal Service uses to reward employees for achieving standardized, measurable performance goals, which include financial performance indicators. These indicators are directly affected by the effective use of postal resources — including capital funds. The NPA system supports our capital investment process by aligning individual performance with corporate strategies and initiatives.

Exhibit 1-1

Projects Requiring a Justification of Expenditure (JOE)

Project Type	Size of Project
Expense Equipment and Non-routine Service Contracts ¹	Over \$25,000 (no upper limit)
Capital Equipment	\$25,000 to \$100,000
Research & Development Projects	\$25,000 to \$100,000
Material Handling ²	All projects up to \$100,000
Repairs/Alterations	\$25,000 to \$1 million
Lease of Existing Facility/Alternate Quarters ³	\$25,000 annual rent to \$250,000 annual rent/\$2.5 million total lease cost ⁴
Other Facility Projects ⁴	\$25,000 to \$250,000
Postal Support	Less than \$ 5 million

Notes:

¹ JOEs for expense equipment and non-routine service contracts up to \$250,000 do not require a formal project review, but must be approved by the appropriate official. For non-routine service contracts, the threshold applies to the life of the contract (total undiscounted cost of the contract).

² All material handling (fixed mechanization) projects must be authorized by Headquarters Engineering and approved by the vice president of Engineering.

³ For the definition of total lease cost, see F-66C, chapter 3. If either the annual or total cost limit is exceeded, a DAR is required.

⁴ Other facility projects include the purchase of existing buildings and building expansions. Note that all new construction projects (whether leased or owned) must be documented with a DAR.

For a more detailed discussion of JOEs, including samples in the recommended format, refer to Handbook F-66C.

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2 Delegations of Approval Authority

2-1 Scope

This chapter presents the authority of Postal Service managers from the field level through the Board of Governors to approve capital and major expense plans, programs, and projects and to commit funds to carry out these initiatives. This chapter also identifies the circumstances under which such approval authority may be exercised and the extent to which this authority may be re-delegated.

Budgeting and purchasing *are not included* in the delegated authority. Budgeting follows established budgeting procedures, while the authority to award contracts for approved programs and projects is held only by Postal Service contracting officers (see *Purchasing Manual*, Issue 1).

2-2 Purpose

The Board of Governors delegates approval authority to various management levels within the Postal Service to allow for greater local control of local projects, while ensuring that senior management can concentrate on strategic issues and retains approval authority over the most significant investment projects. The Delegations of Approval Authority chart (see exhibit 2-1), which Finance updates periodically, sets forth approval thresholds for capital and expense items by type and size of project. All approval thresholds are per project, and managers are reminded that related projects with a common goal must be presented as a single plan (see part 1-6.1 for examples of related, or unitary, projects).

Note: All projects that require approval by the postmaster general/chief executive officer (PMG/CEO) must be recommended by the Headquarters Capital Investment Committee (CIC), and all projects requiring approval by the Board must also be recommended by the Capital Projects Committee (CPC).

2-3 Sources of Delegation Authority

2-3.1 Capital Investment Plans

The underlying authority to approve capital investment programs and projects resides with the Board of Governors. Section 3.3(e) of the bylaws of the Board of Governors (39 CFR 3.3, revised as of April 2004) states in part:

The following matters are reserved for decision by the Board of Governors:

(e) Approval of the Postal Service Five-Year Capital Investment Plans, including specific approval of each capital investment project, each new lease/rental agreement, and each research and development project exceeding such amount specified by resolution at the annual Board meeting in January. In the case of any project or agreement subject to the requirement of Board approval under this provision, the expenditure of any funds in excess of the amount previously authorized by the Board must be specifically approved by the Board. For the purpose of determining the cost of a capital investment project, lease/rental agreement, or research and development project:

(1) All such projects and agreements undertaken as part of a unitary plan (either for contemporaneous or sequential development in one or several locations) shall be considered one project or agreement, and

(2) The cost of a lease/rental agreement shall be the present value of all lease payments over the term of the lease, including all periods covered by renewal options or all periods for which failure to renew imposes a penalty or a hardship such that renewal appears to be reasonably assured, plus the cost of any leasehold improvements planned in connection with the lease/rental agreement. The present value will be determined using the cost of capital of the Postal Service.

(3) The cost of a developmental real estate project shall be the sum of:

(i) The as-is value of the postal assets contributed to the project;

(ii) Cash contributed by the Postal Service; and

(iii) Debt that impacts the Postal Service's investment.

Any projects, programs, or lease and rental agreements presented to the Board of Governors must first be approved by the appropriate investment committee and manager, starting with the sponsor and proceeding through the appropriate review and approval process to the CIC and the PMG/CEO.

2-3.2 Expense Budget

Authority to approve expense investments is derived from the authority of the Board of Governors over the entire expense budget of the Postal Service.

2-4 Delegated Authority for Capital Investments

The current delegations of approval authority for capital investments (see exhibit 2-1) — including new construction (owned or leased), repairs/alterations, fixed mechanization, vehicles, and other equipment — are summarized here:

- a. **PDC, BMC, district managers, and Postal Career Executive Service (PCES) postmasters** — May approve repairs/alterations and vehicles and other equipment projects (excluding fixed mechanization equipment) up to \$250,000. Portions of this authority may be re-delegated in writing to direct-report subordinate managers.
- b. **Vice presidents** — May approve capital projects originating in their area or function up to \$5 million.
 - (1) **Area vice presidents** — May approve all projects originating in their area or function with total capital investments up to \$5 million (except fixed mechanization and developmental real estate projects). Field-initiated projects that cost \$250,000 or more and the purchase of real property (land and buildings) and all new construction projects (including land purchases, expansions, and new construction-leased) must be presented to the area CIC for review and recommendation before being sent to the area vice president for approval. Up to 20 percent of this authority may be re-delegated in writing to subordinate managers for repairs or alterations and vehicle and other equipment projects. Any portion of this authority may be re-delegated in writing to subordinate PCES managers.
 - (2) **Vice president of Engineering** — May approve all fixed mechanization projects up to \$5 million. Up to 20 percent of this authority may be re-delegated in writing to subordinate managers for repairs, or alterations and vehicle and other equipment projects. Any portion of this authority may be re-delegated in writing to subordinate PCES managers. Fixed mechanization projects in excess of \$100,000 also require the approval of the area vice president (or designee). The area vice president's signature indicates concurrence with the intent of the fixed mechanization project and with any operational impacts (if applicable), but does not include approval of funding.
 - (3) **Vice president of Facilities** — May approve all developmental real estate projects up to \$5 million.
- c. **Deputy postmaster general (DPMG), chief operating officer, chief financial officer, chief marketing officer, senior vice presidents, general counsel, chief technology officer, chief postal inspector, and inspector general** — May approve projects within their purview up to \$7.5 million. Up to 20 percent of this authority may be re-delegated in writing to subordinate managers for repairs or alterations and vehicle and other equipment projects. Any portion of this authority may be re-delegated in writing to subordinate PCES managers.

- d. **PMG/CEO** — Reviews all projects that cost more than \$7.5 million and that Headquarters CIC has reviewed and recommended. The PMG/CEO has final approval for projects that cost more than \$7.5 million up to \$25 million. Projects that exceed \$25 million are forwarded to the Board of Governors for final approval.
- e. **Board of Governors** — Reviews and approves all projects with a total estimated investment cost that exceeds \$25 million. These projects are first submitted to the Capital Projects Committee (CPC), a committee of the Board that reviews the funding requests and presents its findings and recommendations to the full Board for action. The Board, per section 3.3(e) of its bylaws, specifies the minimum project level requiring Board approval annually at its January meeting.

2-5 Delegated Authority for Expense Items

The Delegations of Approval Authority (see exhibits 2-1, 2-2, and 2-3) specify three categories of expense items: lease and rental agreements, R&D projects, and major operating expense investments.

2-5.1 Lease and Rental Agreements

Approval authority for lease and rental agreements is generally limited to the following:

- a. New lease and rental agreements of land, existing buildings, or space.
- b. Renewal of lease and rental agreements as provided for by the terms of an existing contract.
- c. Extension (where no option exists) and modification of lease and rental agreements.
- d. Short-term leases of vehicles (e.g., administrative vehicles) when a long-term, continuous need does not exist.
- e. Equipment leases (e.g., for copy machines) when a lease versus own analysis indicates leasing is economically advantageous or when rapidly changing technology makes leasing more advantageous than ownership.

Normally leases should contain options beyond the base period to assure reasonable continuation of the operations housed in the space. Managers may not request short-term leases to avoid having to obtain approval at a higher level. (This does not preclude the leasing of space on a temporary basis, such as during the holiday mailing season.) Both the annual lease cost and total project cost must be considered in determining the proper approval authority. If either the annual or total cost limit is exceeded, the project must be approved at the appropriate higher level:

- a. **Annual lease cost** — The cost in any year of the base term or any option period. For approval purposes, the cost of the lease is generally limited to rent and does not include taxes, maintenance, utilities, and building services.

- b. **Total discounted project cost** — Consists of the net present value (NPV) of the lease, including all renewal options, extensions, and modifications, discounted at the cost of capital plus the undiscounted costs of all leasehold improvements (i.e., investments needed to improve the space being leased, including fit-out, renovations, postalization, material handling, and other one-time capital improvements and equipment).

For more detailed information on calculating lease costs, see chapter 6.

The following delegations of approval authority apply to lease and rental agreements:

- a. **PCES postmasters** — May approve projects to lease existing space with total annual rent up to \$50,000 and total discounted cost (including all renewal options and all leasehold improvements) up to \$500,000.
- b. **PDC, BMC, and district managers** — May approve projects to lease existing space with total annual rent up to \$250,000 and total discounted cost (including all renewal options and all leasehold improvements) up to \$2.5 million.
- c. **Vice presidents and chief technology officer** — May approve projects for their area or function to lease existing space or for new construction-lease projects with total annual rent up to \$500,000 and total discounted cost (including all renewal options and all leasehold improvements) up to \$5 million.
- d. **DPMG/chief operating officer, chief financial officer, chief marketing officer, senior vice presidents, chief technology officer, general counsel, chief postal inspector, and inspector general** — May approve projects for their functions with annual lease cost up to \$1 million and total discounted cost (including all renewal options and all leasehold improvements) up to \$7.5 million.
- e. **PMG/CEO** — Must approve projects with annual lease costs that exceed \$1 million and total discounted cost up to \$25 million.
- f. **Board of Governors** — Must approve projects when the total discounted project cost exceeds \$10 million.

2-5.2 Research and Development

R&D projects are subject to the following delegations of approval authority:

- a. **PDC, BMC, and district managers** — May approve R&D projects up to \$250,000.
- b. **Vice presidents** — May approve R&D projects up to \$5 million. The vice president of Engineering, may re-delegate this approval authority to managers within this function.
- c. **DPMG, chief operating officer, chief financial officer, chief marketing officer, senior vice presidents, general counsel, chief technology officer, chief postal inspector, and inspector general** — May approve R&D projects up to \$7.5 million. The chief marketing

officer and vice president of Operations, may re-delegate their approval authority to managers within their respective functions.

- d. **PMG/CEO** — Must approve R&D projects that exceed 7.5 million, up to \$25 million.
- e. **Board of Governors** — Must approve R&D projects that exceed \$25 million.

2-5.3 Major Operating Expense Investments

Major operating expense projects currently are limited to Headquarters sponsorship. The following approval authority level applies:

PMG/CEO — When a new initiative has a total investment that is less than \$5 million and results in a combination of *new* one-time expense investment, *new* capital investment and *new* operating expense that exceeds \$7.5 million, the investment is classified as a MOEI. All MOEI projects require approval of the PMG/CEO. The Board of Governors must be notified to give it the opportunity to discuss a project before final approval.

2-6 Approval Authority for Other Items

The current delegations of approval authority (see exhibit 2-1) for other items — including supplies and services, contract postal units, and contracting-out initiatives — are summarized in this subchapter.

2-6.1 Supplies and Services

Supplies and services include expensed repairs and alterations and the renewal of ongoing or recurring service contracts. Throughout all levels of the organization, authority is granted to approve purchases of expense items contained in an approved budget. However, all major expense investments must be justified as set forth in the F-66D, chapter 2 and F-66E, chapter 1. Managers listed in the Delegations of Approval Authority may re-delegate, in writing, portions of this authority.

2-6.2 Contract Postal Units

Contract postal units are Post Offices operated by a contractor under the jurisdiction of an administrative Post Office, usually in a store or other privately owned and operated place of business. At the Headquarters level, vice presidents and above have the authority to approve funding for contract postal units. They may re-delegate, in writing, portions of this authority. At the field level, the vice president of Area Operations has the authority to establish contract units (see *Postal Operations Manual* (POM), Issue 9, July 2002, section 123.2). The approval authority may be re-delegated, in writing, to the district manager, but may not be re-delegated by the district manager.

2-6.3 Outsourcing Initiatives

In exploring strategic opportunities for outsourcing, consideration must be given to effective management and coordination of the decision-making process. The Strategic Initiatives Action Group (SIAG) is a cross-functional group responsible for coordinating the processes involved in reviewing, approving, and monitoring proposed outsourcing initiatives. The group assists sponsoring organizations as they progress through the defined consideration and the evaluation and validation requirements, helping to mitigate the risks. The SIAG also assists the sponsoring organization in complying with the union notification requirements contained in the collective bargaining agreements. Guidelines outlining the sponsor's requirements when preparing for a meeting with the SIAG can be obtained from the Manager, Strategic Initiatives. Approval authority for national outsourcing initiatives rests with the SIAG Approval Board which consists of the following:

- a. Deputy postmaster general and chief operating officer.
- b. Chief financial officer and executive vice president.
- c. Senior vice president of Operations.
- d. Chief human resources officer and executive vice president.

Concurrence from the SIAG Approval Board is required before an investment is submitted to the Postal Service's Capital Investment Committee (CIC) for consideration.

If the initiative requires a DAR, follow the normal review and approval process for investments, after receiving concurrence from the SIAG Approval Board.

Approval of local outsourcing initiatives follows the normal field approval process (see Handbook F-66C) and must comply with the national labor agreements.

2-7 Approval Authority for Local Buying

Delegations of authority for local buying (items purchased by local managers rather than by Purchasing personnel) are contained in the *Administrative Support Manual*, Issue 13 (July 2003), part 722.12. This local buying authority may be re-delegated in writing. Approval authority for local buying is limited to the local budget. Capital purchases at the local level are subject to the approval limits in the Delegations of Approval Authority (see exhibit 2-1).

2-8 Exceptions to Approval Authority Thresholds

The establishment of classified units and independent Post Offices is subject to the approval authority thresholds set forth in POM 123.241. Approval of funding for these units follows the normal Delegations of Approval Authority (see exhibit 2-1).

2-8.1 **Establishment of Classified Unit**

The authority to approve the establishment of a classified unit (station or branch), regardless of cost, resides with the vice president of Area Operations. This authority may be re-delegated in writing.

2-8.2 **Establishment of Independent Post Office**

The authority to approve the establishment of an independent Post Office, regardless of cost, resides with the chief marketing officer and senior vice president after recommendation by the vice president of Area Operations.

2-9 **Special Situations**

2-9.1 **Preapproved Expenditures**

Certain types of expenses — including planning, development, and design costs; advance site acquisition; and land banking — may be authorized before a project has been formally approved, as described here.

2-9.1.1 **Planning, Development, and Preliminary Design Costs**

In general, funds may not be expended until a facility or equipment project is approved. However, reasonable amounts may be expended for the purpose of planning, development, and preliminary design work (not to exceed 30 percent of total design costs). Preapproved costs up to 10 percent of the estimated total cost of the project, but not to exceed \$3 million, may be considered reasonable. Final approval authority for funding rests with the appropriate approval authority in the organization budgeting for the project.

The preliminary stage includes costs for items such as preliminary design, concept studies, intergovernmental cooperation, site and related realty surveys, site planning report, environmental assessment and environmental impact studies, right of entry, site control option fees, and other work required to develop alternatives and analyze the project. For equipment and certain other project types, seed money in advance of full project approval may be required for such things as initial contracts to test concepts.

For projects that are not listed in the approved Capital Investment Plan, any expenditure of funds before final project approval must be authorized by the area CIC to ensure that the proposed project is of sufficient priority to proceed.

Requests for exceptions to these limitations must be submitted in writing to Capital and Program Evaluation, Finance.

2-9.1.2 **Advance Site Acquisition**

Site acquisition for new or to-be-expanded postal facilities is an integral part of the capital process. Generally, sites for new or expanding facilities may not be acquired until the project of which they are a part is formally approved by

the designated authority. However, acquisition of a site in advance of project approval may be authorized provided all of the following conditions are met:

- a. Site control cannot reasonably be maintained during the time required for project approval.
- b. Failure to control the property may result in higher costs or loss of the preferred site.
- c. The project is included in the Five-Year Capital Investment Plan.
- d. The project alternatives have been identified and analyzed.
- e. Funds are available in the capital budget.

The sponsor must submit a request to purchase the site using the advance site acquisition briefing sheet (see exhibit 2-4). The site acquisition must be approved following the normal review and approval process based on the total estimated cost of the project (not based on the cost of the site).

However, the PMG/CEO, upon notification to the Board of Governors, may approve site acquisitions up to \$25 million even if the total estimated cost of the project exceeds \$25 million. The Board of Governors must approve any advance site acquisition above \$25 million.

Advance funding for a project that is not considered research and development may be authorized if it is considered an integral part of a capital investment. However, authorization for the acquisition of any equipment or real property must meet the following conditions and the subsequent completion and approval of an advance project funding briefing sheet:

- a. Failure to make the initial incremental purchase would result in the loss of control of the technology or the relinquishing of the Postal Service's rights or authority to manufacture and/or to deploy the technology.
- b. Failure to make the initial incremental purchase would result in unfavorable pricing and higher costs for the Postal Service.
- c. The project is included in the Five-Year Strategic Plan.
- d. Alternatives have been explored, evaluated and rejected as not a viable option.
- e. Funds are available in the capital budget.

The sponsor must submit a request to purchase equipment or technology using the advance funding briefing sheet (see exhibit 2-5).

2-9.1.3 **Land Banking**

Land banking is the acquisition of land in anticipation of long-term future needs or expansion of services rather than for a specific project in the Five-Year Capital Investment Plan. The purpose of land banking is to gain control of land in high-cost or land-scarce areas when it becomes available.

The vice president of Facilities is delegated authority to acquire land at a cost of up to \$5 million under the land banking program. Above this amount, approval authority is consistent with the Delegations of Approval Authority chart (see exhibit 2-1). All approved land banking projects are to be funded by Headquarters facilities, not locally. For additional information related to land banking, see part 5-4.6.

The vice president of Facilities also has the authority to dispose of banked land when it is determined to be excess to the needs of the Postal Service (see part 2-9.3).

2-9.2 **Projects Requiring Re-Approval or Additional Approval**

Occasionally, unforeseen circumstances significantly affect the nature of an approved project or create the need for additional funds beyond those originally approved. In this situation, the sponsor must develop a DAR Modification Request (or a revised JOE) and submit it for review and approval. If the cost of the project is expected to increase beyond the approved level, the modification request may have to be approved by a higher-level authority based on the new project cost. Final approval of the modification request is required before the sponsor deviates from the approved DAR. For further guidance concerning the preparation, review, and approval of DAR Modification Requests, see the applicable F-66 handbook.

2-9.3 **Disposal of Excess or Underutilized Real Property**

When a project that calls for the replacement of Postal Service-owned real property is approved, separate approval to dispose of the excessed property (whether by sale, exchange, or outlease) is not required. When excess or underutilized real property that is not a part of a unitary plan of replacement is identified, disposal may be initiated by the manager of the organization responsible for the facility (in the case of excess property) or by Facilities (in the case of underutilized property). In this situation, the Realty Asset Management Committee must review the disposition plan and recommend the plan to the appropriate approving authority.

Disposition of Postal Service-leased real property having a negative leasehold value (i.e., payment is required to terminate the obligations of the Postal Service under the lease) must be approved by the appropriate authority based on the penalty amount. However, if the plan to terminate such a lease is included in the DAR for a project, the funds to terminate the lease must be included in the project cash flow.

Handbook RE-1, *Realty Acquisition and Management*, provides additional guidance on the delegation of contracting and approval authority for the disposal of real property.

Exhibit 2-1
Delegations of Approval Authority

DELEGATIONS OF APPROVAL AUTHORITY (PER PROJECT)

A. APPROVAL OF ITEMS COVERED BY BOARD OF GOVERNORS BYLAWS

CAPITAL INVESTMENTS	BOARD OF GOVERNORS	POSTMASTER GENERAL CHIEF EXECUTIVE OFFICER	*DPMG/COO, CFO, CMO CTO, CHRO, GC, CPI, IG, JO Senior Vice Presidents	VICE PRESIDENTS	P&D CENTER BMC & DISTRICT MANAGERS	PCES POSTMASTERS	OTHER POSTMASTERS
NEW CONSTRUCTION (1)	OVER \$25M	UP TO \$25M	LIMITED (1) — UP TO \$7.5M	LIMITED (1) — UP TO \$5M	NONE	NONE	NONE
REPAIRS/ALTERATIONS (4)	OVER \$25M	UP TO \$25M	UP TO \$7.5M	LIMITED TO VP FACILITIES UP TO \$5M	NONE	NONE	NONE
FIXED MECHANIZATION (4)	OVER \$25M	UP TO \$25M	LIMITED TO COO & SVP OPS UP TO \$7.5M	LIMITED TO VP ENGINEERING UP TO \$5M	NONE	NONE	NONE
VEHICLES AND OTHER EQUIPMENT (4,5,6)	OVER \$25M	UP TO \$25M	UP TO \$7.5M	UP TO \$5M	UP TO \$250K	UP TO \$250K	NONE

EXPENSE INVESTMENTS

LEASE/RENTAL AGREEMENTS New Leased Space (1,3) Existing Leased Space (2,3)	OVER \$25M TOTAL DISCOUNTED COST	OVER \$1M ANNUAL RENT OR UP TO \$25M TOTAL DISCOUNTED COST	LIMITED (1,2) UP TO \$1M ANNUAL RENT OR \$7.5M TOTAL DISC. COST	LIMITED (1,2) UP TO \$500K ANNUAL RENT OR \$5M TOTAL DISC. COST	LIMITED (1,2) UP TO \$250K ANNUAL RENT OR \$2.5M TOTAL DISC. COST	NONE	NONE
RESEARCH / DEVELOPMENT (7)	OVER \$25M	UP TO \$25M	LIMITED (7) — UP TO \$7.5M	LIMITED (7) — UP TO \$5M	NONE	NONE	NONE
MAJOR OPERATING EXPENSE INVESTMENT (8)	DISCUSSION	OVER \$7.5M	NONE	NONE	NONE	NONE	NONE

B. APPROVAL OF OTHER ITEMS

	POSTMASTER GENERAL CHIEF EXECUTIVE OFFICER	*DPMG/COO, CFO, CMO CTO, CHRO, GC, CPI, IG, JO Senior Vice Presidents	VICE PRESIDENTS	P&D CENTER BMC & DISTRICT MANAGERS	PCES POSTMASTERS	OTHER POSTMASTERS
SUPPLIES AND SERVICES (4)	NO LIMIT	BUDGET	BUDGET	BUDGET	BUDGET	BUDGET
CONTRACT POSTAL UNITS (9)	NO LIMIT	BUDGET	BUDGET	BUDGET	NONE	NONE
CONTRACTING OUT INITIATIVES (10)	SEE FOOTNOTE 10	SEE FOOTNOTE 10	SEE FOOTNOTE 10	LOCAL IMPACT	LOCAL IMPACT	LOCAL IMPACT

- (1) Limited authority for new construction/new leased space. All plant projects must be approved by SVP, Operations. Those over \$5 million or \$500,000 annual rent must also be approved according to authority detailed in above chart. Customer service projects must be on the National Priority List or approved through the exception process via HQ Facilities, thereafter following the normal approval process once HQ Facilities has reviewed final DAR.
- (2) New leases for existing plant space limited to \$500,000 annually and 5-year term; otherwise must be approved by SVP, Operations. Those over \$7.5 million or \$1 million annual rent must also be approved according to authority detailed in above chart. New leases for existing customer service space follow normal approval authority in above chart.
- (3) Total discounted cost equals the discounted cost of lease and all options plus undiscounted capital costs, such as renovations. If either total or annual cost limit is exceeded, project must be approved at higher level.
- (4) Listed managers may redelegate (in writing) portions of this authority. Unless otherwise covered by these guidelines, authority granted to approve projects contained in the approved budget. Contracting/purchase subject to Supply Management SAM policies and procedures, and any applicable Supplying Principles and Practices.
- (5) Computer/ADP purchases are made by the CTO organization. CTO delegation is \$7.5 million for CPUs.

- (6) Administrative vehicles are purchased via national contracts. Mail hauling vehicles are purchased by HQ.
- (7) CMO, CTO, SVPs Operations and Intelligent Mail & Address Quality, and VPs Engineering and Network Ops Mgmt may redelegate. Other VPs should coordinate R&D with CTO and VP Engineering, as appropriate.
- (8) Applies to HQ only. Defined as corporate initiatives, new or expansion projects/programs, or major operational change resulting in an expenditure of operating funds in excess of \$7.5 million over project life. Board of Governors briefing/PMG-CEO approval required.
- (9) In field, applies to VPs and District Managers only.
- (10) National outsourcing initiatives must be approved by the Strategic Initiatives Action Group (SIAG) and follow the review and approval procedures required by the SIAG, under the direction of the DPMG/COO. The checklist for considering National Outsourcing Initiatives must be utilized, including field-level outsourcing initiatives.

LOCAL BUYING (PER ITEM PURCHASED)	POSTMASTER GENERAL CHIEF EXECUTIVE OFFICER	*DPMG/COO, CFO, CMO, CTO, CHRO, GC, CPI, IG, JO Senior Vice Presidents	VICE PRESIDENTS	P&D CENTER BMC & DISTRICT MANAGERS	POSTMASTERS	OTHER MANAGERS
LOCAL BUYING (a) (Certain exceptions may apply. See ASM 722)	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000 — PCES \$ 2,000 — CAG A-J \$ 1,000 — CAG K-L	\$10,000 INSPECTR. IN-CHG. \$2,000 VEH. MGR.

- (a) Delegations of Authority for Local Buying (local management authority in lieu of Supply Management acquisition) are found in ASM part 722. Approval authority is limited to approved budget. Local Buying authority may be redelegated in writing. Capital purchases are subject to approval authorities in "A" above.

* DPMG/COO — Deputy Postmaster General, Chief Operating Officer; CFO — Chief Financial Officer; CMO — Chief Marketing Officer; CTO — Chief Technology Officer; CHRO — Chief Human Resources Officer; GC — General Counsel; CPI — Chief Postal Inspector; IG — Inspector General; JO — Judicial Officer

Exhibit 2-2
Delegations of Approval Authority — Capital and Non-Lease Expense Investment Process
Overview

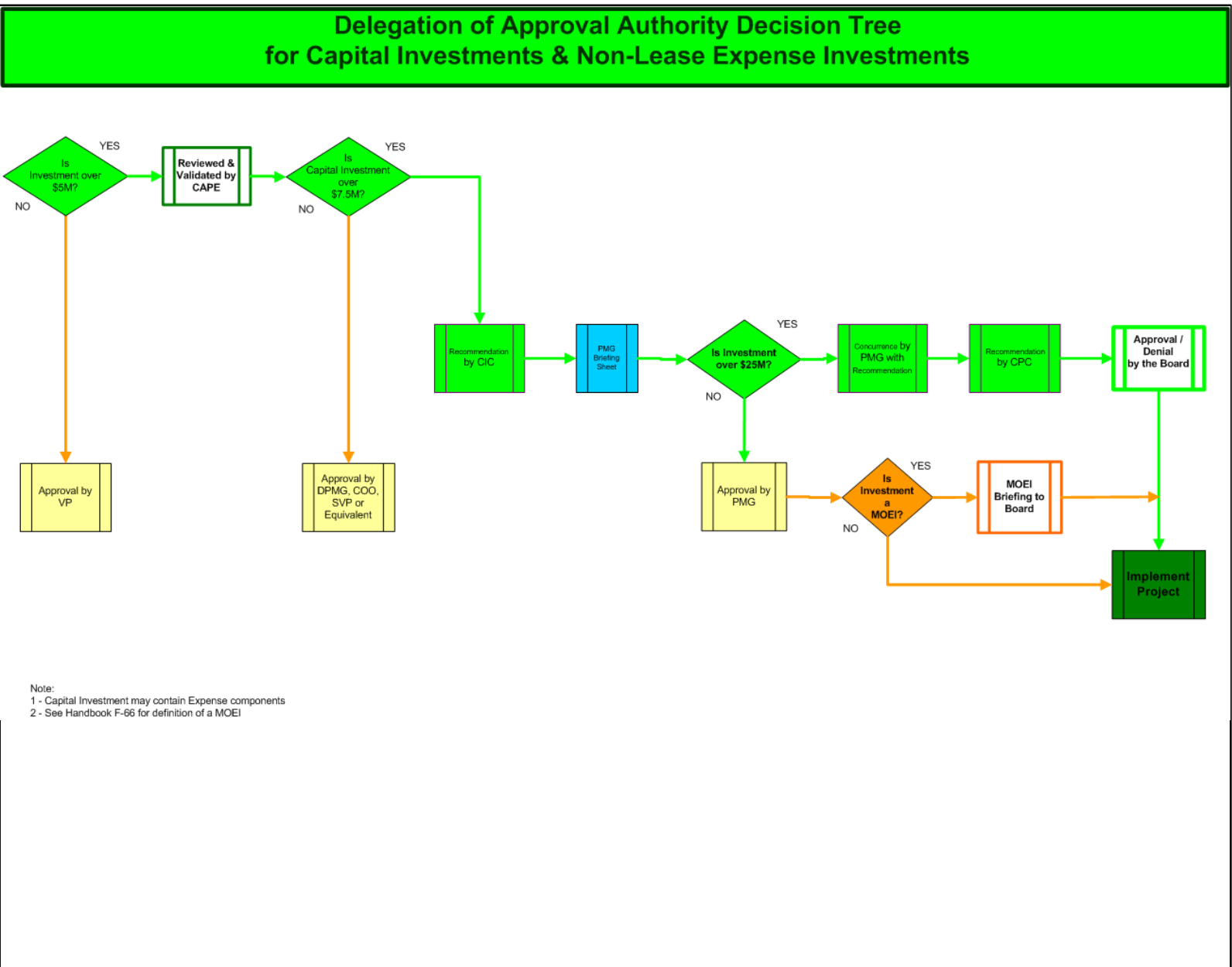


Exhibit 2-3
Delegations of Approval Authority — Facility and R&D Lease Investment Process Overview

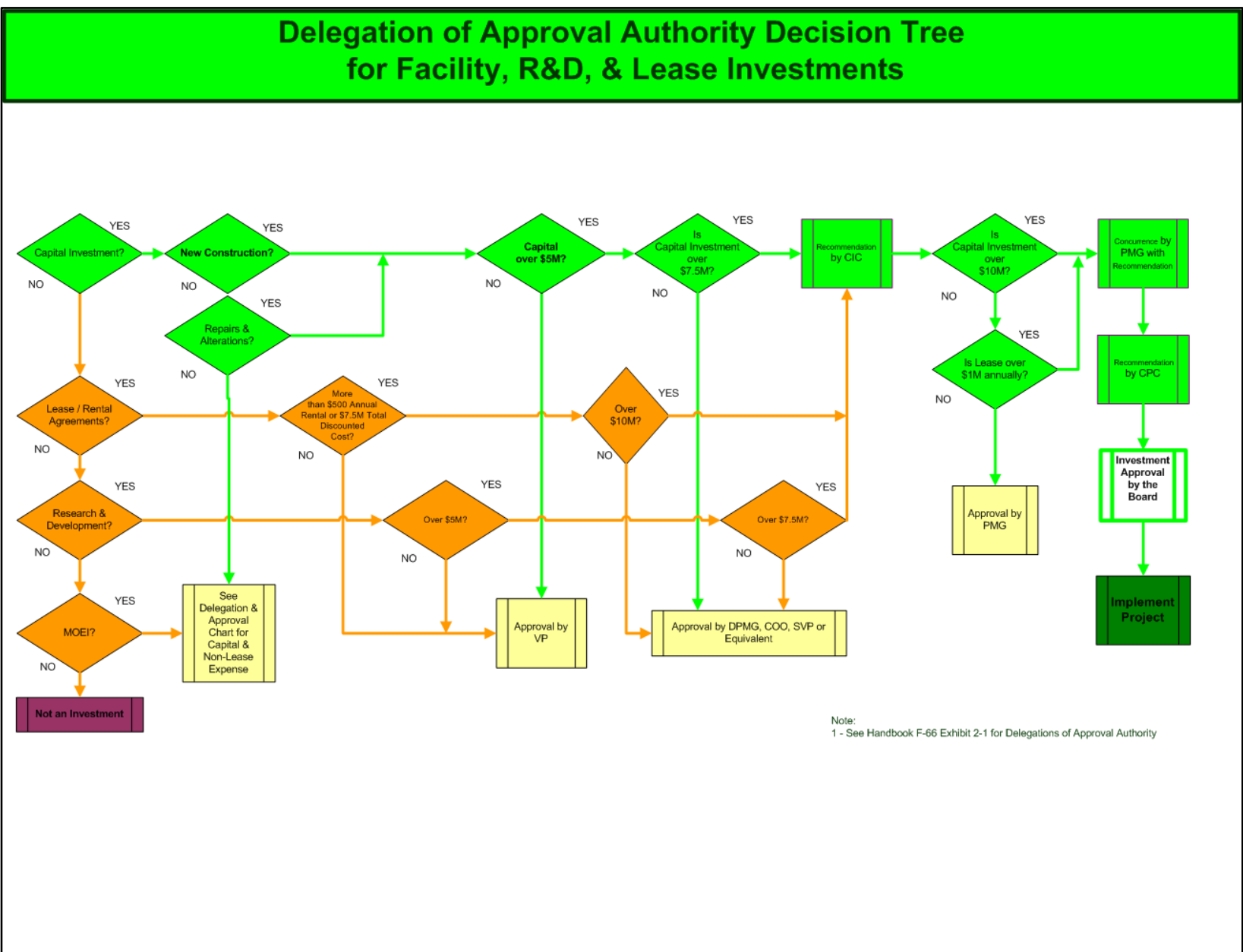


Exhibit 2-4

Advance Site Acquisition Briefing Sheet

Briefing Sheet
Advance Site Acquisition
<Project Name>

Approval to proceed with site acquisition in advance of final project approval is requested for the following:

Project Name	Estimated Total Project Cost	Scheduled Project Approval Date	Date Control Expires	Funding Required for Acquisition
---------------------	-------------------------------------	--	-----------------------------	---

- This project satisfies the criteria established in Handbook F-66, section 2-9.1.2:
- Site control cannot reasonably be retained through the time period required for project approval.
- Failure to control the property may result in higher costs or loss of the preferred site.
- The project is identified in the Five-Year Capital Investment Plan.
- The project alternatives have been identified and analyzed.
- Funds are available in the capital budget.
- The site acquisition cost is below \$25 million.*

Acceptance will not occur until all real estate acquisition requirements are satisfactorily completed.

Requested:

PDC or District Manager, District Name	Date
--	------

Recommended:

Manager, Facilities Service Office	Date
------------------------------------	------

Requested:

Vice President, Area Operations	Date
---------------------------------	------

Concur:

Manager, Real Estate, Facilities	Date
----------------------------------	------

Concur:

Vice President, Facilities	Date
----------------------------	------

Approval:

Postmaster General and Chief Executive Officer (or appropriate approving authority)	Date
--	------

* Advance site acquisitions over \$25 million, which require Board of Governors approval, may require additional documentation.

Note: Plant projects require the signature of the plant manager and district manager.

Exhibit 2-5

Sample Advance Funding Request Letter

<Name of Vice President Finance>

VICE PRESIDENT, FINANCE, CONTROLLER

SUBJECT: Any Project - Advance Funding Request (Finance Number - 123456)

The purpose of this memorandum is to request advance finding in the amount of \$XXX.XX to support early planning and engineering services related to Any Project. This funding will cover site surveys, network design, and support services for the period of March 8 to June 25, 2004.

The Any Project DAR will request funding for deployment to 108 facilities nationwide, including six remote encoding centers and two maintenance support facilities. This funding will provide the early completion of up to 25 site surveys and allows the Postal Service to optimize the deployment schedule prior to the Christmas 2004 blackout period. By accelerating the deployment of Any Project, we will be able to better support multiple mail processing and Network Operations Management programs that need the network capacity provided by Any Project. This strategy also provides cost avoidance to programs such as the Postal Automated Redirection System (PARS), Bio Detection System (BDS) and Surface Visibility. The total funding for this DAR is expected to be \$XX million.

The Any Project DAR is currently under review by Capital and Program Evaluation and is scheduled to be presented at the March 23, Capital Investment Committee meeting. This advance funding will cover costs until final approval of the program at the May 12, 2004 Board of Governors meeting.

<Signed>

Manager,

cc: <Name of Manager, Program Performance Finance>

<Name of Manager, Program Evaluation Finance>

<Name of Manager, Equipment Requirements and Economic Analysis>

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3 Project Review and Approval

3-1 Scope

This chapter provides an overview of the procedures to be followed to obtain approval for an investment project. These procedures also apply to requests to modify an approved project. More detailed guidance for specific types of projects is provided in the other handbooks in the F-66 series as follows:

For this type of project...	Refer to the following handbook...
Major facilities investments	F-66A
Major equipment investments, including R&D	F-66B
Field investments	F-66C
Major operating expense investments, business initiatives, alliances, and real estate development investments	F-66D
Postal support system and information systems	F-66E

3-2 Purpose

The purpose of the review and approval process is to ensure the following:

- The project is consistent with the *Strategic Transformation Plan*, the annual performance plan, and the Five-Year Strategic Plan.
- The project is budgeted and prioritized in the Five-Year Capital Investment Plan.
- The project is properly justified on economic or non-generative grounds (e.g., based on customer service, employee, or safety considerations).
- The project is properly analyzed (i.e., all viable alternatives have been considered, the impact of the investment has been properly evaluated, and the backup documentation adequately supports the investment).
- Appropriate concurrences for major assumptions have been obtained.

3-3 Validation

All projects that require a DAR (including DAR Modification Requests) must be validated at the level of, and before, final approval.

3-3.1 **Accuracy and Integrity**

A DAR validation is an independent verification of the accuracy and integrity of the statements, assumptions, data, and performance tracking methods presented in support of a project. The validation of a DAR provides the following assurances to the approving authorities:

- a. The DAR supporting documentation complies fully with current investment policies and procedures, and supports the overall corporate investment decision-making process.
- b. Approving authorities may have confidence in the magnitude and accuracy of the values in the DAR and that the project is a sound business decision.
- c. The information presented in the DAR and its supporting documentation (including the timing, investments, assumptions, and analysis) is reasonable, accurate, logical, valid, and auditable.
- d. All viable, reasonable solutions and alternatives to the problem received adequate consideration.
- e. The sponsor has established metrics (indicators and methods) adequate to evaluate program performance.
- f. All stakeholders have been given the opportunity to review the DAR and concur with the major assumptions (see exhibit 3-1 for sample concurrence form).

The vice president of Finance, Controller, is responsible for validating projects at the Headquarters level, while the Finance manager at the area or district level is responsible for completing the validation of field-level projects. The sponsoring organization initiates the validation process during the economic analysis and continues until the DAR is finalized. Only financial staff having both a background in economic analysis and an understanding of postal operations may validate projects. If Finance is the sponsoring organization, then the validation function must remain distinct and separate from DAR preparation.

The validation memorandum must state that the volume projections and economic analysis are verified and that the analysis, benefits, costs, net present value, and ROI are correct. If the validation does not fully confirm the economic analysis, specific exceptions must be stated. The validation memorandum must clearly state the performance metrics and specify what approvals and notifications are required prior to project implementation.

For further guidance, refer to the validation checklists and sample validation memoranda in the applicable F-66 handbook.

3-3.2 Performance Metrics

It is the responsibility of the sponsor to establish metrics (indicators and methods for data capture and reporting) that can be used to evaluate program performance. A process to identify metrics that can be used to track performance of capital and major expense investments must be established for programs that require a DAR. The purpose of this requirement is to establish program-relevant measurements that enable management to identify lessons learned and take corrective actions (as appropriate) in the preliminary implementation phase of programs while determining the likelihood of achieving the savings or other benefits (i.e., customer satisfaction, service, etc.) identified in the DAR. The metric(s) will also be used in after cost studies in conjunction with other traditional financial related indicators (e.g., workhour and dollar savings) to evaluate the success of the program.

3-3.2.1 Process

The process for developing metrics consists of six steps:

1. Identify the source(s) of savings in the DAR.
2. Select and develop metrics that have a direct relationship with the source of the savings and/or other indicators related to assumptions contained in the DAR (e.g., workhours, training costs, parts costs) or are related to customer satisfaction.
3. Gain consensus from stakeholders (e.g., Operations, Engineering, Finance, Marketing, Human Resources).
4. Identify the data collection activity that will be required — existing and new.
5. Identify the database and systems where the metrics will be retained — from which reports will be generated.
6. Incorporate the metrics into the DAR.

3-3.2.2 Selecting/Developing Metrics

Results metrics (i.e., indicators) measure savings (i.e., requirements) identified in the DAR. There should be one metric for each valid requirement — the source of savings. For example, if workhours and spare parts are saved, then both must have a metric that can be used to identify if DAR expectations are being met. Results metrics measure the output of the process and will need to have a direct relationship to the source(s) of savings articulated in the DAR. The steps for developing DAR metrics are as follows:

- a. Link a metric to the source of each DAR savings element.
- b. Link metrics to project schedule.
- c. Link metrics to revenue, customer satisfaction — if appropriate.
- d. Establish measurements at intervals that allow useful judgments, at 10 percent, 30 percent, and 70 percent, of the project implementation (i.e., deployment phases of the program).

- e. Consider statistical sampling or surveys if existing systems cannot provide the required metrics.
- f. Describe how the measurement is made.
- g. Identify the source of the data and the systems used to capture and generate reports.

Metrics belong to the sponsor, who is responsible for ensuring the collection of appropriate data. The metrics answer the following questions for the sponsor:

- a. How are you doing?
- b. How do you know if the program is meeting the performance expectation defined in the DAR?

Program schedule is a metric that contains major milestones that must be incorporated into the DAR. The table below identifies common project milestones by organization.

Projects related to...	Often include the following milestones...
Equipment programs	Contract award, In-plant Test, First Article Test, Deployment
Information Technology	Contract Award, Alpha Test, Beta Test, Customer Acceptance Test, and Deployment
Facilities	Design, Contract Award, Buildout, Acceptance, Beneficial Occupancy, Move-in, and Fully Operational

A data (i.e., metric) supplier may not be able to meet the requirement now, but can show evidence that they are working to do so and can provide a timeline when the metric requirement can be met. For example, a system to collect the data required may not be fully deployed — but will be deployed in time to be used to measure the success of the DAR program.

3-3.2.3 Incorporation of Metrics into DAR

It is necessary to incorporate the appropriate metric(s) into the DAR prior to validation. Issues surfaced by stakeholders in the review and concurrence process must be resolved. Validation of the draft DAR by Capital and Program Evaluation will ensure that proposed metrics are sufficient to provide corporate oversight of the program throughout implementation and deployment.

3-4 Field Review and Approval

All projects initiated by the field must be reviewed and approved at the sponsoring level. Handbook F-66C contains process flowcharts for district and area level review and approval activity, which address the process from DAR preparation through implementation (or to the point where the project is forwarded to the next higher level for review and approval).

Projects that require the approval of the vice president of Area Operations — including field-sponsored projects that require Headquarters approval — must first be reviewed and approved by the area CIC.

3-5 Headquarters Review and Approval

For all investment projects that require Headquarters review and approval, the sponsor must follow the process in exhibit 3-1, including validation, before being forwarded to the appropriate official (e.g., chief operating officer; senior vice president, Operations) for final approval. Use the Delegations of Approval Authority decision trees in chapter 2 to determine the final approval authority.

Capital items that are centrally purchased by Headquarters, but are locally funded (e.g., administrative or non-mail-hauling vehicles), must be justified by the responsible Headquarters organization. This also applies to other nationally mandated programs.

3-5.1 **Headquarters CIC**

The Headquarters CIC must review all investments that require review and approval by the PMG/CEO or the Board of Governors.

3-5.1.1 **CIC Charter**

The Headquarters CIC establishes Postal Service investment direction, policy, and procedures; initiates and monitors key programs; ensures compliance with DAR procedures; enforces policy; and prioritizes resource utilization. The CIC has the following specific responsibilities:

- a. Develops (and recommends to the PMG/CEO) a capital investment strategy.
- b. Recommends to the PMG/CEO a Five-Year Capital Investment Plan for presentation to, and approval by, the Board of Governors.
- c. Serves as a review and approval body for all major investment plans, programs, and projects that exceed \$7.5 million.
- d. Establishes criteria and planning requirements for capital investments including their approval, execution, and control.

The Headquarters CIC meets at least monthly to consider investment matters. Forward investment items to be placed on the agenda to the secretary of the CIC.

3-5.1.2 **CIC Membership**

Exhibit 3-2 shows the membership of the Headquarters CIC, including voting and nonvoting members.

3-5.1.3 **Functions of the CIC Chair**

The chair of the CIC establishes membership, approves the attendance of nonmembers at meetings to review specific issues, conducts the meetings, and through subordinate staff performs the following functions:

- a. Ensures that the appropriate organizations review the studies and documentation.
- b. Provides results of capital investment audits and program cost studies to the committee.
- c. Requests and delegates special studies.

3-5.1.4 **Functions of the CIC Secretary**

The manager of Capital and Program Evaluation, Finance, currently serves as the secretary of the Headquarters CIC. The secretary of the CIC has the following responsibilities:

- a. Prepares notices of agenda for the committee and establishes a fiscal year schedule of projects to be reviewed by the committee.
- b. Provides advice and assistance to organizations in preparing project documents.
- c. Ensures that required project documentation is received, reviewed by appropriate organizations, and economically validated by the vice president, Finance, Controller, prior to review by the committee.
- d. Records, publishes, and transmits committee decisions, recommendations, and requests.
- e. Develops and publishes reports monitoring programs and projects for the committee and the Board of Governors.
- f. Monitors the implementation of capital investment policies and procedures.
- g. Reviews and updates the investment policies and procedures contained in this handbook.
- h. Formulates, with guidance from the chief financial officer and the vice president, Finance, Controller, the Five-Year Capital Investment Plan for presentation to the CIC, PMG/CEO, CPC, and Board of Governors.
- i. Coordinates committee responses to requests from sponsoring officials to deviate from an approved DAR or JOE.
- j. Coordinates with appropriate functional groups and verifies the accuracy of all public information news releases dealing with capital investment.
- k. Monitors program implementation and publishes periodic status reports on the capital and major expense investment programs.
- l. Serves as a liaison to and secretary of the Board of Governors, Capital Projects Committee.

3-5.2 **Postmaster General/Chief Executive Officer**

The postmaster general and chief executive officer (PMG/CEO) reviews all projects approved by the Headquarters CIC. The PMG/CEO signs an executive briefing sheet prepared by the sponsor to indicate approval of those projects within the PMG/CEO's approval authority or concurrence with those projects which require Board of Governors' approval.

3-5.3 **Capital Projects Committee**

The CPC is a three-member committee of the Board of Governors that meets monthly prior to the full Board meeting. It reviews all capital investment projects requiring Board approval, presents its findings, and makes a recommendation to the Board. As defined by the current membership, the CPC also has these responsibilities:

- a. Assists the Board in considering policies and issues associated with capital programs.
- b. Gathers information at the request of the Board and reports its findings to the Board.

At the option of the committee, the secretary of the CIC serves as the secretary of the CPC and prepares minutes of CPC meetings. Each month the secretary provides the members of the CPC with a briefing book including an agenda and project briefing materials for each project to be considered. Project briefing materials include an executive summary, the DAR (with the validation memo included as the last page), the CPC presentation slides, and any other relevant information about the project. Management sponsors brief the CPC on their project, after which the sponsor and CIC secretary address any concerns raised by the membership. A report on each project is prepared for the full Board.

3-5.4 **Board of Governors**

Each year at its January meeting, per Section 3.3(e) of its bylaws, the Board of Governors specifies the minimum project level requiring Board approval. The Board also approves the Five-Year Capital Investment Plan as well as individual projects that require Board approval. Additional funding requirements identified after Board approval of a project must be specifically approved by the Board.

Information regarding any of the following must be submitted to the Board:

- a. Significant new programs, major modifications, or initiatives.
- b. Plans to offer a significant new or unique product or implement a system.
- c. Significant new projects not directly related to the core business function of the Postal Service. *Significant* refers to a project or initiative that is anticipated to have a notable or conspicuous impact on corporate visibility, the operating budget, or the capital investment budget. Requests that a project be placed on the agenda for a Board of Governors meeting (generally within 2 months after project approval by

the CIC) should be submitted to the DPMG and Board secretary concurrently. This memorandum should indicate when the CIC and CPC approved the project and whether the project should be considered be in open or closed session (providing appropriate justification if a closed session is requested). The sponsor provides bound and unbound copies of the DAR and presents the DAR to the Board.

3-5.5 **Concurrence**

Functional and field organizations that are directly affected by or that may influence the project must review and concur with the concepts, assumptions, and operational and budgetary impacts presented in the DAR. The affected areas must concur with site-specific savings (or, in the case of accelerated projects, with the allocation of workhour savings). The sponsor must respond in writing to any issues raised by the functional reviews, and all issues must be resolved. Copies of all concurrences, as well as follow-up correspondence are included as backup (see exhibit 3-3 for a sample DAR concurrence sheet).

Exhibit 3-1

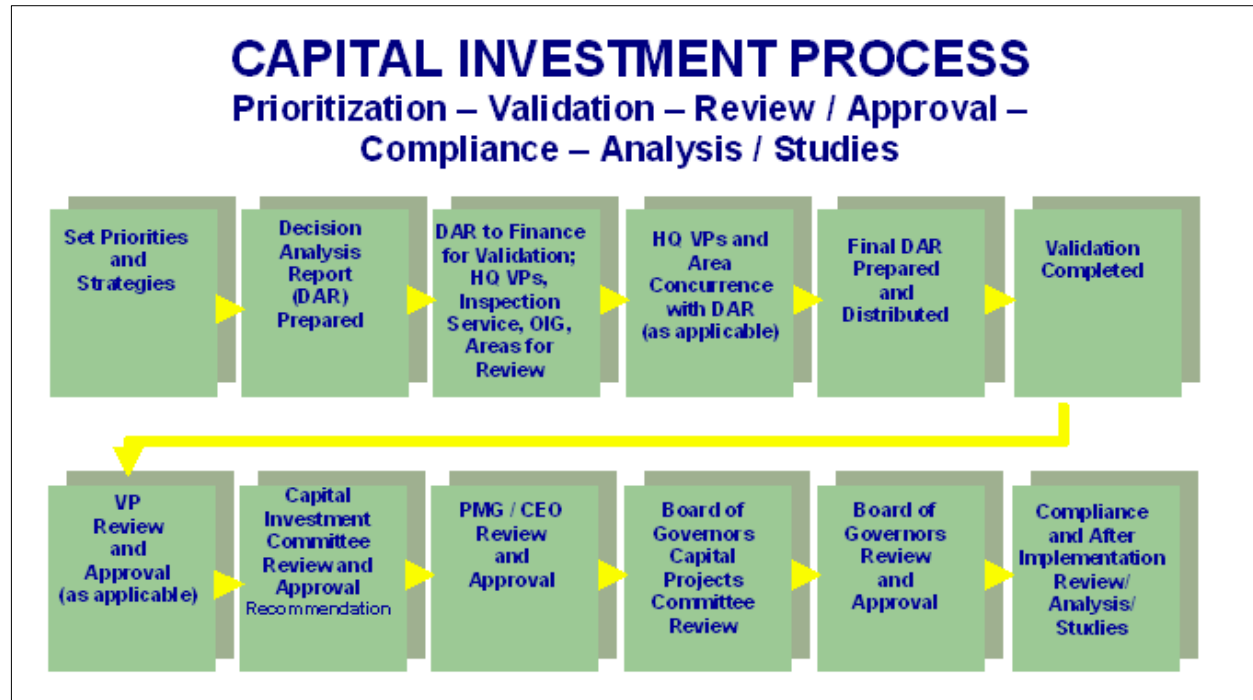
Capital Investment Process

Exhibit 3-2

Membership of Headquarters Capital Investment Committee

Voting Members	Nonvoting Members
Deputy postmaster general and chief operating officer	Vice president of Engineering
Senior vice president and general counsel	Vice president of Finance, Controller
Chief marketing officer and executive vice president	Vice president of Supply Management
Chief human resources officer and executive vice president	Vice president of Facilities
Senior vice president of Intelligent Mail and Address Quality	Vice president and chief technology officer
Senior vice president of Operations	
Chief financial officer and executive vice president (CIC chair)	

Exhibit 3-3 (p. 1)

Decision Analysis Report Review/Concurrence Form (Sample)

Decision Analysis Report – Headquarters Functional and Field Review

Copies of all Headquarters and field review concurrence sheets and any responses to issues raised are included in the final Decision Analysis Report (DAR) as part of the backup documentation. Any issues resolution meeting may be required for some projects prior to final validation, depending on the criticality of the issue(s). Capital and Program Evaluation, Finance, depending upon the nature of the proposed investment, will determine modifications to these concurrence requirements.

USPS Headquarters Distribution

Concurrence Form and Decision Analysis Report

Corporate Accounting . . Vince DeVito, w/cc: Kevin McNamara

Chief Marketing Officer

Product Development . . Nicholas F. Barranca

Chief Technology Officer

Information Technology Debbie Judy coordinates (R. Otto
concurrence)

Employee Development William A. Stefl, w/cc: Bill Koukus

General Counsel William A. Campbell

Facilities Projects Only . Richard C. Jensen, w/cc: Susan Koetting

Intelligent Mail and Address Quality . . . Jeff Freeman coordinates (C. Bravo concurrence)

Operations Manager of Field Operations Requirements/Planning¹Delivery and Retail Amy Wong coordinates (W. Galligan
concurrence)Network Operations Management Michael J. Cotter coordinates (P.
Vogel concurrence)Labor Relations John Dockins coordinates (D. Tulino
concurrence)

Engineering . Tina Powell coordinates (W. O'Tormey concurrence)

Facilities William Aspinwall coordinates (R. Umscheid
concurrence)

Public Affairs and Communication Azeezaly S. Jaffer, w/cc: Joyce Carrier

Supply Management . . . A. Keith Strange, w/cc: Paula Garner

Strategic Initiatives Kathleen Cavanaugh

¹ Requests for concurrence from the following functional areas should be sent directly to the manager of Field Operations Requirements/Planning, who coordinates Operations functional reviews and concurrence. Operations submits signed concurrence from senior vice president of Operations with separate signed concurrences from the vice presidents of Delivery and Retail, Network Operations Management, Labor Relations, Engineering, and Facilities.

Decision Analysis Report Only (no comments required)

Lawrence E. Maxwell . . Assistant Chief Inspector, Investigations and Security

Exhibit 3-3 (p. 2)

Decision Analysis Report Review/Concurrence Form (Sample)

Network Operations Management		
Headquarters Review	DAR: _____	
In accordance with the DAR Capital Investment Process.		
No Pending Issues:	Issues as noted below:	Issues as noted below:
OK to	OK to	DO NOT
Proceed	Proceed	PROCEED
<input type="checkbox"/>] Operations policies	<input type="checkbox"/>] <input type="checkbox"/>]	Operating plans described in the DAR are consistent with and programs.
<input type="checkbox"/>] commitments and	<input type="checkbox"/>] <input type="checkbox"/>]	Operating plans described in DAR will meet present service targeted service performance scores.'
<input type="checkbox"/>] concerns are rated	<input type="checkbox"/>] <input type="checkbox"/>]	Risks identified in DAR accurately reflect HQ Operations appropriately.
<input type="checkbox"/>]	<input type="checkbox"/>] <input type="checkbox"/>]	Other issues to be raised:
Comments:		
< Signature Below >		
Reviewed by Networks Operations Management: _____		
_____ <Printed Name Goes Here > Vice President, Networks Operations Management		Date
Please return the completed review to the sponsoring organization.		
Requested response time is 3 weeks unless otherwise noted.		

4 Investment Planning and Tracking

4-1 Scope

This chapter describes the processes and procedures that must be followed for planning investments, developing the Five-Year Capital Investment Plan, developing capitalization criteria, and tracking projects.

4-2 Purpose

The capital budget is formulated to support the implementation of the Five-Year Strategic Plan, as well as the performance goals for a given fiscal year. As such, the development of the capital budget plan should take into consideration the following goals while adhering to the objectives and capital investment strategy of the Postal Service:

- a. Increasing revenue at a rate that exceeds the Postal Service's projected growth rate for revenue.
- b. Increasing net income.
- c. Enhancing the retail network.
- d. Continuing to achieve the goals of the established automation and material handling plans through process improvements in the plants.
- e. Improving the quality of delivery services.
- f. Building a data-rich information system platform.
- g. Adding electronic or technical-based services.
- h. Maintaining the safety of Postal Service employees, customers, and assets.

4-3 Five-Year Capital Investment Plan

4-3.1 Purpose of the Plan

The purpose of the Five-Year Capital Investment Plan is to plan for and prioritize the investments necessary to optimally position the Postal Service for the future and to support the goals and objectives of the Five-Year Strategic Plan. The plan is updated annually, and the 5-year period moved

forward 1 year. The plan includes identified funding and timing of planned expenditures for projects at all levels of the organization (performance cluster, district/plant, area, Headquarters units, and national programs).

4-3.2 **Responsibility**

The vice president of Finance, Controller, is responsible for developing the budget and financial plans pertaining to capital investment. The planning organization, or sponsor, is responsible for ensuring that all costs of a prospective project are included in the Five-Year Capital Investment Plan. Before making final commitment plans, the sponsor must review the proposed funds authorization with Facilities or Procurement to ensure that all foreseeable costs have been included.

4-3.3 **Process**

The development of the Five-Year Capital Investment Plan is an extension of the Postal Service's adaptation of the Malcolm Baldrige Award criteria-based management system. It consists of four distinct phases that are used to set the direction and allocate the resources of the organization. These four phases are applied to the capital budget process as follows:

- a. **Establish goals** — Senior Postal Service executives establish the capital budget goals, subgoals, indicators, and targets at a national level with an emphasis on increasing net income and productivity.
- b. **Deploy resources** — Headquarters and area offices submit their plans for capital commitments and deployment of resources to achieve the identified goals, subgoals, indicators, and targets.
- c. **Implement actions** — Following the BOG approval of the Five-Year Capital Investment Plan, the identified investments are implemented.
- d. **Review performance and make necessary adjustments** — As the individual investment projects are implemented, senior management and the Strategic Planning Committee, a committee of the Board of Governors, continually review the progress and benefits of the approved capital plan, as well as its affordability and achievability, making adjustments as necessary to ensure the goals are met.

4-3.4 **Plan Preparation**

The Five-Year Capital Investment Plan process begins with the issuance of the Budget Call to the areas and Headquarters units with instructions on how the plan is to be developed and implemented. The Budget Call includes a document called the Capital Budget Technical Package, which can be printed from the Corporate Finance Intranet web page. This document outlines the budget cycle for the budget review process and for inputting the data into the Corporate Planning System (CPS), the computerized planning and tracking mechanism for all facility, vehicle, equipment, and other capital investment projects. Estimates of the level of capital commitments over the life of the plan and annual estimates of the cash flow likely to result from such commitments are used in developing the plan.

The key attributes of the Five-Year Capital Investment Plan are as follows:

- a. **Consistency** — While some change is inevitable and even desirable, planners are expected to ensure that timing and cost projections for planned investments are as accurate as possible.
- b. **Discipline** — Projects are to be included in the plan only if a demonstrated need or a financial or service opportunity exists. Once included, a project should be pursued vigorously and completed on time and within budget.
- c. **Timing** — Personnel who are responsible for planning and implementing projects must allot sufficient time in the commitment schedule for DAR preparation, approval, and the purchasing process. The Five-Year Capital Investment Plan is based on anticipated funds commitments by month and fiscal year. Management tracks and the BOG periodically reviews the plan.
- d. **Financing** — The Postal Service finances capital investments out of depreciation, net income, or new borrowing. New borrowing will be a last resort. The level of borrowing is determined by forecasting the expenditures that will result from planned commitments. The date of contract award or placement of an order determines the commitment date. Because of the interdependence of commitments, expenditures, and borrowing, commitments must be accurately portrayed, both in terms of timing and value. However in all cases, new borrowing will only be obtained if it is prudent and necessary to do so.
- e. **Prioritization** — The Postal Service plans its capital program by balancing the need for capital funds against the ability to pay for them. To ensure that scarce capital resources are allocated to the highest priority projects, all projects requiring funding must be prioritized using standard methods.

Sponsoring organizations must prioritize all programs within the budget line item. For example, if an area seeks funds for a number of separate facility projects, the projects must be ranked in order of importance. Similarly, if a Headquarters unit is sponsoring the acquisition of several mail processing equipment systems for nationwide deployment, each system must be ranked in order of importance.

All new space projects (owner or leased) are ranked nationally at Headquarters in coordination with the areas. The areas fund customer service projects on the approved priority list. Headquarters funds plant projects.

4-3.5 Plan Approval

After senior management concurs, usually during the “establish and deploy” phase, the Five-Year Capital Investment Plan is submitted to the Headquarters CIC for review and concurrence, to the CPC for review and concept approval, and to the Board of Governors for final approval. Once approved, this is the budget of record against which actual results are tracked by management and the Board.

No individual project, purchase, or operating expenditure will be considered approved for funds commitment because it is included in the fiscal year capital budget plan. Upon overall budget approval, the manager or sponsor must follow established procedures to initiate projects, prepare the required documentation, and obtain approval for a project from the appropriate approving authority.

4-3.6 **Periodic Plan Adjustments**

The capital budget is periodically analyzed by area and Headquarters budget staffs, and adjustments are made at the individual project level in line with revised predictions regarding expenditures for the remainder of the fiscal year. While the approved Five-Year Capital Investment Plan line-item totals may not increase, projects within the line items may change and funds may be shifted between area and Headquarters projects or from one area to another. These revised projections must be approved by the vice president of Finance, Controller.

In the event that an unforeseen project becomes necessary or a planned project is reduced in scope or canceled, funds may be reallocated within the line item by the appropriate investment committee and manager only. Changes of \$5 million or more to the established major facility and equipment schedules must be coordinated through the secretary of the Headquarters CIC.

4-3.7 **Adherence to Plan**

The Capital Investment Plan provides two sets of parameters to guide users: project data and line-item budgets. Sponsors initiating capital investment projects must ensure that their projects are included in the plan and that the line-item budget is not exceeded.

4-3.8 **Funds Certification**

To ensure that sufficient funds are available within the capital budget for a specific project, prior to the commitment of funds, managers must certify that sufficient funds are available within the Corporate Planning System for the particular project in the appropriate fiscal year. Managers may only certify projects that fall within their approval authority.

4-4 **Capital and Expense Items for Facility Projects**

4-4.1 **Capital Items**

This section identifies items that should be capitalized for proposed facility projects. Note that investments that provide new Postal Service-owned land or buildings are capitalized, regardless of cost. In addition, projects that cost \$5,000 or more that provide new features, increased space, or significant extension of useful life — including leasehold improvements — are

capitalized. Expenditures that do not meet these requirements (including capital-type projects up to \$5,000 and routine repair and maintenance projects) are expensed.

4-4.1.1 **Initial Construction, Purchase, or Installation**

The following costs relating to new construction-owned facilities or the purchase of land or buildings, regardless of amount, are capitalized:

- a. Cost of land, including the following:
 - (1) Site selection and survey.
 - (2) Purchase price.
 - (3) Attorney's fees.
 - (4) Broker's commission.
 - (5) Appraisals.
 - (6) Title search and title guaranty fees.
 - (7) Notary and recording fees.
 - (8) Cost associated with right-of-entry agreements and payment for damages, if any.
 - (9) Cost of relocation (42 United States Code 4601, as amended).
 - (10) Demolition of existing structures (if not included in the construction contract).
 - (11) Site-fill and grading cost (if not included in the construction contract).
 - (12) Costs incidental to the disposition of assets approved as an integral part of the project.
 - (13) Other related and identifiable support costs.
- b. Cost of acquiring existing buildings, including the following:
 - (1) Purchase price.
 - (2) Attorney's fees.
 - (3) Cost of research and title evidence or guaranty.
 - (4) Cost of improvements required to meet occupancy requirements.
 - (5) Other related and identifiable support costs.
- c. Cost of new Postal Service-constructed buildings, including the following:
 - (1) Design costs.
 - (2) Cost of construction, including change orders.
 - (3) Other related and identifiable support costs, including construction supervision.
- d. Other costs relating to initial construction, purchase, or installation, including the following:
 - (1) Heating, ventilation, and air conditioning (HVAC) systems.
 - (2) Lighting systems.
 - (3) Plumbing systems.

- (4) Telephone systems.
- (5) Docks, platforms, and vaults.
- (6) Floors, ceilings, walls, doors, partitions, stairs, and elevators.
- (7) Fire protection systems (alarms, sprinklers, exit lights, and fire doors).
- (8) Landscaping, paving, and fences.
- (9) Modular furniture and one-time capital equipment.

4-4.1.2 **Improvement, Modernization, and Major System Replacement Projects**

Projects to improve or modernize a building or to replace major systems are capitalized provided that they cost more than \$5,000 and provide useful features not previously available, increased space, or significant extension of useful life. Improvements that do not meet these requirements, as well as all routine maintenance and repair projects are expensed. The following are examples of modernization and replacement projects that should be capitalized:

- a. Leasehold improvements.
- b. HVAC systems.
- c. Electrical systems (complete renovation).
- d. Plumbing systems (complete renovation).
- e. Telephone systems.
- f. Fire protection systems (alarms, sprinklers, fire doors, and exit lights).
- g. Roofs (complete replacement).
- h. Platforms, elevators, docks, and vaults.
- i. Fences.

The St. Louis Accounting Service Center (ASC) determines the book value of items entered into the asset accounts. If existing fixed assets are wholly or partly replaced by the improvement or modernization, the undepreciated amount of these existing assets must be written off. The servicing ASC determines the book value of items to be written off.

4-4.2 **Expense Items**

Routine repair and maintenance costs are expensed, as are repair, improvement, and modernization projects that do not meet the capitalization requirements (see part 1-4.2). The following types of repair, improvement, modernization, or replacement projects, regardless of amount, are considered expenses:

- a. Building structures (repair).
- b. Electrical systems (other than complete renovation).
- c. Plumbing systems (other than complete renovation).
- d. Floors, doors, walls, stairs, and ceilings.
- e. Interior and exterior painting.

- f. Parking and maneuvering area (repair).
- g. Planning studies.
- h. Plant systems (e.g., HVAC repair).
- i. Plastering and caulking.
- j. Roofs (other than complete replacement).
- k. Sidewalks and paving (repair).
- l. Steam cleaning (exterior).
- m. Weatherproofing.
- n. Window glass (replacement).

4-4.3 Combined Capital and Expense Projects

Facility projects that include unrelated improvements of both a capital and expense nature (even if both are performed by the same contractor) are processed using separate project authorizations and are assigned numbers for both capital and expense improvements. However, if the expense costs are a direct result of (or are interrelated with) a capital improvement, modernization, or replacement project, the total cost is capitalized using a single project authorization.

Example: A replacement heating system is installed (a capital project) at the same time that the entire facility is to be painted (an expense project). Because the painting is not directly related to the installation of the heating system, each project is processed on a separate project authorization and is assigned a separate project number.

In an interrelated project, the total costs are capitalized.

Example: A new air conditioning system is installed and the surrounding area requires painting (or plastering, floor, or ceiling work) to properly finish the area disturbed by the air conditioning installation. The total cost is capitalized using a single project authorization.

4-5 Capital and Expense Items for Equipment Projects

4-5.1 Capital Items

Capital equipment includes any items capitalized in the Postal Service accounting records and that cost more than \$3,000 per unit, depreciated over a given service life, and identified by a property code number. All expenditures for equipment installation and site preparation, regardless of cost, are capitalized.

Handbook F-43, *Property Code Numbers*, contains the budget index codes (BICs), commitment accounts, property code numbers (PCNs), and descriptions of items of equipment procured by the Postal Service, including installation and site preparation costs associated with automation/

mechanization equipment and other items of equipment. To obtain numbers for items not listed, contact Corporate Accounting, Headquarters.

4-5.2 **Expense Items**

Costs of equipment installation that Post Office personnel perform (e.g., screenlines, counterlines, and Post Office boxes) are expense items. The costs for removal of old equipment are also expensed.

4-6 **Reporting and Tracking Systems**

A number of systems, reports, and processes are available to help Postal Service personnel track, control, and report capital investments. The Accounting Data Mart (ADM) contains most of the financial information necessary to meet the reporting requirements for Capital and Expense investments as set forth in this and its associated handbooks (i.e., F-66A, F-66B, F-66C, F-66D, and F-66E). In addition, Activity Based Costing (ABC) reports contain data (if identified as performance metrics for investments that require compliance reporting), may be used to strengthen program performance reporting (i.e., Compliance reporting and quarterly *Investment Highlights*). However, other functionally-based systems should be used to provide the depth of information required to meet all DAR compliance reporting and program performance tracking requirements as necessary (see chapter 3 for processes related to developing metrics).

4-6.1 **Corporate Planning System**

The Corporate Planning System (CPS) is a computerized system used to develop and manage the Five-Year Capital Investment Plan and the 2-year Headquarters expense plan. Both plans incorporate data from corporate-wide activities, Headquarters administered programs, and DARs. Data on facility and equipment projects is input into this system by users from individual organizations. Throughout the fiscal year this information is updated to reflect schedule or estimate changes. The CPS is also used in conjunction with other systems to track the capital requirements of the Postal Service.

The CPS is under the direction of the vice president of Finance, Controller, and all plants districts, area, and Headquarters units have access to the CPS.

4-6.1.1 **Facility Projects**

The areas and Headquarters units input information regarding capital investments for facility projects into CPS. This information includes the project name, project number, budget index code, estimated commitment amounts, and commitment dates.

Facility costs are reported using the following line items in CPS:

Use this line...	To report facility costs for...
Line 61	Customer service facilities
Line 62	Mail processing facilities
Line 63	Building improvements
Line 64	Mechanical material handling systems

4-6.1.2 Equipment Projects

Information regarding capital equipment investments, including both locally and centrally funded and purchased equipment, is input into CPS by the sponsor. Information entered into CPS includes the project name and number, input code name and number (identifying the type of equipment), estimated commitment month, number of units, and unit cost.

Equipment costs are reported using the following line items in CPS:

Use this line...	To report facility costs for...
Line 61	Customer service facilities and Headquarters administrative facilities (6A, 6B, 6C)
Line 62	Processing and distribution facilities (6D, 6E, 6F)
Line 63	Building improvements (6G)
Line 64	Mechanized material handling systems (6H)
Line 65	Automation/mechanization equipment (6J, 6K, 6L)
Line 66	Vehicles (6N, 6O, 6P)
Line 67	Retail equipment ((6Q, 6R, 6S)
Line 68	Postal support equipment (6U, 6V, 6W, 6X)

4-6.2 FMSWIN Transactions

The Facilities Management System for Windows (FMSWIN) is used to create the following transactions:

- a. **Project authorization (PA)** — The sponsor creates this transaction at the beginning of the project cycle (it may be adjusted at other times during the project life) to authorize funds the contracting officer commits against the PA. Sponsors may use the eBuy approval process to fund facility projects. When using this process, the postal operations analysts (POA) from the servicing Facilities Service Office (FSO) may approve the PA in FMSWIN. The total funding authorized cannot exceed the total funding amount approved for the project. Authorized funding may reflect significantly less funds than approved, based on favorable contract prices. In approving the authorization or the eBuy request, the sponsor also certifies the total funds approved to complete the project. Because the authorization treats funding in terms of the life of the project, which may extend over several years, it does not certify funding availability in a particular budget year.

- b. **Facility and material handling contract commitments** — These transactions are executed concurrently with the contract award or modification for each contract associated with a project. The transactions record the commitment amount of each individual financial transaction throughout the life of a contract. These transactions can only be made if there is an authorization and a current-year budget approval for the amount committed.
- c. **Payments** — Payment transactions are created to authorize payments against a contract. They may be one-time payments or progress payments.
- d. **Project completion** — Project completion is a two-stage process:
 - (1) technical final transaction executed at move-in and
 - (2) administrative and fiscal transaction at the end of the project.
 Projects that cost less than \$50,000 are not required to have a technical final transaction. Embedded within the Project Financial System (PFS) is an automated completion process for capital projects, beneficial occupancy. This is comparable to the technical final transaction, but does not replace it. The following criteria must be met for the automated transaction to occur:
 - (1) Must be a capital project.
 - (2) Must have payments against a construction BIC in excess of \$5,000.
 - (3) Commitments must equal at least 95 percent of authorizations.
 - (4) Payments must equal at least 90 percent of authorizations.
- e. **System data changes** — All data revisions are accomplished through FMSWIN.

4-7 Financial and Management Reports

Various budget and accounting reports related to the capital investment process are available to management. At all review levels, management uses current reporting systems to obtain required information about facility projects and equipment procurements.

Finance makes accounting and management reports available to Headquarters organizations for national accounting reporting and continual reconciliation of commitments to official financial reports. Area and Headquarters offices receive a financial report each month comparing actual versus planned month and year-to-date commitments.

4-7.1 Financial Performance Report

The Financial Performance Report (FPR) is prepared on a monthly basis for Headquarters, the areas, districts, and plants. It provides detailed information on revenues and operating expenses, as well as capital commitments by budget line item, month and year-to-date actual versus planned expenditures. Postal Service financial information also resides in the Accounting Data Mart

(ADM) and the Financial Data Mart (FDM) and is available to all authorized users (See eAccess at <https://eaccess> for authorization for access to the ADM).

4-7.2 **National Trail Balance Report**

The National Trail Balance Report is prepared each month Totals for each general ledger account are reported, showing dollar amounts as of the beginning of the month, current month, and year-to-date. All accounting reports must be reconciled with this official accounting report.

4-7.3 **Purchase Request Forms**

4-7.3.1 **Headquarters Organizations**

Headquarters sponsoring organizations request the purchase of capital equipment by completing an eBuy request. Effective January 11, 2003, all employees who have access to the Postal Service Intranet must use eBuy for all requisitions in lieu of hardcopy PS Form 7381, *Requisition for Supplies, Services, or Equipment*. Employees are to use eBuy reports to reconcile receipt of goods with amounts paid for goods.

Employees who do not have access to the Postal Service Intranet may use PS Form 7381 for approved requirements. The approval statement includes the date, number of units of equipment, and dollar amount. Sponsoring organizations that issue PS Form 7381 are responsible for maintaining the current fund and commitment status of each Headquarters-approved procurement and for ensuring that the commitment does not exceed approved investment amounts. Funds authorized by the sponsoring unit on PS Form 7381 are adjusted to the actual commitment amount after the commitment document is received from the contracting officer. After receipt of the item of equipment is confirmed, the contracting officer submits the supplier's invoice to the appropriate accounting service center (ASC) for payment.

4-7.3.2 **Area Organizations**

Employees who have access to the Postal Service Intranet must use eBuy for all requisitions in lieu of hardcopy PS Form 7381.

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5 Economic Analysis

5-1 Scope

An economic analysis is required for all major facility projects, including both processing and distribution centers/facilities (PDC/F) and customer service facilities, all major equipment projects (except R&D), all economically driven investment projects that cost at least \$25,000, and all projects that require a cash flow. In addition, an economic analysis may be required for any project where the approving authority believes such an analysis would add value.

5-2 Purpose

An economic analysis is used to identify the most economically beneficial resolution to a problem — that is, the alternative that will result in the highest net present value (NPV), lowest costs, or greatest savings, and to determine the financial impact of the project. The economic analysis may also be used to determine the priority among projects in the same category.

5-3 Definitions

Economic analysis — A tool for making an investment decision based on a comparison (in current dollars) of the economic costs and benefits of two or more solutions to a given problem or situation. If only one alternative is considered, a comparison is made between the current costs (baseline situation) and the anticipated costs and savings in the proposed alternative.

Time value of money — The value of money based on time. Time, or the timing of an investment, is an important consideration in any economic or financial decision. The purchasing power of a dollar is greater today than in the future because of inflation. (In a period of disinflation or deflation, the purchasing power of a dollar would be less today than in the future.) At the same time, money that is invested grows according to the laws of compound interest.

Future value — The compound interest rate determines the future value of invested dollars (e.g., \$100 invested today at a 10 percent interest rate will grow to \$121 in 2 years).

Present value discounting — A mathematical process for determining the value today of future costs and benefits. It uses the reciprocal of the compound interest rate to discount, in terms of present value, sums of money to be spent or benefits to be realized at a future date. Thus it provides a method for evaluating the tradeoff between current dollar outlays (investments) and future benefits (cash inflows) over a period of time. This concept is integral to the evaluation of investment decisions.

Cash flow — A timeline that shows the anticipated flow of investments, costs, and savings for a given project alternative, and also calculates mathematical measurements such as return on investment (ROI), net present value (NPV), and incremental rate of return (IRR) for the alternative (see part 5-4.11).

5-4 Discounted Cash Flow Method

The Postal Service uses the discounted cash flow method of economic analysis to identify the most economically beneficial solution to a problem. This is accomplished by discounting the anticipated benefits and costs of alternative solutions and calculating the various investment measures (NPV, ROI, and IRR). These investment measures are used to compare the expected results of each alternative and also bring into focus additional factors affecting the decision (e.g., the time value of money) that cannot otherwise be expressed quantitatively.

Because a financial evaluation is only as good as the assumptions and input data, these must be as accurate and realistic as possible. To achieve the most reliable results, input should be obtained from all available resources (including internal specialists, external consultants, and other subject matter experts) regarding the selection of options and use of resources. Although final responsibility for an assumption or estimate rests with the function having the relevant specific knowledge, the sponsors, developers of the DAR, and validators are expected to apply common sense judgment.

A separate cash flow must be generated for each alternative considered. The cash flow for the recommended alternative is included in the DAR, while the other cash flows are included in the DAR backup.

5-4.1 Determining Viable Alternatives

In preparing the DAR, the sponsor usually identifies various solutions to the defined problem, and then analyzes those that are deemed viable. Alternatives that do not substantially comply with Postal Service requirements are eliminated without being evaluated (e.g., an alternative that does not fully meet employee considerations, service, and space standards). Sometimes options that are technically feasible may be ruled out by legal, financial, or political constraints. Limited effort should be spent on developing such options, although constraints of this kind are subject to change and should not be taken for granted.

For facility projects, the alternatives to be analyzed must satisfy the projected 10-year space requirements and adhere to space criteria and the facility planning concept (FPC). Alternatives considered may range from leasing or buying and renovating an existing facility to construction of a new facility.

For equipment projects, the purchase and installation of a new piece of machinery is compared to the existing operation (often a manual operation) that it will replace. Even though the purchase of new equipment may be justified solely on economics, existing equipment must be optimized before determining how many pieces of new equipment are required and where the new equipment will be deployed. This optimization may result in an increased ROI for the new equipment purchase.

Even when results cannot be quantified, a justification for incurring the expenditure must still be considered. For example, rather than automatically replacing a fully depreciated asset, the sponsor should consider whether it may be more prudent to eliminate or modify the existing operation.

5-4.2 **Determining Baseline Costs**

The baseline, or existing situation, provides a uniform reference point for defining the operational and economic impacts of each alternative. In order to determine the present value of an alternative, a schedule of cash flows is constructed in which the anticipated investments and operating savings and costs of a project are compared to the baseline over the economic life of the project. This requires that the costs of the existing situation be analyzed. Current baseline costs are escalated into the future through the end of the analysis period (usually the service life of the asset but not more than 10 years following move-in or final deployment) using the escalation rates that the vice president of Finance, Controller establishes (see exhibit 1-1).

5-4.3 **Applying a Sustaining Baseline**

In rare circumstances, the sustaining baseline situation is used to quantify those measures that a reasonable manager would take to sustain postal operations during the analysis period in the event the proposed alternative is not approved. It is based on a continuation of present operations, including providing all the resources (e.g., labor, space, and equipment) required to the existing operations at the time the concept for the proposal is developed and continuing through the analysis period. In general, capital funds are not used (although use of capital is not ruled out completely). When use of a sustaining baseline is warranted, it becomes the basis for computing the incremental rate of return (IRR) and Net Present Value (NPV) between the alternatives.

When developing the sustaining baseline, the following guidelines apply:

- a. The course of action must be realistic and its implementation possible.
- b. If additional space is necessary to satisfy sustaining requirements, it should be adequate to house the proposed mechanization and automation needed to accommodate mail volume growth. However, adherence to total space criteria is not required.

- c. Costs to postalize and fit out leased space must be included.
- d. The cost impact of split operations, including additional labor, maintenance, utilities, transportation, and other costs related to this scenario, must be included in the sustaining baseline cash flow.

5-4.4 **Determining the Analysis Period**

Once the viable alternatives have been determined, a schedule of expenses (or cash flow) for each alternative is developed that reflects the anticipated investments and future operating costs or benefits compared to the baseline during the analysis period (normally, the investment period plus 10 years following final deployment or move-in).

5-4.4.1 **Selecting the Zero Point**

The cash flow begins with the first significant investment. Thus the zero point of a cash flow is not necessarily the current year. The same zero point must be used for all alternatives under consideration.

The first project year is the 12-month period after the first significant investment (the zero point). Thus project years usually will not coincide with either fiscal years or calendar years. Costs and benefits are calculated on an annual basis and are treated as a lump sum falling at the end of a project year.

For facility projects, site acquisition is normally the first significant investment and is shown as the zero point of the cash flow. However, if land was purchased prior to project approval (under the advance site acquisition or land banking programs), the date of project approval is usually the zero point of the cash flow (see part 5-4.6 for guidance on accounting for the purchase price in these situations).

Some cash flows, such as for equipment-related programs, are laid out by fiscal year to reflect the budget process.

5-4.4.2 **Determining the Number of Years**

The useful life of the facility or equipment in the recommended alternative normally determines the time period for the economic evaluation of all the alternatives. For facilities, the cash flow covers the period during which the building is being built or renovated plus 10 full years of use. For space leased on a temporary basis (e.g., space required during the holiday mailing season), the cash flow covers only the period that the lease remains in effect. For equipment, the analysis period begins with the first year of expenditures and ends in the last year of life of the equipment after final deployment (normally not to exceed 10 years). However, a longer analysis period may be required under certain circumstances, as described in sections 5-4.4.3 and 5-4.4.4.

For facility projects, the investment period should be rounded up or down to the nearest full year. For example, if design and construction are scheduled to take from 13 to 18 months, the cash flow shows 1 year of investment. If design and construction are scheduled to take from 19 to 23 months, the

cash flow shows 2 years of investment. The Decision Analysis Report System (DARS) computer program makes these adjustments to the cash flow investment years automatically.

5-4.4.3 **Comparing Alternatives with Different Investment Periods**

When two alternatives being evaluated have different investment periods (reflecting differences in lead time, construction time, or availability), the recommended alternative determines the cash flow time line. Since the evaluation period must be the same for all alternatives (i.e., the zero point for each alternative is the same actual point in time), the evaluation period may have to be adjusted for the non-recommended alternatives.

Example: If Alternative B (the recommended alternative) has 5 investment years and Alternative A has 2 investment years, both cash flows will have an analysis period of 15 years. Alternative B will show 5 years of investment followed by 10 years of operating variances, while Alternative A will show 2 years of investments followed by 13 years of operating variances. (Alternatively, when using DARS for a facility project, the cash flow for Alternative A may show 3 years of "lag" time followed by 2 years of investments and 10 years of operating variances.)

If, on the other hand, Alternative A were the recommended alternative, the cash flow would show 12 years (2 investment years and 10 operating years for Alternative A, and 5 investment years and 7 operating years for Alternative B).

5-4.4.4 **Comparing Alternatives with Different Useful Lives**

When an economic evaluation compares two alternative assets with different periods of useful life, the cash flows are based on the useful life of the asset in the recommended alternative:

- a. If the recommended alternative has a shorter life than another alternative being analyzed, the evaluation period for the asset that is not being recommended is cut short and the residual value of this asset is credited to the last year of the evaluation period.
- b. If the recommended alternative has a longer life than another alternative being analyzed, the analysis period is extended for the shorter-life asset. If replacement equipment will need to be purchased during the extended analysis period, the anticipated price is included as a charge in the year it will be acquired, with any benefits credited in the following years, and the residual value of the investment credited to the last year of the analysis period.

5-4.5 **Calculating Investment Costs**

The investment expenditures that are itemized in the cash flow include the planning, initial costs, and other direct costs of the project, plus all related expenditures, both capital and expense, that are necessary to complete the

project, bring it to operational status, and fund it through the economic analysis period. The costs that are included depend on the type of project:

- a. **Facility projects** — For facility projects, the investment expenditure includes site costs (land, engineering, real estate and legal fees, and site development), building costs (e.g., design, engineering, construction or renovations, construction supervision, and paving, landscaping, and utilities), material handling costs (e.g., design, fabrication, installation, and construction supervision), and other capital investments (e.g., telephone system, modular furniture, and one-time capital equipment). Leased facility fit-out costs, where applicable, are also included. Investment costs for new construction projects are obtained from the facility investment cost sheet that Facilities prepares.
- b. **Equipment projects** — For equipment projects, the direct costs may include the purchase price (including hardware, software development, contractor maintenance, and training costs), site preparation and installation costs, initial allocation of spare parts, and contingency funds.
- c. **Leasing projects** — When an alternative involves the acquisition of an asset by leasing, deferred payment, or some other method of funding (e.g., sale and leaseback), the associated cash flows and timing must be included in the cash flow analysis. For specific information concerning lease versus ownership analysis for equipment and facilities, see sections 6-5.1.1 and 6-5.1.2, respectively.

Questions regarding whether a given item should be considered a capital or expense investment or an operating variance should be addressed to Capital and Program Evaluation, Finance, which will coordinate responses with Corporate Accounting.

5-4.6 **Accounting for Advance Site Acquisition, Advance Site Funding, and Land Banking in the Economic Analysis**

When a site is acquired in advance of full project approval, either for a specific project (advance site acquisition) or through land banking (see sections 2-9.1.2 and 2-9.1.3), the as-is value of the site is used in the project cash flow in year zero and for determining residual value. The zero point for the cash flow in this situation is the project approval date rather than the site acquisition date.

For determining project approval authority, the as-is value of the site purchased in advance or land-banked property is added to the other investments to arrive at the project's total investment cost. Generally the purchase price will reflect the as-is value for up to 5 years after purchase. If more than 5 years have elapsed since the site was acquired, or if the real estate market has changed significantly since site acquisition, the as-is value is the current market value of the site (as determined by a subject matter expert, such as a real estate specialist with appraisal expertise).

For projects that include land-banked properties, sensitivity analyses should be performed to show the financial impact and approval authority without the land-banked property value. The sensitivity analyses are included in the DAR backup, and the results are discussed in the DAR narrative.

5-4.7 **Advance Funding**

Advance funding for a project that is not considered research and development may be authorized if it is considered an integral part of a capital project. However, authorization for the acquisition of any equipment or real property must meet the following conditions set forth in section 2-9.1.3, and the subsequent completion and approval of an advance project funding briefing sheet (exhibit 2-3). The zero point for the cash flow when advance funding is used, is the project approval date rather than the advance funding date. For determining project approval authority, the as-is value of the investment (intellectual or real assets) or the advance funding is added to the other (project) investments to arrive at the project's total investment cost. Generally the purchase price will reflect the as-is value for up to 5 years after purchase. If more than five years have elapsed since the asset was acquired, the as-is value is the current market value of the asset (as determined) by a subject matter expert. For projects that include advance funding, sensitivity analyses should be performed to show the financial impact and approval authority without the asset. The sensitivity analyses are included in the DAR backup, and the results are discussed in the DAR narrative.

5-4.8 **Calculating the Disposal Value of Facility Assets**

The value of an asset may not be used in more than one project; thus assets targeted for disposal are valued only in the actual disposal project. If a facility is to be disposed of as part of a larger project, the potential sale price generally is not shown in the project cash flow (although it may be used in a sensitivity analysis). Instead, Realty Asset Management, Facilities, determines the best use of the facility (e.g., sale, outlease, or development).

The DAR and economic analysis are completed showing the economics associated with the alternatives considered in the best use of the facility to be disposed. If the sale price of the facility is shown in any of these best-use alternatives, then for comparative purposes, the as-is value of the property must be shown as an investment at the zero point of the cash flow. Any undepreciated balance remaining on the books for the asset being sold must be in the DAR.

5-4.9 **Determining Residual Value**

If an asset will not have reached the end of its useful life by the last year of the analysis period, the residual, or remaining, value is included as a positive cash flow in the final year. The residual value shown in the cash flow indicates the value that can be realized by further use, sublease, or resale of

the asset beyond the analysis period. Residual value considerations vary by type of project:

- a. **New construction-owned** — The residual value is calculated based on the original site and building costs (taken from the facility investment cost sheet) times the applicable residual value factor (see exhibits 5-1 and 5-2). Building costs included in the cash flow do not include material handling costs or costs shown as “other” on the investment cost sheet (a category that includes modular furniture, one-time capital, and telephone systems).
- b. **New construction-owned on leased site** — Exhibit 5-1 provides the formula for computing the residual value for Postal Service-owned new construction on a leased site.
- c. **Purchase of existing building** — When purchase of an existing building is one of the alternatives, the current market value of the facility must be established by a professional appraiser. Using that value as a base, the residual value is calculated as of the final year of the analysis. When very specialized space is involved (including monumental facilities having an expected life in excess of 40 years), an appraisal should be obtained to determine the estimated residual value in the last operating year.
- d. **Facility expansion project** — If an existing Postal Service-owned facility is being expanded, the residual value is calculated by subtracting the renovation and demolition costs from the investment and multiplying the result by the residual value factor (see exhibit 5-2).
- e. **Special-use properties** — The residual value of special-use properties should be evaluated by a professional appraiser.
- f. **Developmental facility projects** — The residual value of a developmental real estate project is the market value of the facility in the last project year. The market value is generally determined by applying the applicable capitalization rate to the net future income stream (beyond the scope of the project). When appropriate, other industry-approved appraisal techniques may be used to determine the future market value of the property.
- g. **Equipment** — The analysis period for equipment usually reflects the service life of the equipment, in which case the residual value is the scrap value or zero. If the equipment will not have reached the end of its useful life by the end of the analysis period, the residual value is based on estimates of its salvage (disposal) value. Finance will provide guidance in determining the service life and residual value of such equipment.

5-4.10 **Excluding Costs From a Cash Flow**

In general, the following costs are not included in a cash flow:

- a. **Non-project-specific administration costs** — These costs include Headquarters, area, and district staff time used to develop the project and are not generally included in the cash flow. In certain situations,

however, normal institutional activities and functions are considered to be part of a project. For example, workhours that are directly committed to an equipment project on a long-term basis should be included. If a person spends most of his or her time and effort supporting, operating, maintaining, or managing a project, these costs should be included in the economic analysis.

- b. **Financing costs** — Not included in the cash flow when equipment or real property is acquired outright.
- c. **Depreciation costs.**
- d. **Past expenditures (sunk costs)** — Sunk costs are included in the cash flow analysis (and shown on the facility investment cost sheet) if both of the following conditions are met:
 - (1) The project under consideration benefits directly from the past expenditure.
 - (2) No other project will receive significant value from the expenditure.
- e. **Automation and mechanization equipment** — Equipment purchases are justified separately from facility projects. No savings or costs associated with automation and mechanization are included in the economic analysis for facility projects. However, the analyst for the facility project is responsible for obtaining the necessary space requirements for any equipment scheduled for deployment and must ensure that it is included in the space analysis for the project.

5-4.11 Identifying Operating Variances

In developing a cash flow, the relevant costs and benefits of the alternative being analyzed must be identified. This entails identifying all expenses (and revenues, if applicable) that are expected to differ between the alternative being developed and the baseline for the same activity. The types of costs and benefits that are included vary according to the project being evaluated:

- a. For facility projects, operating variances may include line items such as building maintenance, utilities, transportation, start-up costs, labor, material handling, and rent.
- b. For equipment projects, operating variances may include line items such as utilities, labor, training, and maintenance.
- c. For postal support and information systems projects.
- d. For other projects.

Projected cash flows must be both realistic and comprehensive. Benefits or savings should be included only to the extent that they are achievable. In addition, metrics (indicators and methods) must be developed to track and document achieved benefits and savings. If a current activity is not required in the alternative scenario, the variance is the baseline (current) cost expressed as a savings. If the alternative requires a new activity, the variance is the total cost of that activity.

Since cash flows involve the analysis of projects into the future, the costs and benefits must be adjusted or escalated to account for inflation. The approved escalation factors for each type of operating variance (e.g., labor, energy, and all other costs) are included in the Controller's memo on DAR factors (see http://blue.usps.gov/finance/reports/df_apr05.pdf).

5-4.11.1 **Nonpersonnel Operating Expenses**

Nonpersonnel operating expenses (e.g., transportation, rent, utilities, services, and contract costs) are usually projected using the "unit cost" method. A cost per square foot factor may be applied to applicable expenses for facility projects. Nonpersonnel costs relating to training should be identified by subject matter experts and included in the project analysis.

5-4.11.2 **Personnel Costs**

Personnel costs may be quantified in the cash flow for a project using any of the following methods:

- a. If a position is being added or deleted, the current productive workyear factor (see <http://blue.usps.gov/finance/>) is multiplied by the applicable workhour rate.
- b. If an investment is expected to improve productivity, the difference between the current and projected productivity is divided into the anticipated volume and multiplied by the applicable workhour rate to calculate the projected salaries and benefits.
- c. If workhours for operational or maintenance training and activation or deployment coordination are identified by appropriate subject matter experts, they should be included.

5-4.11.3 **Facility Maintenance and Utility Costs**

Custodial and building maintenance costs are determined by comparing a computation based on a cost per square foot to the costs for an actual staffing plan. The higher of the two costs is shown in the cash flow. Both methods may be used in the same analysis. For example, the cost per square foot method might be used for custodial maintenance while the staffing plan is used for building maintenance costs, or vice versa. Utility costs *are now based on* a national energy report:

There are several methods for developing the cost per square foot:

- a. **Reliable costs** — If reliable costs for the current facility for the most recent fiscal year are available, the current facility square footage is divided into the annual costs of the current facility for each of the following variables: custodial maintenance and building services maintenance. The resulting cost per square foot for each variable is applied to the square footage of the new building to derive the projected maintenance and utility costs for the proposed facility. The cost per square foot is also applied to the portion of the current facility (the baseline) being vacated. The difference between the costs for the new and existing buildings is shown as the operating variance.

- b. **Annual workhours** — If reliable maintenance costs are not available for the current facility, the annual workhours required to maintain the building (custodial and building services) are estimated using constant factors developed by Headquarters Maintenance Policies and Programs. The applicable factor is divided into the building square footage to arrive at annual workhours needed to maintain the current facility. The annual hours for each type of maintenance are then multiplied by the applicable Labor Utilization Report hourly rate — labor distribution codes (LDCs) 37 and 38 — to arrive at an estimated annual cost for the proposed building. These factors are also used to develop the baseline maintenance costs, and the difference between the baseline and the new facility is computed as the operating variance. Note that this method is not used for calculating utility costs.
- c. **Comparable building** — If appropriate, costs per square foot for building maintenance and custodial services can be developed from a comparable (in size and use) building in a nearby geographical area. The cost per square foot for each variable is used to estimate costs for the existing (baseline) building and the proposed building, with the differences between the two shown as the operating variances.
- d. **Utilities** — Utility costs for use in DARs are now determined by a national energy report rather than by obtaining utility bills from facilities that are comparable in size and functionality. Updates of these reports are available on the All Online Resources Web page at <http://fmsreports.usps.gov/req/doclookall.cfm>; click on USPS DAR Energy Factors to get the most current utility cost report.

The Decision Analysis Report System (DARS) provides input cells for entering the current and proposed staffing information from the maintenance data sheet (see Handbook F-66A, exhibit 3-3). The actual staffing information is compared to the cost per square foot method to determine the maintenance variances. The method (staffing or cost per square foot) that projects the higher cost is used in the DAR cash flow. If a project is not being developed using DARS, the workhour variance between the current and proposed staffing should be costed out and the variance from the baseline computed for each LDC.

5-4.11.4 **Facility Start-Up Costs**

Nonrecurring expenses required to bring a facility project on-line should be computed using the standard factors in Decision Analysis Report Factors/Cost of Borrowing/New Facility Start-up Costs memorandum signed by the vice president of Finance, Controller, dated July 2004. Updates to this document are available at the Finance Web site; go to http://blue.usps.gov/finance/reports/df_mar05.pdf.

If these factors are believed to be excessive or inadequate for the project, sufficient backup documentation signed by the facility manager must be provided to support the projected costs. When the alternative proposes retention of the current facility and acquisition of an additional facility, additional one-time expenses should be specifically identified and included in start-up costs.

5-4.11.5 Equipment and System Relocation Costs

Relocation costs, including costs for the removal or redeployment of existing equipment and systems, are expensed, and generally are shown as a one-time operating variance in the cash flow for a new facility project (or equipment related project) . Costs for the redeployment of automation/mechanization equipment and systems to a proposed new facility are included in the start-up cost calculation.

5-4.11.6 Facility Project Transportation Costs

An analysis of transportation costs is developed for each alternative by a transportation specialist or appropriate subject matter expert. This analysis compares changes in carrier, highway contract route (HCR), and motor vehicle service (MVS) requirements due to the location of the proposed new facility. Costs or savings relating to changes in carrier mileage, HCR mileage, and MVS requirements are input into the computerized DARS transportation file. DARS draws from the labor file to compute hourly costs for driver and loading/unloading workhour changes associated with the MVS activities. The LDC rates for the appropriate driver and loading/unloading activities must be entered in the DARS labor table.

5-4.11.7 Material Handling Costs

If construction of a new facility is the recommended alternative, the proposed material handling system for the facility must be compared against a manual operation in the new facility to determine if there is sufficient mail volume to justify it. In this analysis, the ROI for the material handling system must exceed the threshold limitation for generative equipment projects set by Finance. Each material handling system identified for the project must be justified individually using established definitions and standards.

All systems that are justified against the manual operation become part of the recommended solution in the DAR and are included in the economic analysis for the project. However, for the purpose of DAR justification, costs and savings associated with the material handling system are compared to the baseline operations in the existing facility that the new equipment will replace. The current operations may or may not include material handling.

When a material handling system is proposed for an ongoing facility, each proposed system must be justified by comparing it to the system that is currently being used (the baseline). The ROI resulting from this analysis must exceed the threshold ROI to economically justify the equipment. If inclusion of a material handling system is requested for noneconomic reasons, the analyst must sufficiently explain and document the request in the DAR.

5-4.11.8 Nonquantifiable Costs and Benefits

Most costs and benefits are measured directly in monetary terms (i.e., reductions or increases in expenditures and increases in sales revenue). Even in projects that involve service performance, corporate identity, and broad managerial or political considerations, costs and benefits can sometimes be assigned monetary values. These monetary values may be

used in the economic analysis and shown in the cash flows, with an explanation as to how they were calculated.

Some factors, such as customer convenience or improvements in customer satisfaction, cannot be readily quantified or do not measurably impact on the finances of the organization. These should be discussed in the DAR narrative and quantified as far as is practical, making it clear that these additional factors should be taken into account. However, they are not included in the cash flow.

The result of market research needs to be defined in the DAR backup and discussed in the DAR narrative. The benefits related to improved customer satisfaction such as; larger market share associated with the program must be identified when these factors suggest future potential financial benefits may accrue to the program based on non-quantitative data. For example, a program that asserts revenues will be increased due to better customer relations must provide the detailed assumptions that include, qualitative (i.e., focus groups results) and/or quantitative data (i.e., customer surveys, economic projections)

5-4.12 **Discounting the Cash Flow and Calculating Economic Indexes**

Once the cash flow has been developed (i.e., the investment amounts and operating variances from baseline have been determined), the next step is to determine the present value of each alternative. This is accomplished by discounting the cash flow.

In a typical cash flow, an investment at the beginning of the evaluation period results in a stream of benefits (versus the baseline situation) during the remaining years of the analysis period. The annual benefits totals are multiplied by decreasing discount factors related to the time of the benefit, which greatly reduces their present value. Because most investments occur early in the analysis period, discounting has a significantly greater impact on benefits than on investments. Since the effect of discounting also increases with higher discount rates, benefits decrease faster than the investment as a cash flow is discounted at successively higher rates.

The discount rate that the Postal Service uses is published periodically by the vice president of Finance, Controller (see exhibit 1-1). It reflects the rate of return required from proposed investments to meet the established investment objectives. The discount rate includes the cost of capital and a risk factor that varies with the type of project. The risk in capital investments relates to uncertainty about future inflation, changes in mailing habits, obsolescence of equipment due to changing technology, uncertainty concerning the life of an asset, interest rate volatility, and uncertainty in economic forecasting.

Three economic indexes — NPV, ROI, and a NPV comparison — are calculated and used to compare alternatives analyzed. These are used to measure the relative profitability or cost efficiency of proposed investment

alternatives by converting the anticipated economic results of each alternative to a common basis.

Note: An NPV comparison is only required when the alternatives being analyzed do not have a positive ROI. See section 5-4.12.3.

5-4.12.1 **Net Present Value**

NPV is calculated by discounting the net cash flow (the difference between the net benefits or operating variances and the net investment) using the desired rate of return, taking into consideration any residual value of assets. The alternative with the highest NPV is the economically superior alternative.

5-4.12.2 **Return on Investment**

The ROI (technically known as the internal rate of return) is the discount rate corresponding to a zero net present value — that is, when the NPV of all benefits equals the NPV of all investments. It is profitable to borrow funds for a project at any rate lower than its ROI. To borrow funds at a rate higher than the project's ROI results in a loss.

The ROI calculations have a different purpose than the NPV and IRR measurements, and the alternative with the highest ROI may not be the most cost-beneficial choice. If the economic measures provide conflicting pictures, the alternative with the highest NPV should become the recommended alternative unless there are overriding non-economic considerations in favor of a different alternative.

5-4.12.3 **Net Present Value Comparison for Projects without a Positive ROI**

Exhibits 5-5 and 5-6 show how to compare investment alternatives for a project where both alternatives result in a negative ROI.

5-5 Risk

This subchapter addresses the process to be used to identify, analyze, prioritize and quantify, and control risk.

5-5.1 **Definition**

Risk is a measure of the probability and consequence of not achieving a defined project goal. The term risk is used to define the class of factors which (1) have a measurable probability of occurring, (2) have an associated cost or effect on the investment's outcome, and (3) have alternatives from which the organization may choose.

5-5.2 Management

Risk management includes the process associated with identifying, analyzing, prioritizing and controlling, and mitigating investment risk. There are four major processes involved in the risk management process:

- a. **Risk identification** — Determining which risks are likely to affect the investment project and documenting the characteristics of each risk.
- b. **Risk prioritization and quantification** — Defining opportunities and response to potential threats and rank them.
- c. **Risk analysis** — Evaluating risks and risk interactions to assess the range of possible investment (project) outcomes.
- d. **Risk response control** — Responding to change in risk over the course of the investment project-based on the risk management plan (i.e., program management plan).

It is important that the risk analysis section in the DAR narrative and backup address each of the four processes identified above. Risk identification, prioritization and quantification, and analysis, fit easily into existing investment analysis activities. Risk response control is a process that involves more than agreement with assumptions and their accompanying calculations. An integrated multifunctional approach for responding to and controlling risk provides for the overall mitigation of investment risks and will influence the extent with which senior management may favorably view an investment. A process that identifies and mitigates known risks combined with identified strategies that can be implemented when the magnitude and range of risks become known may make investments with relatively higher than average risk potential become viable and suitable for senior management's approval. For example, if maintaining the project schedule is identified as a risk, then actions that describe how schedule slippage will be addressed may contribute to the eventual approval of the investment, even when a specific risk has been identified.

5-5.2.1 Risk Identification Process

The suggested method for identifying and quantifying risk is to use a process that involves the appropriate subject matter experts (SMEs) to identify and quantify the risk elements into the following three categories:

- a. Technological.
- b. Operational.
- c. Integration.

A sample list of categorized risk elements is provided. It's important to understand that this list is not all-inclusive and that risk elements may appear in more than one risk category (see exhibit 5-3).

5-5.2.2 Risk Quantification — Element Ranking

There are many ways to quantify risk ranging from models that employ complex Monte Carlo simulations that can be used to project the likelihood of a particular risk component or simulate many interrelated risk components simultaneously.

However, simple processes that rely on the best minds available (i.e., subject matter experts) to project the potential impacts of identified risk elements are among the most often used methodologies when internal risks are being assessed. The process and calculations used to determine the project's risk level (i.e., high, medium, low) must be included in the DAR backup documentation.

5-5.2.3 Risk Analysis

Some degree of risk always exists in project management, technical, testing, logistics, production, and engineering areas. Project risks include funding, schedule, contract relationships, and political risks. Technical risks may involve the risk of meeting a performance requirement, but it may also involve risks in the feasibility of a design concept or the risks associated with using state-of-the art equipment or software. Production risk includes concerns over manufacturing, lead times, and material availability. Engineering risks include reliability, maintainability, operability, and trainability concerns. The understanding of these risks evolves over time. The methods for identifying risk are numerous and any source of information that allows recognition of a potential problem can be used for risk identification.

5-5.2.3.1 Risk Analysis — Using the Risk Analysis Matrix

After the SMEs have categorized the selected risk elements, the rating of each risk element determined based upon the potential impact on the success of the program. This process is repeated until all the risk elements selected have been evaluated. The rating of the risk element is an estimate of the likelihood of the risk element actually happening and impact of the risk element being evaluated would have on the project if the risk was to materialize. After the risk elements in each of the three categories are evaluated, composite rating is determined (i.e., low, medium, high). This activity is repeated until all the elements within the three risk categories (i.e., operational, technical, and integration) are examined (see exhibit 5-4). The Risk Analysis Matrix is a required element in the DAR backup documentation.

5-5.2.3.2 Sensitivity Analysis

Performing a sensitivity analysis is a component of risk analysis. Most of the basic inputs in a financial analysis are estimated or a forecast, resulting in a degree of uncertainty. These elements include all the major assumptions that are contained in the DAR backup. This uncertainty can be reduced by assessing the sensitivity of the results to changes in key variables. Often a sensitivity analysis is included in the DAR backup for major projects. The number of sensitivity analyses should be consistent with the importance of the project being evaluated. The effect of changes in costs, savings, revenues, and volumes on a project that is economically justified may be

calculated to establish the sensitivity of the expected returns to varying conditions. Sensitivity analyses are particularly helpful when benefits from a project will not accrue until the later years of an evaluation. In this situation, the difficulty of accurately predicting benefits is increased by the longer time period involved. A sensitivity analysis showing optimistic, most likely, and pessimistic forecasts provides a range of probable outcomes that can help establish whether a project is cost-effective (see subchapter 6-5).

5-5.2.3.3 **Contingency Funding**

The amount of contingency funding for the investment is based on the level of risk associated with the project. However, depending on the key risk components identified, varying level of contingency funding may be identified for each of these key components. For example, hardware and software contingency funding may be allocated at different percentages due the identified risk associated with each component. Therefore, a rigorous risk analysis process will support the appropriate requirements for contingency funding associated with the investment project. Capital and Program Evaluation, Finance, reviews and evaluates the contingency amount, as is required, for all DAR assumptions.

5-5.2.3.4 **Discount Rate**

The discount rate includes the cost of borrowing and the risk factor, which varies with the type of project. The risk in capital investment relates to uncertainty about future inflation, changes in mailing habits, obsolesce of equipment due to changing technology, uncertainty concerning the life of the asset, interest rate volatility, and uncertainty in inflation and economic forecasting.

5-5.2.4 **Risk Response Control**

Risk control is the process of continually sensing the condition of the program and developing options and fall-back positions to permit alternative lower-risk solutions. To avoid risk is to avoid the potential failure consequence and/or its probability. There is no risk control if there are no provisions for handling the identified and quantified risk. In project management, risk avoidance may be reflected in the system concept selection and contractor source selection. Program managers use established processes throughout various phases of programs to reduce or control risks. As an example, risk avoidance may be reflected in the system concept and the contractor source selections.

5-5.2.4.1 **Project Development — Risk Control**

When developing a new product, exploring advanced technologies, or planning new operational concepts a *pilot* or *prototype* is often used to collect additional data, refine requirements and validate concepts. Armed with this additional information a business case or DAR can be developed that has mitigated many risk factors because theoretical as well as actual performance metrics are used as assumptions to predict the investment's viability.

In the formative stages of the program, schedules are often expanded when extensive training development is required and the activity has been identified as a component of the risk associated with the program. Taking actions such as expanding the timeline or increasing resources for an activity that is identified as risky will diminish the risk of deploying equipment or a new product without having the knowledge base necessary to operate equipment or provide the required level of service to customers.

5-5.2.4.2 **Production/Implementation — Risk Control**

As part of the development of a project schedule's major milestones, program managers explore the potential for achieving these milestones and develop contingencies to mitigate risk. In-plant tests, first article tests, and field acceptance tests are often used to ensure that performance requirements are met, avoiding the risk of deploying equipment that lacks the capabilities to meet assumptions used to justify the investment.

New product roll-out or equipment deployment schedules are frequently identified as activities that contain elements of risk. Program managers often plan to accelerate the number of sites or pieces of equipment deployed to recover schedule slippages thereby controlling the risk of not obtaining program savings or achieving projected revenue levels.

5-5.3 **Lessons Learned**

At the close-out of the program, responses to unexpected situations are documented for use in evaluating and mitigating risks that may be associated with future programs. The conveyance of this information to new program managers and institutionalization of successful risk mitigation solutions is often an undocumented activity, and its importance should not be discounted.

5-6 **Multiple Facilities in a Single DAR**

Multiple facilities are usually developed as separate projects. However, business reasons sometimes mandate that multiple facilities be presented as a single project (e.g., the purchase of multiple leased facilities under a single contract or splitting of operations from one existing facility into two new facilities). When developing a project with multiple facilities, each facility must have its own cash flow and line-item computations with appropriate backup documentation. Insignificant structures (e.g., a storage shed) do not require a separate cash flow unless requested by the sponsor.

After a cash flow is developed for each facility in the project, the cash flow line items are added together to arrive at the total cash flow for the project. If there is a sustaining baseline for the project, separate sustaining baseline cash flows are developed for each facility.

If DARS is used, the vehicle maintenance facility (VMF) files may be used for the second facility included in a project. If more than two facilities are included in a project, separate DARS files are developed for each facility and the resulting cash flows are combined manually outside of DARS.

5-7 DAR Backup Requirements

The backup documentation accompanies the DAR to Finance for validation and provides support for the data and economic assumptions presented in the DAR. Upon request, the backup documentation may be supplied to functions other than Finance for review. The backup must provide detailed supplemental information sufficient to accomplish the following:

- a. Support the recommended alternative.
- b. Show how the numbers in the DAR were derived.
- c. Provide financial information such as supporting data for numbers in cash flows and baseline costs.
- d. Provide a basis for validating the DAR, carrying out the compliance requirements, and supporting future audits or cost studies.

The complexity of the project determines the detail of the DAR backup required.

5-7.1 Required Components

At a minimum the DAR backup for a major equipment project includes the following:

- a. Cover page.
- b. Table of contents.
- c. Cash flow analysis.
- d. Investments.
- e. Operating variances.
- f. Assumptions.
- g. Risk analysis matrix.
- h. Project milestones.
- i. Functional and field reviews.
- j. Completed concurrence sign-off forms

See the appropriate handbook in the F-66 series for more detailed information about required DAR documentation.

Exhibit 5-1

Residual Value Formulas

The Postal Service uses the following formulas to calculate the residual value of land and buildings.

Residual Value of Land

To determine the residual value of land, multiply the land cost (including site improvement, but excluding relocation costs) by the escalation factor shown for the year at which the residual value is to be established (see exhibit 5-2). Thus, the residual value of land is developed as an annual escalation at the defined rate. If site purchase occurs earlier than site improvement, both investments are escalated for the number of years remaining in the cash flow when the investment is made. The separate values are combined to arrive at the total residual value of the land.

Residual Value of Buildings

The residual value of newly constructed Postal Service-owned facilities is based upon the following formula:

$$R_n = v (u-n)/u (1+e)^n$$

where:

R_n = Residual value of the building in year n .

v = Market value of the building immediately after construction. (The table uses 83 percent of the original construction cost for newly constructed specialized Postal Service buildings as an estimate of general market value at move-in date.)

u = Estimated life of the building.

n = Age of the building (in years).

e = Annual escalation rate.

The residual values table (see exhibit 5-2) uses a 40-year life. Thus the preceding formula can be expressed as follows:

$$R_n = .83c \times (40-n)/40 \times (1+e)^n$$

where:

c = Total construction cost.

n = Age of the building.

e = Annual escalation rate.

Postal Service-owned Facility Constructed on Leased Land

The residual value for a Postal Service-owned facility constructed on leased land is calculated using the following formula:

$$R_n = .83c \times (U-n)/40 \times (1+e)^n$$

where:

c = Total construction cost.

U = Number of years (not to exceed 40) of Postal Service control of the land (ground lease plus options).

e = Annual escalation rate.

n = Age of the building.

Note: An estimate of future market value obtained from a real estate specialist should be used if it provides a significantly more accurate estimate of residual value than the residual value tables.

Exhibit 5-2

Table of Residual Value Factors

Escalation rate = 5%

Year	Building	Land
1	0.8497	1.0500
2	0.8693	1.1025
3	0.8887	1.1576
4	0.9080	1.2155
5	0.9269	1.2763
6	0.9454	1.3401
7	0.9635	1.4071
8	0.9810	1.4774
9	0.9979	1.5513
10	1.0140	1.6289
11	1.0292	1.7103
12	1.0434	1.7958
13	1.0564	1.8856
14	1.0682	1.9799
15	1.0784	2.0789
16	1.0874	2.1826
17	1.0939	2.2920
18	1.0986	2.4066
19	1.1011	2.5269
20	1.1011	2.6532
21	1.0983	2.7859
22	1.0926	2.9252
23	1.0835	3.0715
24	1.0707	3.2250
25	1.0540	3.3863
26	1.0329	3.5556
27	1.0071	3.7334
28	0.9761	3.9201
29	0.9395	4.1161
30	0.8968	4.3218
31	0.8475	4.5379
32	0.7910	4.7658
33	0.7267	5.0030
34	0.6540	5.2532
35	0.5723	5.5158
36	0.4807	5.7916
37	0.3786	6.0812
38	0.2650	6.3852
39	0.1391	6.7045
40	0.0000	7.0397

Exhibit 5-3

Risk Identification Matrix

RISK IDENTIFICATION MATRIX (RIM)			
TECHNICAL (Can We Make It)			
Maturity	Production	Vendor Experience	
Support	System Interfaces	Vendor Relationship/Viability	
Skills Resources	Scope	Obsolescence	
Training	Complexity	Vendor Resources	
Vendor Capacity	Security	Quality	
OPERATIONAL (Will It Work)			
Network Integration	Volume Projections	Quality (FAT/CAT)	
Scope/Magnitude	Transactions Projections	Savings Capture	
System Interfaces	Training Development	Maintenance Support	
Management Experience	Resources	Performance	
INTEGRATION (Can We Use It)			
Stakeholder Acceptance	Network Integration	External Variables	
Customer Acceptance	User Acceptance	Communications	
Scope	System Interfaces	Training Delivery	
Complexity	Savings Capture	Procurement	
Experience	Resources	Support	
Quality Assurance	Installation	Maintenance Support	
Software	Transportation	Site Preparation	

Exhibit 5-4

Risk Analysis Matrix

TECHNOLOGICAL (Can We Make It?)		COST Rating	BENEFITS Rating	SCHEDULE Rating
Skills/Resources				
Training				
Vendor Capacity				
Subtotal Rating				
Category Rating				
OPERATIONAL (Will It Work?)		COST Rating	BENEFITS Rating	SCHEDULE Rating
Scope/Magnitude				
Management Experience				
Subtotal Rating				
Category Rating				
INTEGRATION (Can We Use It?)		COST Rating	BENEFITS Rating	SCHEDULE Rating
Stakeholder Acceptance				
Customer Acceptance				
Network Integration				
Complexity				
Subtotal Rating				
Category Rating				
Total Project Risk Level				

Exhibit 5-5 (p. 1)

Sample Facility DAR Alternatives Analyzed Section and Financial Summary**ALTERNATIVES ANALYZED****Alternative A: Construct A New Irvine, Northwood Station In Irvine, Ca (Recommended)**

- a. Construct a Postal Service-owned 32,051-square-foot medium standard plan station on the previously acquired 149,541-square-foot site.
- b. The proposed Irvine Northwood Station will house retail and delivery operations for zones 92602 and 92620.
- c. The Irvine Main Post Office (MPO) will be retained to house main office administrative functions and mail processing, retail, and delivery operations for ZIP Code areas 92603, 92604, 92612, and 92618.
- d. The relocation of the two zones to the proposed Northwood Station will eliminate all space deficiencies that presently exist at the MPO.
- e. The new facility will provide additional retail and delivery services to the growing communities in northern Irvine, and improve working conditions for the employees.

ALTERNATIVES ELIMINATED**Alternative B: Expansion Of Existing Main Post Office**

The existing Irvine Main Post Office is located on a site restricted in size that prohibits expansion of the current structure. The property is surrounded by public streets and existing businesses, eliminating the possibility of expansion.

Alternative C: Construct Carrier Annex, Lease Retail Space

- a. Construct a Postal Service-owned carrier annex of approximately 25,000 square feet on the previously acquired 149,541-square-foot site.
- b. The carrier annex will house delivery operations for delivery zones 92602 and 92620.
- c. Lease approximately 8,000 square feet of space for retail operations.
- d. The Irvine MPO will be retained to house main office administrative functions and mail processing, retail, and delivery operations for ZIP Code areas 92603, 92604, 92612, and 92618.
- e. This alternative was analyzed and the total estimated capital and lease funding is \$11.3 million.

The results of a comparison of the recommended DAR proposal (construct a new Irvine, Northwood Station in Irvine, CA) to the alternative eliminated (construct carrier annex, lease retail space) indicate that the DAR proposal has an NPV that is \$2.3 million better, and therefore is the economically superior alternative.

Exhibit 5-5 (p. 2)

Sample Facility DAR Alternatives Analyzed Section and Financial Summary**FINANCIAL SUMMARY**

A summary of the funding requested is below.

Alternative A

10-Year Operating Period (\$ in thousands)

Required Investment	\$ 9,167
Operating Variances	(\$ 8,373)
Net Present Value discounted at 6.5%	(\$ 8,042)
Return on Investment	N/A
Alternative Eliminated Net Present Value	
Discounted at 6.5%	-\$10,372
NPV Difference (DAR Proposal vs. Alternative Eliminated)	\$2,330

RECOMMENDATION

Authorization is requested for a total investment not to exceed \$9,167,000 for site, design, and construction of the proposed 32,051-square-foot Irvine Northwood Station. The DAR proposal has an NPV that is \$2.3 million below the alternative eliminated of constructing a carrier annex and leasing retail space. This investment will allow for continued service to the customers in the Irvine, CA, Post Office and is consistent with the mandate for universal service.

Exhibit 5-6 (p. 1)

Sample Equipment DAR Alternatives Analyzed Section and Financial Summary**ALTERNATIVES ANALYZED**

A sensitivity analysis was performed to compare the alternatives of replacing failed parts, individual transaction concentrators (TCs), or all TCs.

The following describes the assumptions, problems or benefits of each alternative:

Baseline Alternative

This option would be to maintain the current TCs and replace parts as they fail. However, this is not a viable option for the following reasons:

Parts are no longer available or becoming scarce. The motherboards, which control the physical layout or position of the computer's major components, are unique for these computers and are no longer being manufactured.

For the past 2 years, the support mode for the TC has been using the stockpiled and recycled replacement components to keep the TCs running; however, this replacement pool is nearly exhausted. Furthermore, excess computers replaced by the ACE initiative were refurbished as TC replacements; this pool of replacement units is also near depletion. According to the 32,000 sample survey that *PC World* conducted in December 2003, 26.4 percent of computers will experience failed components that must be replaced, or an average of 119 TC sites will experience failures per year.

Disruptions to operations will increase in frequency and severity as higher percentage of systems will fail. Costs associated with down time, loss of workhours and re-handling of mail will also increase. Service will be negatively impacted if failure spreads and mail is delayed as the result. Estimate duration of downtime is 1 production day to diagnose, order, and replace failed parts, or an average of 8 hours operating/scanning loss. Costs associated with downtime include on-site service call, maintenance, and mail handler workhour loss.

Near-term needs and enhancements of the TCs many interface systems cannot be supported. Near-term needs include replacing the antiquated ARCNet communication protocol. ARCNet is no longer the industry standard and thus results in premium support costs. Furthermore, ARCNet will not be supported within the new Mail Processing Infrastructure (MPI).

In addition to replacing ARCNet, the TC will need additional capacity and processing power to support increased unit load tracking as more sites begin surface mail scanning to improve performance and control transportation cost.

Additional capital investments might be required to support expansion of the TC network. As more PostalOne! mailers and sites join the TC network, additional TCs will be required to support the scanning operations.

Exhibit 5-6 (p. 2)

Sample Equipment DAR Alternatives Analyzed Section and Financial Summary

Ongoing support costs include IT Help Desk and contractor software support for the legacy systems. Estimated total program cost is \$1.3 million for unproductive workhours, \$177,000 for on-site service calls, and \$1.5 million for ongoing IT and contractor software support.

Sustaining Alternative

The second alternative is to maintain the legacy fleet and replace the TCs as individual computers fail. This sustaining alternative is more costly due to the individual upgrade costs and the cost of continuing to maintain the legacy fleet as more and more TCs fail.

- a. Ongoing support and repairs for the legacy fleet must continue even as more and more units fail. Currently each site must pay for its own repair or replacement bill; a national contract will provide a known fixed cost for investment and maintenance. Similar to the baseline scenario, 26.4 percent computer failure rate or 119 sites per year is assumed in the sustaining alternative. In addition, the same estimates for the duration of downtime and associated work hour loss are assumed in the sustaining alternative.
- b. Ongoing contractor software support, IT Help Desk, unproductive workhours and service calls will continue to incur until all legacy TCs are replaced.
- c. Initial training, recurring training, workhours and energy costs will incur as each new TC is deployed. Replacement must include the necessary developmental and training costs to deploy and implement the new hardware and software.
- d. As TCs are replaced each new computer will require upgrades in the operating system, hardware, and software functionalities to meet the operational requirements at the time of replacement.
- e. Similar to the baseline scenario, disruptions to operations will increase in frequency and severity as more TCs fail. Costs associated with down time, loss of workhours and re-handling of mail will also increase, and service will be negative impacted if failure is widespread and mail is delayed as the result. In addition to operational costs, increased down time and inefficiency also threaten our air contract support performance.
- f. Similar to the baseline alternative, near-term requirements of the interface systems cannot be supported. Near-term requirements include replacement of ARCNet communication protocol and expansion of the TC network as new PostalOne! and surface scanning sites come online.
- g. Near-term needs and enhancements of the interface systems will be difficult to implement or support in this "mixed" environment. The cost of incremental or individual upgrades will be higher than that of a well planned implementation.

Exhibit 5-6 (p. 3)

Sample Equipment DAR Alternatives Analyzed Section and Financial Summary

- h. Estimated total cost to support the legacy systems is \$738,000 for unproductive workhours, \$105,000 for on-site service calls, and \$1.1 million for ongoing IT and contractor software support.
- i. Estimated total cost to deploy the replacement systems is \$6.5 million for hardware, \$5.8 million for software development, \$237,000 for deployment, and \$697,000 for training.
- j. Estimated total cost to support the replacement systems is \$1.1 million for ongoing IT and Help Desk support, \$502,000 for recurring maintenance workhours, and \$738,000 for additional energy costs.

Proposed DAR

The third and recommended alternative is the structured replacement of all TCs:

- a. A well planned deployment of the new TCs is critical to eliminate the risks associated with dependency on an outdated technology, avoid hardware failures, minimize disruptions of dispatch operations and associated workhour cost.
- b. The new TCs will be computers with greater power, speed, and capacity, capable of supporting current and future requirements from its interface systems as the mail processing environment changes and new requirements arise.
- c. The proposed DAR will enable us to consolidate the PostalOne! terminals and duplicate TCs, reducing investment costs and improving efficiency. Consolidation will reduce of the number of units required from 530 to 451 systems, and avoid the cost of adding new units as the PostalOne! program or surface scanning initiative expands.
- d. The results of a comparison of the recommended DAR proposal to the sustaining baseline alternative indicate that the DAR proposal has an NPV that is \$0.2 million better, and therefore is the economically superior alternative.

Exhibit 5-6 (p. 4)

Sample Equipment DAR Alternatives Analyzed Section and Financial Summary**FINANCIAL SUMMARY**

A summary of the funding requested is below.

Replacement of Transaction Concentrators**Five-Year Operating Period**

(\$ in thousands)

Capital Investment	\$12,227
Expense Investment	\$58
Total Investment Requested for Approval	\$12,285
Operating Variances	(\$4,012)
Net Present Value at 7.0% Discount Rate	(\$15,691)
Return on Investment	N/A
Sustaining Baseline Net Present Value at 7.0% Discount Rate	(\$15,875)
NPV Difference (DAR Proposal vs. Sustaining Baseline)	\$184

RECOMMENDATION

Recommend approval of \$12.3 million which includes \$12.2 million in capital and \$57,500 in expense funding. This structured replacement of the TC computers has an NPV that is \$184 million better than the sustaining alternative of replacing the existing TCs as they fail, will ensure continued uninterrupted operation of the crucial dispatch network, and is consistent with the mandate for universal service.

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6 Leasing Guidelines

6-1 Scope

This chapter provides guidelines that apply to investment projects involving the leasing of facilities, equipment, or systems. The investment decision to acquire an asset must always be separated from the financing decision (whether to lease or own the asset).

6-2 Purpose

The purpose of these guidelines is to ensure that projects involving lease and rental agreements (whether or not the leasing of facilities, equipment, or systems is part of the recommended alternative) are properly presented in the DAR. Adherence to these guidelines will result in the correct computation of total discounted lease costs, DAR cash flows, and sensitivity analyses (including lease versus own analyses). It will also ensure that the appropriate approval authority reviews the projects.

6-3 Determining the Lease Cost and Level of Approval Authority

In general, leases negotiated for Postal Service use should contain options beyond the base period to assure reasonable continuation of the operations housed in the space or use of the equipment being acquired. Managers may not request short-term leases in order to avoid having to request approval of the lease at a higher level.

In determining the proper approval level, both the annual lease cost and total discounted project cost must be considered. For approval purposes, the cost of the lease does not include taxes, maintenance, utilities, and building services if these items are shown separately in the lease. If either the annual or total cost limit is exceeded, the project must be approved at the next higher level.

- a. **Annual lease cost** — The cost in any year of the base term or any option period.

- b. **Total discounted project cost** — The net present value of the total lease cost, including all renewal options, extensions, and modifications, discounted at the cost of capital *plus* the undiscounted cost of leasehold improvements (i.e., expenditures needed to improve the space or equipment being leased, including fit-out, renovations, postalization, material handling, and other one-time capital improvements).

6-3.1 Calculating Total Discounted Lease Cost

The NPV, or total discounted lease cost, is calculated as follows:

- a. A cash flow is developed that includes the annual lease payments for the base term of the lease plus all lease options with a defined dollar value. If the base term plus lease options do not represent at least 10 operating years, the cost of the lease must be estimated through the tenth operating year of the analysis. An exception to this rule is when space is leased on a temporary basis, such as during the holiday mailing season. In this situation, the cash flow covers only the period during which the lease is in effect. Requests for any other exceptions to this 10-year analysis rule will be evaluated by Capital and Program Evaluation, Finance, on a case-by-case basis.
- b. The lease cash flow is discounted (i.e., the NPV is determined) to the point of the first lease payment using the cost of capital in effect at the time of the evaluation. The first lease payment is shown at the zero point of this cash flow.
- c. The undiscounted capital costs are added to the NPV of the lease cash flow stream to arrive at the total value of the project for approval purposes.

Exhibit 6-1 provides examples of the correct (and incorrect) computation of total discounted lease cost. It points out a common mistake, which is to show the first lease payment as occurring in year 1 rather than at the zero point of the cash flow. This results in the computation of an incorrect total discounted lease cost being computed, and may result in a lease project not being forwarded to the appropriate level for approval.

6-3.2 Excluded Lease Costs

In determining the required approval level for a lease project, the costs for taxes, utilities, maintenance, and building management are generally excluded. However, certain exceptions apply:

- a. If the lease identifies a cost per square foot for rent and a separate cost per square foot for services, utilities, and taxes, only the actual rent charge is included in the computation for approval purposes. The costs for services and utilities are shown in the DAR cash flow (or DARS rent file) as a separate line item.

Example: If the lease states that the annual costs for years 1–5 are \$11.50 per square foot for rent and \$7.50 per square foot for services

and utilities, for a total cost of \$19.00 per square foot, the rent is computed at \$11.50 per square foot for determining approval authority.

- b. If, however, the lease states an undifferentiated cost per square foot that includes rent and services, utilities, and taxes, then the rent must be computed at the all-inclusive cost per square foot for determining approval authority. The DAR narrative should indicate that building services and utilities are included in the lease cost, but a separate line item is not included in the cash flow since the cost is not separately identified.

Example: If the lease states that the annual costs for years 1–5 are \$19 per square foot for rent, with services and utilities provided, the rent is computed at \$19 per square foot for determining approval authority.

6-3.3 Estimating Future Lease Payments

If a proposed lease does not define the cost of the lease during one or more of the option periods, it may be necessary to estimate costs in order to include costs over a 10-year operating period. If accurate market data are not readily available, the lease rate in a future option period may be estimated using the escalation factor for “all other costs” in the DAR factors table (see <http://blue.usps.gov/finance/>). In this situation, two options exist:

- a. The cost of the original lease in the final year may be escalated through the option period.
- b. The estimated market value of the lease at the beginning of the option period may be escalated.

6-3.4 Ground Leases

Ground leases are often for 30 years or more when all options are considered. When entering an agreement to construct or purchase a building on a site covered by a ground lease, the computation of the NPV of the total lease costs must include estimates for all options (even if no defined value has been proposed for some of the options). At a minimum, the ground lease must be computed for the number of years in the project analysis, even if the options in the lease do not cover all the years in the cash flow.

6-3.5 Leases with Purchase Options

Lease proposals that contain options allowing the Postal Service to purchase the property during the term of the lease must be evaluated as follows, based on when the option takes effect:

- a. Purchase options that fall beyond the scope of the current Five-Year Capital Investment Plan are not included in the analysis. Instead, the analysis must be based on leasing the asset for the full analysis period (usually 10 operating years). This is true even if the lease offers an option to purchase at a specified price during the life of the lease. This policy reflects the fact that operating needs may change and appropriate costs for alternatives to contrast with the purchase option

are not likely to be available this far in advance of the time for exercising the option.

- b. If a purchase option can be exercised during the current Five-Year Capital Investment Plan, the cost of leasing should be shown for the full analysis period. Exercising the option may be considered only at the time the option is actually available, and is contrasted against other viable alternatives such as new construction. A sensitivity analysis cash flow should be included in the lease project backup to show the potential for exercising the option at the appropriate time.
- c. If a lease provides an option to purchase the property at market value at a specified future date, the purchase option must be analyzed at the time in the future that the option is being exercised using the actual negotiated (not estimated) purchase price. A separate approval is required at that time at the appropriate level.
- d. If a lease-purchase agreement *requires* the purchase of the facility after a stated lease period, the exact purchase price and payment date must be specified. This type of agreement is treated as a purchase rather than a lease, and the project must include a request for funds to complete the purchase in addition to requesting all lease and capital costs.

6-3.6 Networks with Multiple Leases

If a project contains requirements to lease space in separate cities, such as for a network, the DAR is approved based on the total anticipated capital and expense investment of all sites. For purposes of determining approval authority for the leases, each lease may be considered separately and approved at the appropriate level for that lease. However, the combined lease costs may not exceed the amount approved in the DAR.

6-4 DAR Cash Flows

The DAR cash flow is separate and distinct from the cash flow created to determine approval authority. The DAR cash flow includes all operating variances associated with moving into the leased facility, including rent, building services, utilities, start-up costs, maintenance, transportation, labor, and common area maintenance (CAM) charges. Generally, the DAR cash flow includes only 10 operating years, even if the lease is for a longer period of time.

Following is a sample financial summary to be included in a DAR requesting approval to lease a facility.

This financial summary is for a lease project that calls for the lease of 165,000 square feet of space at \$3.48 per square foot per year for the first 5 years and \$3.94 per year during the 5-year option period. It requires total funding of \$6,671,500 (undiscounted), representing \$6,121,500 for the initial 5-year lease (at \$574,200 annually) and one 5-year option (at \$650,100 annually) plus \$550,050 in capital for renovations to the facility. The NPV of

the 10-year lease cost, when discounted at the current 7.3 percent cost of capital, is \$4,500,866. When the discounted lease cost is added to the undiscounted capital investment, the total for determining approval authority is \$5,050,916.

Although the lease includes an additional 5-year renewal option (to be exercised at the then-going market rate, but no less than \$3.25 per square foot), this amount is not included in the approval amount because it is beyond the 10-year analysis period. The appropriate authority must approve the lease renewal prior to exercising the option.

FINANCIAL SUMMARY

	Amount (\$) for Approval Undiscounted	Approval Threshold (\$)
5-Year Lease at \$574,200 Per Year Plus 5-Year Option at \$650,100 Per Year	6,121,500	
Net Present Value of Lease Discounted at 7.3%		4,500,866
Capital Investment	<u>550,050</u>	<u>550,050</u>
Total for Approval	\$6,671,550	\$5,050,916
Capital Investment	550,050	
Total Operating Variances (10 Years)	(\$98,603,417)	
Net Present Value (10-Year Cash Flow) Discounted at 8.8%	(64,669,515)	

Note: Use the current cost of capital and the current discount rate, rather than the 7.3 percent and 8.8 percent rates shown in the sample.

6-5 Sensitivity Analyses

Two types of sensitivity analysis are associated specifically with leasing projects:

- Lease versus own analyses for equipment or facilities.
- Real estate tax sensitivity analyses for facility leasing projects only.

6-5.1 Lease Versus Own Analysis

A lease versus own analysis is a special type of cash flow designed to determine the most economical way to finance the acquisition of space or equipment. This type of analysis is generally required whenever leasing is presented as the preferred method for acquiring a proposed asset. It separates the investment decision (whether to acquire an asset) from the financing decision (how to pay for the asset). This type of analysis can be performed on either an absolute or relative basis:

- On an absolute basis, the NPV cost of ownership is compared to the NPV cost of leasing using two separate cash flows. The alternative with the smaller NPV cost is the winner.

- b. On a relative basis, a single ownership versus lease differential cash flow is used. Ownership is the economic winner if the differential cash flow is either zero or a positive number when discounted at the cost of capital. Leasing is the winner if the NPV of the discounted cash flow is negative.

The lease versus own analysis must be included as a sensitivity analysis in the backup data for the DAR that is prepared to justify acquisition of the asset. Exhibit 6-2 provides an example of a shared energy savings project analysis (a type of lease versus own analysis).

Some considerations that apply specifically to equipment and facility leases follow.

6-5.1.1 **Lease Versus Own Analysis — Equipment/Systems**

A lease versus own analysis is required whenever leasing is presented as the preferred method for acquiring equipment/systems, including evaluation of all proposals for shared energy savings projects. The DAR may be based on estimated lease costs. After actual proposals are received, however, the lease versus own analysis should be updated to reflect the actual costs for both leasing and ownership to determine which is the most economical financing, and whether the approved DAR investment is sufficient.

When evaluating lease versus own, the discounted cash flow technique should be used. The length of the analysis period should reflect the service life of the equipment/systems, and the cash flows should be discounted at the cost of capital. If operating costs, such as maintenance, differ in the lease and ownership scenarios, these differences should also be reflected in the analysis. For the lease analysis, rates, periods, and options used should be those provided by the potential lessor.

The sponsor includes evaluation factors (e.g., quality of materials, throughput rate, and useful life of product) in the purchase request. After project approval, Purchasing conducts a final review, solicits offers, and awards the contract. Proposals are assessed based on the evaluation factors and ranked in descending order of economic preference, showing the total NPV for each offer. Award is made to the supplier offering the best value if the proposal is within the approved budget limitation and is consistent with the budget category. If not, the project is returned to the sponsor for resubmittal to the approval authority or development of a revised funding purchase request consistent with the budget category.

6-5.1.2 **Lease Versus Own Analysis — Facilities**

The investment decision to acquire an asset must be separated from the financing decision (how to pay for the asset). A lease versus own analysis is used to evaluate and document a financing method decision. Leasing and purchasing a facility are not considered separate alternatives, but rather variations of the same operational alternative (that is, using different financing methods). The lease versus own analysis for a facility project is generally computed from actual proposals for both leasing and ownership of the property. When evaluating lease versus own, the analysis should assume

continuation of the lease for the complete analysis period (normally 10 operating years). The analysis should be based on leasing space sufficient to meet the full 10-year operating needs as appropriate for the project.

The type of facility project being recommended determines whether a lease versus own analysis is required, as described here:

- a. **New construction — owned** — A lease versus own analysis is not required for new construction — owned projects. When new construction is one of the alternatives being analyzed, the leasing of *existing* space should be presented as a separate alternative. If practical, actual proposals should be obtained for the lease of existing space in the preferred area.
- b. **New construction — lease** — This rarely represents the most economically advantageous financing alternative for the Postal Service, and should be pursued only if there are no other viable alternatives. A lease versus own analysis must be completed for all proposed new construction — lease projects.

A lease versus own analysis must be completed for all proposed new construction — lease projects. However, facilities less than 6,500 square feet are generally exempt from such analysis and may be leased. The approving authority for the project may request an analysis if it is deemed in the best interest of the Postal Service or if such analysis is requested by the procuring office.

- a. **Purchase of existing building** — A lease versus own analysis is required for a project that proposes the purchase of an existing facility, whether or not the Postal Service currently occupies it.
- b. **Lease of existing building** — Normally ownership is the recommended financing alternative for facilities greater than 6,500 square feet. When evaluating a proposal to lease additional space greater than 6,500 square feet, an analysis should also be made of acquiring comparable Postal Service-owned space through purchase of an existing building or new construction. Sponsors should present and evaluate this as a separate alternative.

6-5.2 **Real Estate Taxes**

Real estate taxes are not included in the basic lease versus own analysis. The sponsor develops a sensitivity analysis cash flow, however, to show the impact of tax costs or savings on the project. The sensitivity analysis is included in the DAR backup.

Once the financing decision has been made, the sponsor develops a cash flow that reflects all the investment costs and operating variances, excluding taxes, for the alternative recommended in the DAR. Discuss the results of the sensitivity analysis in the DAR narrative to provide decision makers with information on the impact of real estate taxes on the lease versus own decision.

Tax costs or savings may be obtained from the sensitivity analysis to appropriately adjust the budget when the project is activated. The budget crosswalk spreadsheet in the DAR backup should be annotated to include the impact of the taxes.

Exhibit 6-1

Correct and Incorrect Lease Computations

Headquarters Approval Required				Area Approval Required			
Correct		Incorrect		Correct		Incorrect	
Year	Rent	Year	Rent	Year	Rent	Year	Rent
0	\$145,000	1	\$145,000	0	\$145,000	1	\$145,000
1	145,000	2	145,000	1	145,000	2	145,000
2	145,000	3	145,000	2	145,000	3	145,000
3	145,000	4	145,000	3	145,000	4	145,000
4	145,000	5	145,000	4	145,000	5	145,000
5	150,000	6	150,000	5	150,000	6	150,000
6	150,000	7	150,000	6	150,000	7	150,000
7	150,000	8	150,000	7	150,000	8	150,000
8	150,000	9	150,000	8	150,000	9	150,000
9	150,000	10	150,000	9	150,000	10	150,000
10	155,000	11	155,000	10	155,000	11	155,000
11	155,000	12	155,000	11	155,000	12	155,000
12	155,000	13	155,000	12	155,000	13	155,000
13	155,000	14	155,000	13	155,000	14	155,000
14	155,000	15	155,000	14	155,000	15	155,000
15	160,000	16	160,000	15	160,000	16	160,000
16	160,000	17	160,000	16	160,000	17	160,000
17	160,000	18	160,000	17	160,000	18	160,000
18	160,000	19	160,000	18	160,000	19	160,000
19	160,000	20	160,000	19	160,000	20	160,000
Total Rent: \$3,050,000		Total Rent: \$3,050,000		Total Rent: \$3,050,000		Total Rent: \$3,050,000	
Total Disc. Lease Cost ¹ \$1,670,194		Total Disc. Lease Cost ¹ \$1,556,565		Total Disc. Lease Cost ¹ \$1,670,194		Total Disc. Lease Cost ¹ \$1,556,565	
Capital Costs ² <u>3,425,000</u>		Capital Costs ² <u>3,425,000</u>		Capital Costs ² <u>925,000</u>		Capital Costs ² <u>925,000</u>	
Total for Approval \$5,095,194		Total for Approval \$4,981,565		Total for Approval \$2,595,194		Total for Approval \$2,481,565	

Notes:

¹ In this example, total discounted lease cost is the NPV of the lease cost discounted at the current 7.3 percent cost of capital. All computations of NPV must use the cost of capital currently in effect at the time the project is submitted for approval.

² Capital costs include fit-out, renovations, postalization, improvements, material handling, and one-time costs.

This project involves a proposed lease with a 10-year base term that provides for an annual rent of \$145,000 for the first 5 years and \$150,000 per year for the second 5-year period. The lease also includes two 5-year options, which call for an annual rent of \$155,000 in years 11–15, and \$160,000 per year in years 16–20. The total rent stream of \$3,050,000 over a 20-year period results in a discounted NPV of \$1,670,194. Capital investment costs (including fit-out, renovations, postalization, material handling, and one-time costs) are added to the total discounted lease cost to determine the total amount for approval. Note that this exhibit presents two different scenarios: one scenario in which capital costs total \$3,425,000 (requiring Headquarters approval) and a second scenario in which capital costs total \$925,000 (requiring area approval).

Exhibit 6-2 (p. 1)

Lease Versus Own Analysis — Shared Energy Savings Proposal

To illustrate a lease versus own analysis, this exhibit shows the evaluation of a shared energy savings proposal by comparing the NPV of the two scenarios (leasing and owning). A contractor is proposing to retrofit the existing lighting system at the Maittown Post Office with new, energy-efficient equipment. The \$100,000 retrofit, which will be performed and paid for by the contractor, will reduce Maittown's energy costs by \$75,000 annually. The Postal Service will pay the contractor a portion of the energy savings for a 7-year period (equivalent to paying rent).

Scenario 1: Contractor Invests and Receives a Portion of Energy Savings

Year	Contractor's Investment	Gross Annual Energy Savings	Contractor's Share of Savings (%)	Contractor's Share of Savings (\$)	Postal Service Share of Savings (%)	Postal Service Share of Savings (\$)	Present Value Factor (7.0%)	NPV for Postal Service
0	(100,000)						1.0000	0
1		75,000	60.0%	45,000	40.0%	30,000	0.9346	28,037
2		75,000	50.0%	37,500	50.0%	37,500	0.8734	32,754
3		75,000	40.0%	30,000	60.0%	45,000	0.8163	36,733
4		75,000	30.0%	22,500	70.0%	52,500	0.7629	40,052
5		75,000	20.0%	15,000	80.0%	60,000	0.7130	42,779
6		75,000	10.0%	7,500	90.0%	67,500	0.6663	44,978
7		75,000	10.0%	7,500	90.0%	67,500	0.6227	42,036
TOTAL		525,000		165,000		360,000		267,370

Scenario 2: Postal Service Installs and Finances Retrofit

Year	Postal Service Investment	Gross Annual Energy Savings	Present Value Factor (7.0%)	NPV for Postal Service
0	(100,000)		1.0000	(100,000)
1		75,000	0.9346	70,093
2		75,000	0.8734	65,508
3		75,000	0.8163	61,222
4		75,000	0.7629	57,217
5		75,000	0.7130	53,474
6		75,000	0.6663	49,976
7		75,000	0.6227	46,706
TOTAL	(100,000)	525,000		304,197

Net benefit from using Postal Service funds to pay for the project: \$36,827.

Exhibit 6-2 (p. 2)

Lease Versus Own Analysis — Shared Energy Savings Proposal**Scenario 1: Contractor Invests and Receives a Portion of Energy Savings**

In this example, the payment to the contractor starts out at 60 percent of the amount saved in year 1, and declines to 10 percent of the savings in years 6 and 7. The Postal Service share of the savings is the amount that remains after the payment to the contractor is deducted from the gross annual energy savings. Using the current cost of capital of 7.0 percent, NPV factors for each year are calculated. The annual Postal Service share of savings is multiplied by the factor for each year to calculate the present value for that year. The total of these is the NPV of the shared energy proposal (\$267,370 in this example).

Note that some contractors use a declining percentage as in this example. Others use a constant percentage over the life of the project. Still others charge a set fee that is not based on a percentage of the savings. The contractor's actual fee schedule must be used in evaluating the proposal. In addition, savings are shown only for the number of years the Postal Service is obligated to pay the contractor. After that time, all retrofitted equipment reverts to postal ownership and savings accrue to the Postal Service whether the lighting equipment was originally owned or was "rented" from the contractor.

Scenario 2: Postal Service Installs and Finances Retrofit

In the second scenario, the NPV is calculated based on using \$100,000 in postal funds to perform the retrofit of the facility's lighting system. In this scenario, the Postal Service will own, rather than lease, the new equipment and will keep the entire annual savings of \$75,000. Using the same 7.0 percent cost of capital, the NPV of the purchase option is \$304,197, or \$36,827 more than under the lease option. On the basis of this lease versus own analysis, the decision is made to use Postal Service funds to perform the work rather than enter into a shared energy savings contract.

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7 Project Compliance and Cost Studies

7-1 Scope

This chapter sets forth the requirements that the sponsoring organization must follow in tracking DAR-related costs before, during, and after implementation of any investment project. Every quarter, the sponsor must report this cost data, as well as other specified metrics contained in the DAR (see subchapter 3-3) in the proper DAR Compliance Report format from the time a project is approved until 18 months after project completion. A chart illustrating the entire investment process, including compliance and after implementation review is provided in exhibit 3-1, Capital Investment Process (Prioritization, Validation, Review/Approval, Compliance, Analysis/Studies).

Capital and Program Evaluation is responsible for performing analysis and studies for Board-approved programs. CAPE performs various levels of program monitoring, which depend on the amount of the investment, risk characteristics, ROI, Board or officer requests, OIG Audits, etc. exhibit 7-1, Compliance and Oversight Hierarchy, shows the relationships between the size of the investment, review/study criteria, and the processes that are used to monitor them. For Headquarters-approved projects, cost and other investment related data (provided by the sponsor) is the basis of the cost study or audit, which is conducted by the vice president of Finance, Controller, and/or the Office of the Inspector General (OIG), generally within 2 years after final deployment or move-in.

7-2 Purpose

The program tracking for the DAR is provided by the compliance and cost study procedures. These are intended to provide the following assurances:

- a. Projects are implemented as stated in the approved DAR.
- b. Metrics (indicators and methods) are reviewed on an ongoing basis to evaluate achieved benefits and savings as identified in the DAR.
- c. That corrective action is taken as necessary and that the metrics associated with these actions are tracked and reported.

- d. Any operational or capital investment modification from the approved DAR is adequately documented, justified, and approved.
- e. Adequate cost data are captured before and after deployment or move-in so that compliance reports and the cost study can be generated.

7-3 Tracking Project Costs

When the project is approved, the sponsoring organization must take steps to ensure that all baseline information is recorded and maintained in the project file. In some cases, operating changes made prior to the cost study alter the baseline used in the DAR. The sponsor must keep records of changes to the baseline that would impact the anticipated savings or costs shown in the cash flow of the DAR. These records may include copies of memoranda; annotated financial, complement, or workhour printouts; or other appropriate documents. All major investment project implementations must be accompanied by a system that tracks current and after-deployment performance facilitating the use of this data for the cost study or audit (see part 3-3.2). At the completion of move-in (for facility projects) or the end of the project, copies of the *before* baseline data (with documented changes), recorded and maintained by the sponsor must be sent to Capital and Program Evaluation, Finance, for use in performing costs studies.

7-3.1 Tracking Facility and Equipment Projects Separately

In facility projects, automation/mechanization is justified separately from the rest of the project. In reporting costs, all items that are justified on a program basis (i.e., separate from a specific facility) are excluded. This includes optical character readers, scanners, barcode sorters, facer-cancelers, and Computerized Forwarding System (CFS) equipment. Equipment data may need to be collected to meet automation cost study requirements; however, the final results of the facility cost study must exclude any costs related to automation/mechanization. If new automation/mechanization equipment is installed as part of a facility project, separate equipment-related costs and savings data must be retained in preparation for the cost study relating to the national equipment project.

7-3.2 Collecting Data on Multiple Projects

In today's changing automation environment, it is sometimes difficult to isolate the changes caused by one program before another automation-related project is introduced. Thus cost reductions or savings data from mail processing or delivery-related projects that began after the end of a site's before period (and that may or may not be continuing at present) must also be collected and retained. Details such as program name, date implemented, and anticipated savings must be included with the retained data.

7-3.3 Recording Baseline and Actual Project Costs

Baseline costs are tracked before and after project implementation in order to compare actual operating costs with the operating costs that were projected at the time of DAR preparation. The following costs must be tracked:

- a. **DAR baseline costs** — These costs, which reflect the existing situation at the time the DAR was developed, are included in the DAR backup. They are compared to the anticipated costs of each alternative to derive the operating variances for the DAR cash flows. (For a detailed discussion of how the DAR cash flow is developed, see chapter 5)
- b. **Audit baseline costs** — Actual operating costs for the 18 consecutive months immediately preceding move-in, equipment installation, or proposed process/system change serve as the audit baseline.
- c. **Actual operating costs after move-in or deployment** — After period costs for the 26 months immediately following move-in or deployment are compared to the audit baseline (before period costs) to derive the actual operating variances. The actual operating variances are then compared to the projected operating variances in the DAR cash flow for the selected alternative.

The program manager or facility manager uses the before period and after period costs and the resulting operating variances to complete the DAR Compliance Reports (and *Investment Highlights*) on a quarterly basis. The vice president of Finance, Controller, and the Office of Inspector General also use these data to complete the cost study or audit.

7-3.4 Determining Cash Flow Costs

The sponsor must track both initial and ongoing cash outflows of a project exactly as they are listed in the DAR. If the cash flow in the DAR lists eight categories of cash flow costs or savings, each one of these costs or savings must be tracked individually (i.e., they may not be lumped together).

7-3.4.1 Initial Cash Outflows

Initial cash outflows, which are compared to projected investment costs, include items such as these:

- a. Planning and development costs.
- b. Expenditures for site preparation (for either a facility or equipment project).
- c. Direct purchase cost of the new facility, cost of refurbishment, and cost of equipment (e.g., special tools, spare parts, and accessories) necessary for operation of the system.
- d. Transportation and installation costs, if not included in the direct purchase cost of equipment.
- e. Interim costs (e.g., moving expenses, leasing of temporary quarters during construction, and alterations to the interim facility).

- f. Expenditures for initial training relating to operations of the new facility, program, or equipment.
- g. Renovations to reconfigure a retained facility after some operations are moved to a new facility.

7-3.4.2 **Ongoing Project Costs**

Ongoing project costs, which are compared to anticipated DAR-related costs, include items such as these:

- a. Building and system maintenance.
- b. Rental costs for additional leased space.
- c. Additional transportation costs relating to split facilities operations.
- d. Increased labor costs.

7-3.5 **Determining Cash Flow Savings**

The sponsor must track cash flow savings and compare it to the savings projected in the DAR. In addition, the sponsor must develop metrics (indicators and methods) to track and document achieved benefits and savings. Cash flow savings may reflect items such as these:

- a. Lease costs foregone on facilities and equipment that are no longer required.
- b. New rental income from outlease of excess space in existing Postal Service-owned facilities.
- c. Residual value of Postal Service-owned land and buildings based on actual cost of land and building construction (see exhibit 5-1).
- d. Labor savings.
- e. Energy savings.

7-3.6 **Collecting Data**

An accurate analysis of the impact of a project on the working environment requires that complete records be kept of the before and after periods in order to complete the cost study. For investments that lack a complete automated tracking system, investment and performance data must be collected manually. Some data are available through national postal databases, while other data must be collected from individual facilities where an investment has been implemented. In general, workhour data and some nonpersonnel data are available from national databases, whereas other nonpersonnel data (e.g., site preparation, additional space costs, specialty tools, or guardrails) are not recorded in the Enterprise Data Warehouse (EDW) and must be collected and retained separately unless a tracking system has been designed and implemented for a specific investment project. Moreover, even when data are available through national postal databases, manual collection is required from individual facilities if the

deployment period for the investment extends beyond the period for which data are maintained in the EDW. Additionally, the sponsor must:

- a. Track relevant operating costs, workhours, and mail volumes for cost studies and the audit, and prepare and submit compliance reports as required.
- b. Ensure that all projected operating costs and savings in the DAR are achieved.
- c. Prepare modification requests and provide supporting documentation, including revised cash flows, for all modifications affecting the approved DAR (e.g., a change in the number of units or timing of equipment being deployed or total capital funding required exceeds the approved amount).

7-3.6.1 **Types of Data**

The sponsor must collect various types of data, either manually or via an automated tracking system. This includes the relevant measure of production for the type of investment (e.g., mail volume processed by new equipment, miles driven and fuel consumed by new vehicles, telephone calls handled by call centers) and the amount of rework required, by type of error (e.g., number of pieces rejected by a machine, additional window transactions required, additional phone calls generated). Where applicable, volume data should be retained for processing facilities and delivery units.

Example: Mail processing equipment investments require that the following mail volume data be collected: pieces handled by the equipment or operation, both by machine and by operation number; pieces processed for both the primary and allied operations that are affected by the equipment or program, by office; and rejects and pieces accepted by machine, by operation.

The sponsor should collect, as appropriate, the following additional data:

- a. For new equipment: machine run times, downtimes, idle times, and throughput per run hour; for other investments: workhours expended.
- b. Equipment inventory, including number and type of machines in the before and after periods, and details (including dates) of redeployment of any machines.
- c. Cost of additional space or reconfiguration of existing space required for the new equipment or operations.
- d. Site preparation costs.
- e. Cost of any special equipment to enhance the new equipment or operations.
- f. Specialty tools purchased exclusively for use with the new equipment or operations by mechanics doing routine maintenance or breakdown repair on machines.
- g. New staff positions created as a result of implementing the new equipment or operations.
- h. Direct support hours, where applicable.

- i. Additional transportation costs attributable directly to additional dispatch runs, as well as other relevant transportation costs.
- j. National Maintenance Activity Reporting System (NMARS).
- k. Training costs.
- l. Workhour savings.
- m. Other data that is relevant to the specific project.

7-3.6.2 **Data Sources**

Sponsors may use the following sources to obtain required data: Web Management Operating Data System (WebMODS) reports, End-of-Run Utility reports, EDW, etc.

7-3.6.3 **Retention Modes**

Whenever possible, retain data in electronic format, both to conserve storage space and to facilitate access when the data are needed for the after period of the cost study or audit. Hard copy (paper) data records are acceptable if the data cannot be retained in electronic format. All data must be correctly labeled and filed in chronological order.

7-3.7 **Measuring Costs**

All affected mail processing and support operations, including building and vehicle operations and refurbishment of facilities, are measured in both the before and after period. Because this analysis also includes all major cross-functional effects of the project, it requires input from other functional areas. Following are some of the specific measurements that must be tracked and compared:

- a. **Volume and workhour data** — The WebMODS and the National Workhour Reporting System (NWRS) are used to record volume and workhour data in the before and after periods. For non-WebMODS sites, any available WebMODS-equivalent volume and workhour data or documentation is used to determine changes occurring over time. Data from any special studies that are being conducted locally or nationally may be of value and should be retained for use in cost studies.
- b. **Labor** — Labor cost changes are computed by comparing direct workhour expenditures in the before and after periods. The productivity rates for each measured operation in the before period are divided into the after period volume to determine the equivalent workhours that would have been required to process the after-period volume using the before-period process. The difference between the equivalent before-period and actual after-period workhours is priced at the current productive hourly wage rate (base hourly pay including fringe benefits).
- c. **Maintenance** — Changes in costs of building maintenance, equipment maintenance (including parts and supplies), and custodial and protective services are based on nationally supported maintenance tacking systems. These data are then projected to an annual basis.

Maintenance costs for any equipment being evaluated must be identified separately, regardless of the recording method.

7-3.8 Record Retention

All records showing complement, workhours, mail volumes, productivities, and expenses, regardless of the retention life cycle, must be retained in one location from the time of project approval until the conclusion of the cost study or audit, which may be several years after move-in or final deployment. For facility projects, managers must provide to the appropriate Finance office the supporting documentation needed to explain any baseline changes in their functional areas. These records, along with the baseline data contained in the original DAR backup, provide the information that the Office of the Inspector General needs to conduct the audit. Real estate items are coordinated with the facilities service office or major facilities office. For national equipment and other non-facilities projects, the sponsor and implementing field offices maintain the required cost records until the vice president of Finance, Controller, conducts the cost study. The sponsor must retain the following:

- a. A list of all contracts associated with a project.
- b. A copy of the final contract or final modification to each contract (i.e., the modification upon which final payment of the contract is based) must be retained.

When GAO, OIG, or Program Performance, Finance, completes the final cost study or audit report, the source data and spreadsheets must be archived (or discarded if the prescribed data retention period has elapsed). Beyond this point, the normal data retention guidelines apply. For further guidance concerning the time periods for which data must be collected or the data retention for a specific project or program, contact Capital and Program Evaluation, Finance.

7-4 Decision Analysis Report Compliance

When the project is approved, the sponsor must be provided with copies of the final approved DAR and all supporting documentation. The sponsor in participation with the local installation head (for facility projects) or program manager (for equipment/systems/other projects) are responsible for reviewing the approved DAR and managing the implementation, deployment or local activation planning/move-in, in conformance with the DAR and any subsequently approved modifications. Investments requiring a DAR are tracked throughout the progress of the investment using Compliance Reports.

7-4.1 **DAR Modification Requests and Other Forms of Notification to the Approving Authority**

Schedule modifications, changes in approaches to deployment and implementation, decisions not to deploy certain components, eliminating requirements contained in the DAR, procuring equipment not identified in the DAR, or potential expansion or elimination of any aspect of the investment defined in the DAR (but not limited to those actions listed) require notification to the Board or other approving authority. Contact the manager of Capital and Program Evaluation, Finance, for direction in regard to the how to notify the approving authority. The notification may take the form of the *Investment Highlights* (Compliance Reports), the special issues section of the *Investment Highlights*, letters to the Board, or a DAR modification.

The approving authority must review, validate, and approve a DAR Modification Request before the sponsor departs from the approved DAR. These processes to notify the Board and senior management are available so that business decisions can be made based on changes in the environment that were not expected or anticipated when the DAR was originally drafted. The requirements for DAR modifications are not intended to prohibit changes in the direction of a program when it makes good business sense to do so. On the contrary, notification to the Board (or other approving authority) enables the Postal Service to make adjustments to investments that support obtaining the return on investment (ROI) projected in the DAR. See part 1-3.4 and the appropriate Handbook F-66 module for requirements related to DAR modifications.

7-4.2 **Compliance Report Procedures**

The sponsor has responsibility for ensuring that projects are tracked and reported using the appropriate DAR Compliance Report input format. The metrics identified in the DAR for documentation and tracking of achieved costs, schedules, and risk must be included as part of the DAR Compliance Report.

7-4.2.1 **Compliance Reporting Timeframe**

Compliance Reports must be prepared quarterly from the time a project is approved until 18 months after final deployment/completion of the program. Compliance Reports often help identify additional funding requirements or operational changes that require a DAR Modification Request.

7-4.2.2 **Basic Information Requirements**

Sponsors are required to provide Capital and Program Evaluation, Finance, with test plans, summary data, and analysis of available test results for comparison with projections in the DAR. The sponsor must document actual program performance versus DAR projections. This information is in addition to the elements contained in the compliance input form (see exhibit 7-2).

7-4.3 DAR Compliance — Headquarters Projects

Headquarters approved DARs require quarterly compliance reporting which is used to convey the status of the investment throughout the company hierarchy. Table 7-4.3 identifies compliance and program status reporting responsibilities for Headquarters approved investments.

Table 7-4.3

Compliance and Program Status Reporting Responsibilities

Investment Funding Level	Reported By	Reviewed By	Reported To
More than \$25 million	Sponsor ¹	Capital & Program Evaluation	Board of Governors ²
More than \$7.5M but less than \$25 million	Sponsor ¹	Capital & Program Evaluation	Senior Management ³
More than \$5 million but less than \$7.5 million	Program Manager	Sponsor/Vice President	Sponsor/Vice President
Less than \$5 million	Sponsor	District Manager	Area Finance Manager

¹ The sponsor may delegate compliance reporting responsibility to a designated staff member. The program manager is frequently assigned this responsibility. However, the sponsor retains accountability for ensuring complete, accurate, and timely compliance reporting.

² The investment status compliance report provided to the Board is identified as the *Investment Highlights*.

³ The status of selected investments less than \$25 million may be included in the *Investment Highlights* as directed by the Board or if identified as a significant project.

7-4.4 DAR Compliance — Headquarters Projects That Require Board Approval

Capital and Program Evaluation, Finance, compiles compliance reports for investments that exceed the \$25 million threshold and require approval by the Board into the *Investment Highlights* for consumption by the Board with copies supplied to senior management. In some instances, investment projects below the \$25 million threshold for Board approval may be added to the *Investment Highlights* program status report.

7-4.5 DAR Compliance — Headquarters Projects That Do Not Require Board Approval

Compliance reports for non-Board approved programs fall into two categories:

- a. Those requiring Capital Investment Committee (CIC) review.
- b. Those investments that are \$7.5 million or less and do not require CIC approval.

7-4.5.1 **Compliance — Headquarters Projects More than \$7.5 but Less Than \$25 Million**

Compliance reports for investments that exceed \$7.5 million are sent to the manager of Program Performance, Finance. Program Performance retains these reports and reports the status of the investments to senior management or as otherwise directed by management.

Note: The process for submitting Facility investment project compliance reports varies slightly from what is described above. See part 7-4.6 and the F-66A for additional Facility investment project compliance reporting procedures.

7-4.5.2 **DAR Compliance — Headquarters Projects \$7.5 Million or Less**

The sponsor collects and retains the compliance reports for Headquarters projects below the \$7.5 million threshold for CIC approval.

7-4.6 **Compliance Responsibility for Facility Projects**

The sponsor is responsible for data collection. Immediately after project approval, the sponsor of a facility project (through the installation head) appoints members to the DAR compliance subcommittee, which forms a part of the Post Office Activation Committee (POAC). For facility projects, the information collected for the DAR Compliance Report is used as the major source document for *Investment Highlights* and the information transferred (by Headquarters Facilities) to the standardized form (see chapter 6 of Handbook F-66A).

7-4.6.1 **DAR Compliance Subcommittee for Facility Projects**

Recommended membership of the DAR compliance subcommittee is as follows:

- a. Manager of Finance or the senior budget/financial analyst (chairperson).
- b. Manager of operations of the affected facility.
- c. Delivery and Retail analyst.
- d. Operations Support Specialist.

7-4.6.2 **DAR Compliance Subcommittee Responsibilities**

The DAR compliance subcommittee has the following responsibilities:

- a. Reviews the DAR in detail as to the operational and economic proposals.
- b. Ensures that all activation plans conform to the DAR.
- c. Tracks and records relevant costs, workhours, and mail volumes for the cost study.
- d. Ensures that projected operating costs and savings in the DAR are achieved, and that modification requests are prepared as necessary.

- e. Submits quarterly Compliance Reports to facility head.
- f. Prepares DAR Modification Requests with adequate justification, supporting documentation, and revised cash flows, as necessary.
- g. Maintains appropriate records documenting the baseline costs.

Note: At the end of each quarter, the facility head consolidates (through the DAR compliance subcommittee) the action plans developed by the project management staff or the POAC and the quarterly Compliance Report. The DAR and cash flows, including any subsequently approved modifications, are updated at this time. (See MI AS-510-2000-2, *Changing Facility Designs After Project Approval*, for further information).

7-4.6.3 **Area Review of Compliance Reports**

Facility Compliance Reports are forwarded for review and evaluation through the area office and then transmitted to Field Operations Requirements Planning, Headquarters, with copies to Capital and Program Evaluation, Finance, and to the Headquarters Facilities office.

7-4.7 **Compliance Report Input Format**

7-4.7.1 **Standard Compliance Report Input Format**

The DAR Compliance Report input form and the *Investment Highlights* report input form have been consolidated to accommodate program status reporting for both Board approved and non-Board approved investments. Therefore, Board-approved investments, and non-Board approved investments will use the same input form for compliance reporting. This includes Board approved facility investments that will have compliance information collected from the field consolidated (by Headquarters Facilities) and transferred onto the new input form. A sample of a completed compliance input form for these types of projects is provided in exhibit 7-2. Exhibit 7-3 provides instructions for completion of the compliance input form.

7-4.7.2 **Exceptions to Standard Compliance Report Input Format**

There are two types of investments that will not use the standardized consolidated Compliance/*Investment Highlights* input form. The two sections below explain these variations.

7-4.7.2.1 **Exceptions for Facility Investments**

The field will continue to use the Facility Compliance Input Form, found in Handbook F-66A, *Investment Policies and Procedures — Major Facilities*, to transmit program status information for all Headquarters approved facility investment projects. However, the transmission of these forms will follow different paths depending on the level of approval (see part 7-4.8 for transmission procedures).

7-4.7.2.2 **Exceptions for Field Investments**

Field approved investment projects will continue to use the compliance input form found in Handbook F-66C.

7-4.8 **Compliance Report Transmission**

The process of transmitting Compliance Reports to Capital and Program Evaluation, Finance, and other Headquarters organizations varies slightly for non-facility and facility investment projects. The following two sections will describe the differences.

7-4.8.1 **Non-facility Projects**

The sponsor submits the Compliance Reports to Capital and Program Evaluation, Finance, for Headquarters approved (non-facility) investment projects greater than \$7.5 million. Completed submissions are due back to Capital and Program Evaluation, Finance, 10 business days after the close of the quarter.

7-4.8.2 **Facility Projects**

For Headquarters facility projects, DAR Compliance Reports are forwarded for review and evaluation through the area office to Headquarters facilities, Capital and Program Evaluation, Finance, and Field Operations Requirements Planning, Headquarters. Completed submissions are due back to Capital and Program Evaluation, Finance, 10 business days after the close of the quarter.

7-4.8.3 **Facility Projects Consolidation**

In the case of Board-approved facility projects, Headquarters Facilities will extract the information from the (facilities) Compliance Input Form and transfer the information onto the standardized *Compliance/Investment Highlights* input form used for non-facility projects (see exhibits 7-2 and 7-3). Headquarters Facilities adds additional information to the standardized compliance form to ensure all data elements contained in the form are completed. Headquarters Facilities then transmits this information to Capital and Program Evaluation.

7-5 **Headquarters Compliance Oversight**

Capital and Program Evaluation, Finance, is responsible for periodically reviewing compliance with investment procedures by area Finance offices.

7-5.1 **Headquarters Staff**

Various Headquarters staff may attend, when appropriate, local activation meetings to assist in planning, tracking, and monitoring project activation. If necessary, an on-site meeting may be held to discuss the compliance plan and resolve any outstanding issues. This meeting may be requested by any organizational level, and is coordinated by the requesting organization.

7-5.2 **Field Personnel**

Field personnel (district or area staff) attend local activation meetings as often as necessary to assure that planning conforms to the DAR and that the Postal Service will achieve the anticipated savings. They assist the local office in implementing all aspects of the DAR, including accurate and timely completion of compliance input forms. Districts and Areas must review and approve any DAR Modification Requests that result from deviations from the assumptions contained in the original DAR.

7-6 **Area and Field Compliance Responsibilities**

Finance, Headquarters, recommends that the area Finance staff conduct an annual review of district and area Capital Investment Committee (CIC) compliance with established investment procedures, including review and approval procedures, as set forth here and in the other handbooks in the F-66 series. This oversight effort should include a review of DARs, validations, compliance reports, audits, CIC minutes, and district workgroup minutes, files, and procedures.

7-7 **Cost Studies and Audits**

All types of investment projects may be subject to a cost study or audit. Cost studies are used to compare the actual investment-related and operating costs and benefits of a project to the planned results contained in the DAR. Depending on the type and size of project, the cost study or audit may be conducted by the vice president of Finance, Controller, or the Office of the Inspector General (OIG). An audit conducted by the OIG may include a cost study.

7-7.1 **Cost Study Procedures**

Cost studies are used to determine and report cost changes resulting from the operation of new or refurbished facilities, the installation of equipment, mechanization, implementation of new systems, postal support projects, or other mail processing operations, or the implementation of new initiatives. This involves comparing changes in investment-related and operating costs from the before period to the after period. The results of the cost study are compared to the total savings/costs shown in the DAR cash flow to determine whether the objectives of the project were met. The before period of the cost study reflects the baseline period prior to the modification of operations caused by moving into a new facility or the installation of equipment or mechanization, etc. The before period continues for 18 months and normally ends 3 or 4 months before move-in, equipment installation, or system deployment. The after period of the cost study reflects the period after move-in, equipment installation or system deployment. The after period begins a reasonable time after activation (approximately 6 months) to allow for shakedown, ramping-up, and moving disruptions. The duration of the after

period depends on the type and complexity of the project. Procedures for conducting a cost study are specified by the authority initiating the study. Local authority may supplement specified procedures by requiring additional information from the analyst.

7-7.2 Responsibility for Cost Studies and Audits

The vice president of Finance, Controller, initiates cost studies to ascertain costs and benefits for major equipment programs, national programs involving major operational changes, national budget planning, and national program evaluation reports. National cost studies also assist Headquarters in assessing field performance.

7-7.2.1 Distribution of Cost Studies

The vice president of Finance, Controller, distributes completed cost studies of equipment and other projects conducted by Headquarters to the following:

- a. Sponsoring vice president.
- b. Vice president of Area Operations (if applicable).
- c. Secretary of Headquarters Capital Investment Committee.
- d. Affected local PDC manager or postmaster (if applicable).
- e. Office of the Inspector General.

The methodology, data, and analysis in a Headquarters completed cost study are subject to audit by the General Accountability Office and to review by the Office of the Inspector General, and other government agencies.

7-7.2.2 Joint Reviews

National mechanization and automation programs, as well as other national programs affecting all areas, are evaluated by all organizational levels working together. The key ingredient in such studies is the office-level or facility-level cost study. Responsibility for data collection lies with the sponsor, following the methodology and procedures developed by Headquarters.

7-7.3 Internal Control Group

Every performance cluster will have an Internal Control Group (ICG) to serve as its internal control process consultants. Using national standardized reviews, ICG analysts will work to identify opportunities to improve internal controls and their execution. These activities may include reviewing the processes associated with established investment procedures (e.g., approval procedures and adherence to reporting requirements).

7-7.4 Office of the Inspector General

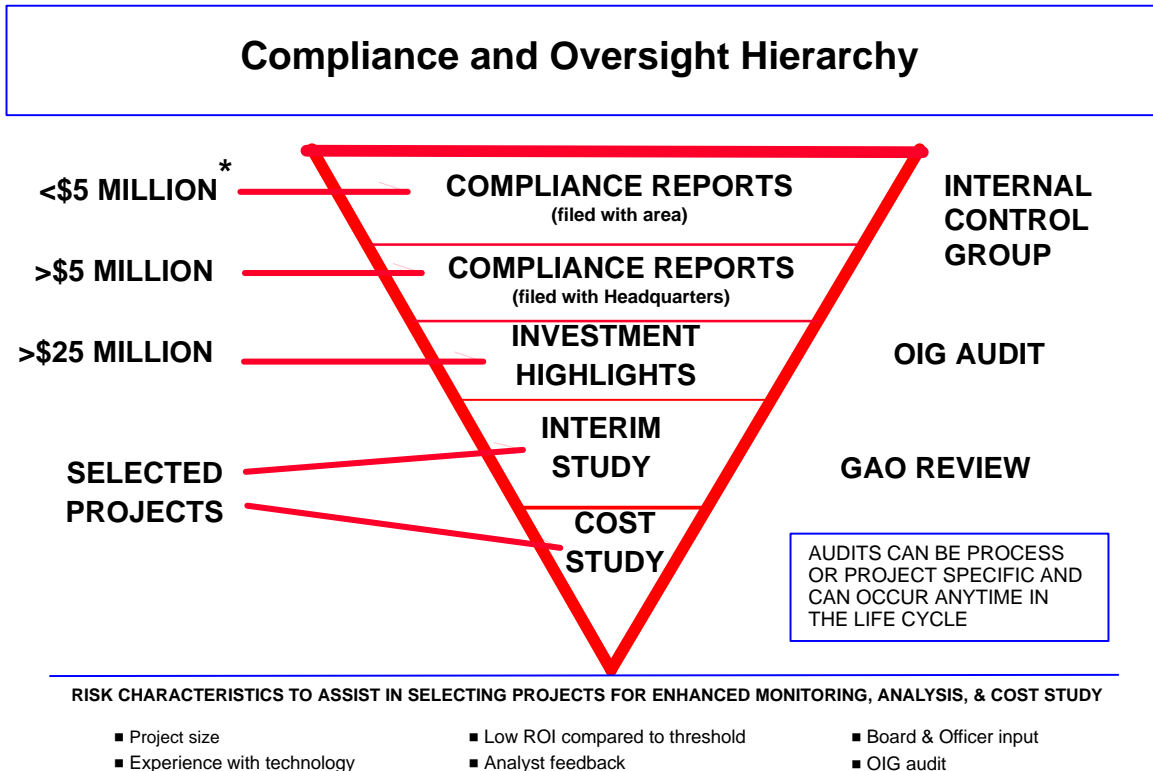
The Office of the Inspector General (OIG) provides timely, accurate, and useful information that contributes to the efficiency and effectiveness of the Postal Service. As such, they conduct independent audits and investigations of Postal Service operations to ensure that its assets and resources are fully protected. The OIG fulfills these responsibilities by completing required audits

of the Postal Service's financial statements, assessing the adequacy of internal control systems, identifying opportunities for improvement, and conducting investigations and audits relating to the programs and operations of the Postal Service.

7-7.5 **Government Accountability Office**

The Government Accountability Office (GAO) helps the Congress oversee federal programs and operations to assure accountability to the American people. The GAO accomplishes its mission through a variety of activities including financial audits, program reviews, investigations, legal support, and policy and program analyses. The GAO is dedicated to good government through its commitment to the values of accountability, integrity, and reliability. Included in the GAO's mission is the assessment of the Postal Service's investment policy and procedures as well as review the investments themselves. The GAO performs these activities just as they do with any federal agency. Accordingly, the Postal Service is committed to cooperating with the GAO in regard to their audit and review activities associated with the investment policies established by the Postal Service.

Exhibit 7-1

Compliance and Oversight Hierarchy

Lower Bounds: Material Handling greater than \$1 million; Other Capital Equipment (including R&D) greater than \$250, 000; New Construction (leased or owned) greater than \$1 million; Repairs & Alterations greater than \$1 million; Other Facilities greater than \$1 million.

Exhibit 7-2 (p.1)

Investment Highlights Quarterly Compliance Report Input Form — Sample

Investment Highlights
Project Status and Compliance Report Input Format For:

<Project Name>

<Postal Quarter – Fiscal Year>

Description:

Usually found in the Decision Analysis Report (DAR) in the System Description section.

	Qtr4/2003 Current	Current Otr.
Finance Number:	123456	
Project Type:	EQUIPMENT	
Budget Category:	Vehicles	
Target ROI:	28%	
BOG/Other Approval Date:	8/7/2000	
Completion Date per DAR:	3/2/2002	
Revised Completion Date per Sponsor:	3/30/2003	
Transformation Plan Project:	Yes	
Accelerated Approval Process:	No	
Deployment - Total Units/Sites/Systems:	192	
Deployment - To Date Units/Sites/Systems:	192	
Overall Project Percent Completed:	100.00%	
Fiscal Year Started:	2000	
Postal Quarter Started:	1	
Fiscal Year Ended:	N/A	
Postal Quarter Ended:	N/A	
Current Stage:	Post Deployment	
Current Milestone Start Date (Plan):		
Current Milestones End Date (Plan):		
Current Milestone Start Date (Actual):		
Current Milestone End Date (Actual):		
Status (Active, Completed, New):	Active	
Schedule (On-time, Behind, Ahead):	On Time	
Capital Investment Approved by the BOG (Other):	\$26,986,000	
Estimate Capital Investment Upon Completion:	\$26,600,000	
Committed Capital Investment To Date:	\$26,300,295	
Capital Cash Outlay:	\$25,670,925	
Expense Investment Approved by the BOG:	\$533,000	
Committed Expense Investment to Date:	\$500,000	
Estimated Expense Investment Upon Completion:	\$521,000	
Technical Risk:	Low	
Operational Risk:	Low	
Integration Risk:	Low	
Facility Move In Date:	N/A	
Facility Date Moved In:	N/A	
Project Approved By:	—	
Latest DAR Modification Approval Date:	—	

Exhibit 7-2 (p.2)

Investment Highlights Quarterly Compliance Report Input Form — Sample**Investment Highlights
Project Status and Compliance Report Input Format For:**

<Project Name>

<Postal Quarter – Fiscal Year>

Narrative:**1. Relevant Historical Facts or Events**

A delay in contract award from October 2001 to December 2001 resulted in change in the deliverable start date to January 2002. First Article Testing (FAT) was delayed one month due to vendor software issues and refinement of requirements by the Postal Service. The FAT was completed in November 2002.

2. Current Developments

The wide field of view (WFOV) camera system is being modified to read and decode a new 4 state barcode (4SB). Since the WFOV camera is required to read all postal codes, the WFOV program will fund this initiative. It is anticipated that the 4SB will ultimately replace the PLANET code while integrating ZIP Code information necessary for sorting mailpieces into the 4SB — supporting the Postal Service's vision of "one code" for scanning, tracking, and sorting.

3. Supply Chain Management Impact

Selection of the system for the Postal Service was based the results of a 10-week competitive test between four vendors. The vendor selected provided the best value for the Postal Service by meeting or exceeding the readability and technical requirements in the Statement of Work while controlling costs sufficiently to meet projections articulated in the DAR. Supply chain savings are estimated at \$2.5 million due to the competitive contracting process.

4. Summary of Metrics**a. Cost**

Enhanced performance is the basis for workhour savings in the DAR. Automated equipment is monitored using the End-or-Run program and/or the Management Operating Data System (MODS) and read rates are tracked. To date, the EOR reporting systems shows that the system is meeting its performance criteria of 98.9 percent read rate.

b. Benefits

The Decision Analysis Report (DAR) savings are based on decreased labor costs due to improved mailpiece readability. The return-on-investment (ROI) rate is 23.3 percent with a Net Present Value of \$70.3 million. The net savings versus the baseline in the first full year of operation are approximately 600 workhours equating to \$34.9 million. The system will enable the Postal Service to passively validate postage payments using the two-dimensional barcode (IBIP) technology generated from personal computers (PC), enhancing the Postal Service's revenue protection process. In addition, certified mail, mailpieces with Delivery Confirmation™ barcodes, and mailpieces containing CONFIRM PLANET codes will be scanned by the WFOV camera supporting system-wide tracking and reporting.

Exhibit 7-2 (p.3)

Investment Highlights Quarterly Compliance Report Input Form — Sample**c. Risks**

The risks associated with this program are based on the development and deployment of new technology (moderate) and operational continuity (Low). To mitigate these identified risks, the following approaches were taken:

- (1) Four vendors' were tested in a "live mail" environment for 10 weeks. Data from these tests were used to establish a realistic savings baseline and to evaluate technology and systems impacts.
- (2) The system was integrated into existing hardware platforms without impacting deployed software ensuring that negative operational impacts would be virtually nonexistent.

d. Schedules

Technology is working as expected. The program was able to advance deployments by adding resources to the installation teams and doubling the number of projected installations per month — recovering some of the previous schedule slippage due to a later than anticipated contract award and the FAT delay.

- (1) What planned activities were accomplished this quarter?
Latest deployment figures include 300 systems that were shipped to Topeka for depot spares. The total purchase quantity is now accounted for — deployment of hardware has been completed.
- (2) What activities planned for this quarter were not complete?
None.
- (3) What activities are planned for next quarter?
Deployment of software to enable decoding of the 4SB.
Report Date: 01/15/2004

5. Compliance Questions

- (1) Are the dollar amounts committed in line with the approved DAR? If not, explain.
Yes
- (2) Are the deployment and removal plans in the approved DAR still valid? If not, explain.
Delay in contract award from October 2001 to December 2001 resulted in change in the deliverable start date to January 2002.
- (3) What is the current percent of redeployed equipment?
N/A
- (4) What is the current percent of disposed equipment?
N/A
- (5) Are the original DAR assumptions still valid? If not, explain.
Yes.
- (6) Do you anticipate that a DAR Modification Request may be necessary? If so, explain.
No.
- (7) If you have called your project complete, does that mean you will commit no more capital or expense investment funds to this project's DAR finance number in future quarters?

Exhibit 7-2 (p.4)

Investment Highlights Quarterly Compliance Report Input Form — Sample

(8) If you have called your project complete, does that mean the project now has all the functionality that was promised in the DAR?

(9) Additional Comments?

6. Signature Section

Preparer: _____ Signature: _____ Title: _____ Date: _____

Program Manager: _____ Signature: _____ Title: _____ Date: _____

Exhibit 7-3 (p.1)

Instructions for Compliance/Investment Highlight Report**Project Description**

This information can usually be found in the Decision Analysis Report (DAR) in the section titled "System Description." The description should be brief, but comprehensive enough for someone who is unfamiliar with the program or its technology to understand.

Project Identification

1. **Project Name:** Enter the project name from the cover page of the approved DAR.
2. **Postal Quarter:** Enter the quarter of the report.
3. **Fiscal Year:** Enter the fiscal year of the report.
4. **Description:** Provide a brief description of the project objectives (An abbreviated description from the DAR).
5. **Finance Number:** Enter the finance number for the project.
6. **Project Type:** Enter the program type (e.g., Equipment, Facility, Other)
7. **Budget Category:** Mail Processing Equipment, Vehicles, Postal Support Equipment, Retail Equipment, etc.
8. **Target ROI:** Enter the target ROI identified in the DAR.
9. **BOG/Other Approval:** Enter the BOG approval date. In not BOG approved enter date and "other."
10. **Completion Date per DAR:** Enter the DAR completion date.
11. **Revised Completion Date per Sponsor:** If a completion date change has occurred, enter it here.
12. **Strategic Transformation Plan Project:** Indicate if the project is part of the *Strategic Transformation Plan* (Yes/No).
13. **Accelerated or Regular Approval Process:** Indicate (Yes/No) whether the project was approved under the accelerated or regular approval process.
14. **Deployment — Total Units/Sites/Systems:** Enter the total number of units planned for the project and the number of units deployed to date.
15. **Deployment — To Date Units/Sites/Systems:** Enter the number of units deployed to date.
16. **Overall Project Percent Completed:** Percent complete, estimate of project's overall completion expressed as a percent.
17. **Fiscal Year Started:** Enter the fiscal year that the program started.
18. **Postal Quarter Started:** Enter postal quarter that the program started.
19. **Fiscal Year Ended:** Enter the fiscal year that the program ended.
20. **Postal Quarter Ended:** Enter the postal quarter that the program ended.
21. **Current Stage:** Sponsor defined — Preproduction, production, acceptance testing, deployment, post deployment.
22. **Current Milestone Start Date (Plan):** Milestones identified in the DAR plan are tracked until they have been completed. As the "current" milestone is completed, the next milestone is elevated to "Current" status and tracked until completed (e.g., Contract Award, Design, Build, In-Plant Test, First Article Test, Deployment).
23. **Current Milestone End Date (Plan):** Same as above — except entry is for "End Date" for the milestone.
24. **Current Milestone Start Date (Actual):** Same as above — except entry is for "Start Date Actual."

Exhibit 7-3 (p.2)

Instructions for Compliance/Investment Highlight Report

25. **Current Milestone End Date (Actual):** Same as above — except entry is for “End Date Actual.”
26. **Status:** Enter New, Active, or Completed.
27. **Schedule:** Enter On-time, Behind, Ahead, or Late.
28. **Capital Investment Approved by the BOG:** Enter the amount that the BOG approved.
29. **Estimate Capital Investment Upon Completion:** Program manager’s estimate of capital to be spent through the completion of the program. This amount is infrequently the exact amount of the BOG approved capital and may never exceed the approved DAR amount.
30. **Committed Capital Investment to Date:** Enter the total amount of capital committed at the end of the reporting period.
31. **Capital Cash Outlay:** Enter the amount of capital cash paid out during the reporting period.
32. **Expense Investment Approved by the BOG:** Enter the amount of expense funding that the BOG approved.
33. **Committed Expense Investment to Date:** Enter the amount of expense committed at the end of the reporting period.
34. **Estimated Expense Investment Upon Completion:** Enter the amount of expense needed for completion of the project. This number is not necessarily the same as, and may not exceed, the amount of expense approved in the DAR.
35. **Technical Risk:** Enter the level of technical risk identified in the DAR.
36. **Operational Risk:** Enter the level of operational risk identified in the DAR.
37. **Integration Risk:** Enter the level of integration risk identified in the DAR.
38. **Facility Move-in Date:** Enter the planned move-in date. Applicable for facility projects only.
39. **Facility Date Moved In:** Enter the actual move-in date. Applicable for facility projects only.
40. **Project Approved by:** Enter the name of the final approving body or official.
41. **Latest DAR Modification Approval Date:** Enter the date that the most recent DAR modification was approved. If there are no approved DAR modifications, enter “None.”

Narrative

The narrative section of the report contains four major parts, which are based on requirements that the Government Accountability Office established for project compliance reporting.

Relevant Historical Facts or Events

This section should contain events such as delays in contract awards, deliverable start dates, modification of requirements, or other activities that if documented, would inform management about the status of the program throughout its various phases (e.g., preproduction, production, In-plant Testing, First Article testing, pre-deployment, deployment, post deployment).

Current Developments

Provide a description of activities that have taken place during the reporting period.

Exhibit 7-3 (p.3)

Instructions for Compliance/Investment Highlight Report**Supply Chain Management Impact**

Identify the role that Supply Chain Management played in adding value to the project/program by improving quality and/or reducing costs.

Summary of Metrics

This section contains four subsections that are intended to identify cost, benefits, risks, and schedules related to the program and include the status of the program metrics.

Cost

Identify the costs that the BOG approved. Include both capital and expense. Provide the expected/final capital and expense expenditures as applicable.

Benefits

Identify the ROI — lower and upper bounds if applicable. Provide the source of savings such as quality and/or productivity improvements identifying the reduction in workhours and dollars.

Risks

Using the DAR as the source document, recap the risks associated with the project. Include the actions and processes taken to mitigate the identified risks. Additional requirements for risk analysis is included in Handbook F-66, *General Investment Policies and Procedures*.

Schedules

The schedules section consists of three questions:

1. What planned activities were accomplished this quarter?
2. What activities planned for this quarter were not completed?
3. What activities are planned for next quarter?

Compliance Questions

Answer each of the following questions:

1. Are the dollar amounts committed in line with the approved DAR? (If not, explain.)

If the dollar amounts committed to date exceed the planned expenditure, explain why. Also indicate if the total investment cost may eventually exceed the approved DAR limit.

2. Are the deployment and removal plans in the approved DAR still valid? (If not, explain.)

List each type of equipment planned to be removed, as stated in the approved DAR, showing the number of units slated for redeployment and disposal and the number of units removed to date.

Explain any differences between actual and planned installations, redeployment, and disposal of equipment. For example, if contract or delivery dates have changed from the original plan, explain the discrepancies and describe their potential program impact.

3. What is the current percent of redeployed equipment?

Insert the percent of redeployed equipment if applicable.

4. What is the current percent of disposed equipment?

Insert the percent of disposed equipment if applicable?

Exhibit 7-3 (p.4)

Instructions for Compliance/Investment Highlight Report

5. Are the original DAR assumptions still valid? (If not, explain.)

Refer back to the assumptions listed in the approved DAR. If these assumptions are no longer valid because circumstances have changed, provide an explanation. Include items such as test results completed after validation and spare part costs to determine if they vary significantly from the DAR projections. The potential of achieving the ROI (as identified in the DAR) is also an element that should be addressed in as an affirmative or negative response (e.g., the potential of achieving the ROI for this project is not in jeopardy at this time).

6. Do you anticipate that a DAR Modification Request may be necessary? (If so, explain.)

Answer “yes” and provide a brief explanation if any of the following conditions exist:

- The number of units being procured differs from the number of units planned for procurement, as stated in the approved DAR.
- The committed investment amount for any DAR line item exceeds the planned expenditure.
- Equipment is being deployed to sites other than those indicated in the approved DAR.
- Equipment has not been redeployed or disposed of in accordance with the DAR.
- A change in circumstances makes the original DAR assumptions incorrect.

7. If you have identified your project as complete, will no additional capital or expense investment funds be committed to the project's DAR finance number in the future?

This question is intended to determine if the program is complete in that no additional funds are planned to be used.

8. If you have identified your project as complete, does this mean that the project has all the functionality that was promised in the DAR?

This question is designed to determine if all the requirements as functionality described in the DAR have been achieved. These requirements may encompass more than the deployment of equipment or hardware and typically include other elements such as software and network components.

9. Any other comments?

Use this section to provide any additional information that the preparer feels may need to be reported. This section may also be used to provide advance notice to Finance of anticipated changes (e.g., that a portion of the authorized contingency funding may be needed in the near future or that schedule changes are anticipated).

Signatures

Signature of Preparer: Indicate the name, title, and telephone number of the person who prepared the report. The preparer must sign* and date the report.

Signature of Program Manager: Indicate the name and title of the program manager (or reviewer) who reviewed the report. The program manager should be at a higher level of authority than the preparer within the same organization. The program manager must sign the report and indicate the date of review. The program manager's signature* indicates awareness of and concurrence with the contents and general tone of the report.

***Note:** Signatures are not required for *Investment Highlights* reports, which are transferred electronically to Program Performance, Finance.

Glossary

Activation. The commencement of operations (e.g., administration, finance, operations, or related postal activities) in a new or renovated facility.

Advance site acquisition. The acquisition of land meeting the operational requirements of a facility in advance of overall project approval.

After period. The 2-year period after move-in or deployment for which costs and savings data are collected in order to measure the economic results of a project.

Alternate quarters. The lease of existing facilities (i.e., not a new construction project).

Alternatives. A series of distinct, viable approaches to solving requirement needs or improving productivity associated with one project.

Analysis of incremental investment. The analysis of the differential cash flow between two alternatives which generates an internal rate of return on the incremental investment.

Automation/mechanization. Mail processing equipment that is standard in design and performance, replaces manual operations, and is procured in quantities of identical models without reference to a particular facility.

Backup documentation. The necessary supporting information used to develop the operating concepts and cost analysis for a given project.

Baseline. A description of the present or current situation or reference point used to define operational and economic impacts of each alternative solution to the problem analyzed.

Before period. The 18-month period for which costs and savings data are collected prior to move-in or project implementation, in order to measure the economic results of a project.

Budget Call. Annual request for input from the field and Headquarters for development of the Five-Year Capital Investment Plan.

Corporate Planning System (CPS). Computerized system used in producing the Postal Service's Five-Year Capital Investment Plan and in controlling budget changes.

Capital commitment. The amount of capital funds to be spent on a specific contract. The commitment becomes effective at the time the contract is signed.

Capital expenditure. The actual use of capital funds (i.e., upon payment of bills, invoices).

Capital investment. The investment of funds for assets that have an expected service life of more than one year, and which cost more than a specified amount.

Capital investment committee (CIC). A group appointed to review and make recommendations on expenditure proposals at the area or Headquarters level.

Capital Projects Committee (CPC). A committee of the Board of Governors that reviews capital projects and makes recommendations to the full Board.

Cash flow. The Itemization of investments and costs or savings over an analysis period (usually 10 years) to determine the return on investment and net present value of implementing a proposed project. See *Discounted cash flow*.

Cost avoidance. Anticipated costs that will not be incurred if a proposed investment decision is approved (e.g., maintenance costs for the coming year on equipment that will be replaced). See also *Savings*.

Cost of capital. The weighted average of the Postal Service's cost of borrowing and cost of equity.

Cost study. A comparison of a project's planned results, as represented by the approved DAR, to actual results following move-in or project completion by comparing the before period data to the after period data.

Decision Analysis Report (DAR). A document developed by the requiring organization to justify a project investment and to assist the approval authorities in making decisions concerning the use of Postal Service funds.

Decision Analysis Report System (DARS). A Microsoft Excel spreadsheet system used to analyze the economics related to facility projects.

DAR Compliance Report. A quarterly report showing the status of a project's investment, operational plans, and operating variances.

DAR modification. An economic or operational change from an approved DAR.

DAR Modification Request. A written proposal and justification for a modification from the approved DAR, which must be reviewed and approved by the appropriate approval authority before the requested action is taken.

Discounted cash flow. The calculation of the present value of an income stream (costs and savings) associated with an investment.

Economic analysis. The analytical comparison of various alternatives (solutions) to a given problem to ascertain their relative economic advantages.

Economic value added (EVA). A measurement of financial performance used by the Postal Service to assess its revenues and the management of its resources, including capital.

Escalation factor. The inflation rate used to project labor, energy-related, and other costs into the future, for cash flow purposes.

Expense project. Noncapital projects, including many repair, improvement, modernization, and replacement projects.

Facilities Management System for Windows (FMSWIN). A national database management system for programming, budgeting, planning, scheduling, controlling, and reporting on facilities programs.

Facility Planning Concept (FPC). A description of the requirements for a facility project, the functions to be performed in the proposed new or improved facility, and the effects on other Postal Service units.

Field investment. Any project that may be approved at the area level or below.

Financial Assessment. A review of the key components of a DAR that is performed at the organizational level below the final approval authority.

Finding of No Significant Impact (FONSI). A statement that an environmental assessment of the proposed project indicates that it will not have a significant impact on the natural or socioeconomic environment.

Five-Year Capital Investment Plan. A document that establishes systemwide capital commitments 5 years into the future and first-year cash flow estimates resulting from those commitments. See also *Corporate Planning System*.

Fixed mechanization. See *Material handling*.

Functional review. A project review by an ad hoc group of individuals from an organization's Finance, Operations, and Administrative Services or In-Plant Support functions, as selected by the approval official.

Funds certification. For facilities, a document certifying that sufficient capital funds are included in the Five-Year Capital Investment Plan to complete the project; for nonpersonnel expense, a certification that funds are budgeted and available in the fiscal year of concern.

Generative investment. An investment that provides a measurable improvement to postal operations and produces economic benefit that meets the target hurdle rate for the specific type of project. Compare with *Sustaining investment*.

Headquarters investment. Any project that must be approved at the Headquarters level.

Hurdle rate. The Postal Service cost of capital stated as an annual percentage rate plus a risk factor based upon the type of investment.

Incremental internal rate of return (IIRR). A measure of the rate of return of the incremental investment when two or more alternatives are compared.

Investment cost sheet. A form that the Facilities specialist signs to indicate the anticipated cost for each component of a facilities project and major milestone dates.

Justification of Expenditure (JOE). A 1-page document used to request approval for small field investments that do not require a formal DAR.

Land banking. The purchase of land in anticipation of a future need for which no project is currently under development (i.e., the project is not included in the Five-Year Capital Investment Plan).

Lease versus own analysis. The determination of whether leasing or owning is most economical; used to evaluate and document a financing decision after the decision to acquire an asset has been made.

Life-cycle costs. The total costs associated with an item of equipment from inception until termination of use.

Major equipment project. Any equipment project that requires final approval at the Headquarters level.

Major facility project. Any facility project that requires final approval at the Headquarters level.

Major operating expense investment (MOEI). A corporate initiative identified as a key Postal Service objective that will result in an expenditure of more than \$7.5 million over the project period.

Material handling. Mail processing equipment designed for a particular facility that requires specific building design features or modifications for installation. Compare to *Automation/mechanization*.

National agreements. The agreements between Postal Service management and the unions.

National Strategic Initiatives Approval Board. A Postal Service board that reviews and must recommend for approval all national contracting-out initiatives.

Net present value (NPV). The value today of a future stream of costs or benefits discounted at the appropriate rate.

New construction-leased. A new facility to be constructed to Postal Service specifications and leased (rather than owned) by the Postal Service.

New construction-owned. A new facility to be constructed and owned by the Postal Service.

New construction-owned on leased site. A new facility to be constructed and owned by the Postal Service on a site that it controls by a long-term lease (such as for an airport facility where ownership of the land is not allowed).

Operating variance. Any change from the baseline level in benefits or cost for expenses such as rent, utilities, labor, training, transportation, and maintenance.

Outlease. The leasing to nonpostal entities of Postal Service-owned space that is excess to operational needs.

Planning parameters. A meeting to define a facility-related problem for which a capital investment will be required, and to identify alternative solutions for that problem.

Postalization. The installation of postal-related items, such as vault doors, look-out galleries, and Post Office lockboxes, to a facility during fit-out or renovation.

Prioritization. The ranking of projects and programs by order of importance.

Project Financial System (PFS). A financial subsystem of FMSWIN for facilities and material handling projects that traces the financial history of each project.

Project schedule. A milestone chart, generally developed as a Gantt chart using Microsoft Project, that shows each major step in a DAR and deployment or move-in process. The project schedule is a required exhibit for all DARs.

Realty Asset Management Committee (RAMC). A group chaired by the vice president, Facilities, which reviews property strategies associated with disposals and developmental projects.

Residual value. The value of an asset at the end of the economic analysis period determined by estimating fair market value or using a mathematical formula.

Return on investment (ROI). A measure of how productively funds are being used, calculated as a comparison of total anticipated benefits to the investment amount.

Risk factor. A part of the discount rate that encompasses obsolescence, the uncertainty of inflation, and the economic life of the asset.

Savings. A reduction in costs or a cost avoidance resulting from a change in operations, equipment, procedures, etc.

Sensitivity analysis. A determination of how results change when key assumptions or variables are changed.

Sponsor. The functional organization or unit requesting and justifying an investment project.

Strategic Plan. A 5-year plan that describes the Postal Service mission, the goals it expects to meet, the strategies it will use to reach these goals, and the performance management system that will evaluate progress during this period.

Sublease. The leasing to nonpostal entities of Postal Service-leased space that is excess to its operational needs.

Sustaining investment. An investment that is not based on economic benefits, but assures continuity of existing operations while maintaining security, service, and working conditions. Compare with *Generative investment*.

Unitary investment. Related projects and agreements that must be considered and approved as a single plan.

Validation. A verification of the accuracy, integrity, and consistency of a proposed project, as well as its compliance with official policy and procedures, by a person or group other than the sponsor.

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Related References

Following is a list of Postal Service publications relating to investment planning and implementation.

Manuals

1. *Administrative Support Manual.*
2. *Postal Operations Manual.*
3. *Purchasing Manual.*

Handbooks

1. AS-503, *Standard Design Criteria.*
2. AS-504, *Space Requirements.*
3. AS-505, *Mechanization Design Specifications.*
4. AS-703, *Field Customer Guide to Purchasing and Requisitioning.*
5. AS-707-F, *Contracting for Contract Postal Units.*
6. AS-709, *Credit Card Policies and Procedures for Local Buying.*
7. F-25, *Real Property and Leasehold Improvement Accounting.*
8. F-26, *Personal Property Accounting.*
9. F-43, *Property Code Numbers.*
10. RE-1, TL 13, *Realty Acquisition and Management.*
11. RE-3, TL 4, *Facilities Management System.*
12. RE-5, *Building and Site Security Requirements.*
13. RE-6, *Facilities Environmental Guide.*
14. RE-12, TL 1, *Repair and Alteration Surveys.*
15. RE-13, TL 1, *Repair and Alteration of Real Property Facilities.*
16. RE-14, *Design and Construction Handbook.*

Management Instructions

1. MI AS-510-83-1, *USPS Maintenance of Leased Facilities.*
2. MI AS-510-90-12, *New Facility Start-Up Costs for Decision Analysis Report (DAR) Cash Flow.*
3. MI AS-510-91-5, *Evaluating Replacement of Postal Facilities Under 6,500 Square Feet.*
4. MI AS-510-92-5, *Major Facility Activation.*
5. MI AS-510-94-1, *Changes in Facility Design After Project Approval.*
6. MI AS-520-84-1, *Facility Priority System.*
7. MI AS-520-96-9, *Facility Planning Concept.*

8. MI AS-550-96-4, *National Environmental Policy Act Operational Guidance*.
9. MI AS-710-1999-2, *Unauthorized Contractual Commitments*.

Internet eBuy Training Courses

Many of the resources listed above are available the Postal Service Intranet.

1. Go to <http://blue.usps.gov>.
2. Under “Essential Links” in the left-hand column, click on *References*.
3. Under “References” in the right-hand column, under “Policies,” click on *PolicyNet*.