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Report to the Committee on Governmental Affairs, U.S. Senate

August 1992

POSTAL PROCUREMENT

Eagle Air Hub Selection Not in Accordance With Solicitation

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August 12, 1992

The Honorable John Glenn
Chairman, Committee on Governmental Affairs
United States Senate

The Honorable David Pryor
Chairman, Subcommittee on Federal Services,
Post Office, and Civil Service
Committee on Governmental Affairs
United States Senate

This report responds to your request that we examine the U.S. Postal Service's (USPS) decision to locate the permanent hub for its air network, which transports expedited mail, in Indianapolis. As agreed with the Committee, our objectives were to determine (1) whether the written criteria in the solicitation for bids were valid and credible, (2) whether the award decision was based on the written criteria, (3) whether the bid protest filed over the award was appropriately resolved, (4) whether the competition that USPS obtained was adequate, and (5) whether any undue political influence affected the award.

On August 3, 1992, we briefed the Committee on the results of our work. This report summarizes the information provided at that briefing.

Background

USPS' Eagle Air Network transports Express Mail (for overnight delivery) and Priority Mail (for second-day delivery) among about 30 major cities in the United States. All Express and Priority Mail is brought to a single national location, or hub, in the early morning hours (between 1 a.m. and 3 a.m., local time), sorted, reloaded onto aircraft, and sent to destination cities. Until now, USPS has operated its Eagle Air Network through 2-year lease/contract arrangements. These arrangements provided the hub facility and covered all aspects of transporting the mail and operating the hub.

In January 1991, USPS' Eastern Facilities Service Center (FSC) in Philadelphia was assigned responsibility for preparing the solicitation, evaluating proposals, and making the contract award for a permanent hub facility. The center sent a solicitation for proposals to 36 airports in a 4-state preferred area (Kentucky, Illinois, Indiana, and Ohio) on May 15, 1991. The solicitation contained 14 award factors that were to be used to evaluate the offerors' proposals and make the selection decision. Fourteen airports submitted offers in response to the solicitation. Seven of these 14

offerors were eliminated during the initial technical scoring because the selection committee judged that they did not have a reasonable chance of being awarded the contract. The remaining seven offerors were determined to be in the competitive range. On October 8, 1991, USPS announced it had selected Indianapolis as the site for the permanent hub. A contract to build the facility was awarded on November 8, 1991, and construction is under way.

The selection of Indianapolis was protested on October 15, 1991, by one of the competing offerors, Rickenbacker Port Authority in Columbus, Ohio.[1] Among other things, Rickenbacker claimed that the USPS evaluation panel did not give each of the award factors the same weight that they were given in the solicitation. Another offeror (Dayton, Ohio) later joined the protest. On February 10, 1992, USPS' Associate General Counsel disallowed the protest.

Results

USPS' criteria for selecting a permanent site for its Eagle Air Hub were valid and credible in that the award factors were reasonable criteria for an expedited mail hub facility to meet. However, the USPS scoring plan did not reflect the importance that the solicitation placed on delivery time and move-in date. In addition, the USPS selection committee did not properly consider all the award factors in the selection decision because it compared the technical scores and proposed costs of only the top two technical proposals rather than the technical scores and proposed costs of all seven proposals in the competitive range. Because the solicitation required that the contract award be based on the best combination of technical and cost proposals, we conclude that the contract was not awarded in accordance with the solicitation.

Furthermore, cost estimates were inconsistent and contained errors. Net present values of the proposals were not consistently developed, and the estimates used were often inaccurate. For example, offerors' landing fees were estimated using different aircraft landing weights, with no two offerors submitting the same weight for year 1.[2] (Year 1 weights ranged from 1.3 billion to 4.1 billion pounds.) In addition, before and after the award, USPS identified so many problems with the final offers that the reliability of its net present value figures was questionable. Thus, even had USPS included the cost of all seven offers in the selection decision, it is uncertain whether the costs used would have been either reliable or

[1]Hereafter, this offeror is referred to as Rickenbacker.

[2]Year 1 weights were to be estimated by the offerors in submitting their proposals.

useful. In addition, in scoring proposals, USPS minimized the value of the most important technical criterion—delivery time and move-in date—thus casting doubt on the validity of the technical scores.

In view of the serious deficiencies in evaluating proposals, we conclude that USPS does not really know if it awarded the contract to the best offeror as contemplated under the solicitation. Although USPS' selection of Indianapolis as the permanent site for its Eagle Air Hub was not made in accordance with the solicitation, we do not dispute that Indianapolis was one of the top technical competitors and might have won if the solicitation requirements had been followed. Because of deficiencies in the cost estimates and the selection process, we were not able to determine which competitor would have won had the evaluation been consistent with the solicitation.

We also determined that USPS disallowed the bid protest of the award without satisfactorily resolving a key issue being protested—that the scoring plan did not follow the solicitation's stated evaluation scheme. Further, because USPS solicited offers from 36 airports and 14 offerors responded to the solicitation, we determined that USPS obtained adequate competition for the procurement, even though it was not formally advertised. Finally, while we identified substantial congressional interest regarding this project, it appeared to represent normal congressional support for a project of this size. We found no evidence that the selection of Indianapolis was affected by undue political influence.

Detailed results of our analysis are in appendix II.

Agency Views

We discussed the contents of this report with USPS officials responsible for the Eagle Air Hub contract, including the Acting Assistant Postmaster General, Facilities Department. These USPS officials suggested several specific changes of a technical or clarifying nature that were incorporated into the report where appropriate. USPS agreed with our opinion that its selection criteria were valid and credible, that adequate competition was obtained, and that the selection decision was not affected by undue political influence.

However, these officials disagreed with our conclusion that USPS did not compare the proposed cost of all offers as required by the solicitation. These officials said they compared the cost of the two offers they found technically acceptable. The officials also said that they did not notify the

five other offerors that they had been eliminated on technical grounds because it would have been impractical and politically controversial to do so. In addition, USPS officials defended their scoring plan for the delivery time and move-in date as being appropriate given their need to move within 1 year of the award but not significantly earlier than that. In summary, USPS believes that the selection of Indianapolis was fully justified and in accordance with the solicitation.

We continue to believe that USPS failed to compare the costs of all offers in the selection decision because it only compared the technical scores and costs for Indianapolis and Fort Wayne. We believe the other five offerors remained in the competitive range. However, if USPS did indeed find these offers to be technically unacceptable, then it should have promptly notified the offerors as required by USPS procurement regulations, and it did not.

The solicitation emphasized delivery time and move-in date, but this award factor provided only a two-point differential between the earliest proposed delivery time of 6 months and one that met the minimum acceptable delivery time of 12 months. Because of this low point differential, we conclude that the plan was flawed. Indianapolis may have made the best offer, but we disagree that USPS could prove this contention when it made the award or that its selection was made in accordance with the solicitation.

Approach

Our overall objective was to review the evaluation process USPS used to select a site for the Eagle Air Hub. We examined applicable USPS procurement manuals, handbooks, and guidelines; USPS documentation related to the evaluation process; and the offerors' technical and cost proposals. We visited four of the top five prospective sites and discussed the solicitation and evaluation process USPS used for the Eagle Air Hub site selection with the five offerors that received the highest technical scores. We reviewed USPS' responses to congressional inquiries and its correspondence files relating to the Eagle Air Hub procurement. We also interviewed USPS officials involved in the evaluation process. Further details on our objectives, scope, and methodology are discussed in appendix I.

As agreed with the Committee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its

issue date. At that time we will send copies to USPS' Board of Governors; the Postmaster General; the Postal Rate Commission; and the Chairmen and Ranking Minority Members of the House Committees on Post Office and Civil Service and Government Operations. We will also make copies available to others upon request.

The major contributors to this report are listed in appendix III. If you have any questions concerning this report, please contact me on (202) 275-8676.

L. Nye Stevens
Director, Government Business
Operations Issues

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Abbreviations

BAFO	best and final offer
FSC	Facilities Service Center
USPS	U. S. Postal Service

Objectives, Scope, and Methodology

Our overall objective was to evaluate the USPS contract award process that determined Indianapolis would be the permanent hub site for its Eagle Air Network. To respond to the Committee's five specific concerns, we did the following:

- To determine whether the criteria for the Eagle Air Hub award were valid and credible, we reviewed the applicable USPS Procurement Manual, the solicitation for proposals, and other solicitations used by USPS to acquire land and construct new facilities elsewhere. We obtained copies of the solicitation and contract for the existing air network, as well as the requirements developed by USPS headquarters for its permanent hub facility. We compared the criteria in these documents with the criteria contained in the solicitation for the permanent Eagle Air Hub. We discussed the USPS solicitation and evaluation process with the five offerors who received the highest final technical scores from the evaluation panel.
- To determine whether the contract award decision was based on written criteria in the solicitation, we discussed the evaluation factors and rationale with the USPS officials responsible for making the decision. Our areas of concern included how USPS officials considered each technical and cost award factor in the site selection process, how these officials assigned points to determine technical scores, and how cost was considered in the selection process. We also discussed with these officials the decision logic applied to the evaluation and determined whether it conformed with the requirements of USPS' Procurement Manual. We visited Indianapolis, Fort Wayne, Dayton, and Columbus, Ohio (Rickenbacker) to observe firsthand the facilities that were offered and better understand the reasons for the technical scores. We selected these sites because Indianapolis and Fort Wayne were the two highest USPS-rated offerors, and Dayton and Rickenbacker were the two offerors that protested the contract award. We also discussed the evaluation process with officials from Peoria, Illinois, because Peoria had the best net present value of the offerors.
- To determine whether the bid protest filed over the award was appropriately resolved, we analyzed the bid protest, USPS' response to it, and comments made on it by interested parties. We reviewed the protest decision, USPS' Procurement Manual, and supporting evidence available in the proposal evaluation files created by the evaluation panels.
- To determine whether the competition that USPS obtained was adequate, we reviewed USPS Procurement Manual requirements for obtaining competition and advertising solicitations and compared these requirements to what USPS did in the Eagle Air Hub procurement. Where

policy and practice differed, we discussed the differences with USPS officials and obtained reasons for these variances.

- To determine whether any undue political influence affected the award decision, we obtained the contracting officer's written statement prepared in response to the bid protest and the associated affidavit in which he declared under oath that his decision was not tainted by political influence. We also reviewed USPS' responses to congressional inquiries and its correspondence files relating to the Eagle Air Hub procurement.

Our work was done from December 1991 to June 1992 at the USPS Eastern FSC in Philadelphia. We also interviewed USPS personnel at the Office of Transportation and International Services in Washington, D.C., about USPS headquarters involvement in procuring the Eagle Air Hub. Our work was done in accordance with generally accepted government auditing standards.

GAO Analysis

The results of our analysis regarding USPS' decision to locate the permanent hub for its Eagle Air Network in Indianapolis are discussed below.

Need for a Permanent Hub

USPS' Eagle Air Network transports Express Mail (overnight delivery) and Priority Mail (second-day delivery) among about 30 major cities in the United States. The hub for the Eagle Air Network serves as a single national location to which all expedited mail is brought in the early morning hours (between 1 a.m. and 3 a.m., local time), sorted, reloaded onto aircraft, and sent to destination cities.

Since 1985, USPS has operated its Eagle Air Network through 2-year lease/contract arrangements that provided the hub facility and covered all aspects of transporting the mail and operating the hub. The hub has been run by three different operators in three different cities. The current hub is located in Indianapolis and is operated under a contractual agreement with Emery Worldwide.

In late 1989, USPS decided that it could handle expedited mail service more effectively and economically by using a permanent hub facility rather than going through the leasing process every 2 years and facing the prospect of changing the hub location. According to USPS, the changes in location every 2 years caused service disruptions that hurt Express and Priority Mail volumes and customers. In addition, the location changes caused disruptions in local communities and prevented USPS from establishing a stable base of operation.

Following the decision to procure a permanent hub, USPS' Office of Transportation and International Services began developing preliminary requirements for the permanent hub facility, which included (1) a location within the 4-state area of Ohio, Indiana, Illinois, and Kentucky; (2) a runway at least 9,100 feet long; and (3) a 273,000 square foot building. In January 1991, these requirements were provided to USPS' Eastern FSC in Philadelphia, which prepared the solicitation, evaluated proposals, and made the contract award. The Eastern FSC was assigned this procurement because FSCs generally make postal facility acquisitions, and two of the four states in the preferred area for the hub were located within the Eastern FSC's boundaries.

Process USPS Used to Select Facility for Its Eagle Air Hub

The Eastern FSC sent the solicitation for proposals to 36 airports in the 4-state area on May 15, 1991. The solicitation contained the minimum performance requirements that each offeror needed to meet. However, the solicitation gave offerors flexibility in how to meet these requirements. It contained the following 14 award factors that were to be used to evaluate the offerors' proposals and make the award decision:

(1) Delivery Time and Move-in Date. USPS required facility completion within 365 days from the date of the contract award and stated often in its solicitation that meeting the time requirement was important.

(2) Airport Operating Characteristics, Capabilities, and History. USPS required competing airports to have certain aviation capabilities, such as 24-hour air traffic control towers and the ability to land planes in minimal visibility. USPS also specified certain space requirements, such as adequate ramp and taxi areas. Because a hub operation relies on timeliness, USPS evaluated airports for any characteristics that might cause delays, such as air traffic congestion.

(3) Conformance with Special Provisions. USPS required offerors to meet USPS policies including (1) conformance with the National Environmental Policy Act, (2) USPS socioeconomic policies concerning minority- and women-owned businesses, and (3) compliance with the Architectural Barriers and Historic Preservation Acts. With this award factor, USPS also considered the potential for relocation claims from existing tenants and offerors' conformance with local and state policies.

(4) Offeror's Prior Performance and Qualifications. This award factor evaluated an offeror's prior performance on related projects as well as the proposed contractor's and subcontractors' qualifications.

(5) Offeror's Bonding Capacity and Financial Plan. The solicitation required offerors to submit evidence of bonding capacity and plans for financing the construction of the facility or renovations.

(6) Lease, Purchase, Ground Lease, and/or Renovation Costs. The solicitation permitted proposals for lease or purchase of either newly constructed or existing facilities. This award factor evaluated the costs of obtaining a facility and leasing the ground on which it sits.

(7) Airport Operating Costs. The solicitation required offerors to submit the costs USPS would incur by operating at their proposed sites. These costs include user fees for landing and fuel.

(8) Mechanization System Plan and Initial and Operating Costs. The solicitation required a mechanized sortation system, although offerors could use their own discretion on whether to propose a manual or an automated system. With this award factor, USPS was evaluating the mechanization system design, its maintainability and potential for expansion, as well as the costs associated with its installation and operation.

(9) Availability of Utilities, Facility Design, and Quality. With this award factor, USPS evaluated proposed site layouts and size, availability of emergency power and utility sources, and site expansion capability.

(10) Transportation and Highway Access. This award factor evaluated offerors' commercial airline availability, interstate and local highway accessibility, and the existence of a U.S. Customs port of entry for mail.

(11) Airport and Site Location. This award factor evaluated the proposed sites' locations relative to existing airport runways and terminals.

(12) Conformance with Federal, State, and Local Regulations. This award factor evaluated whether a proposed site conformed with local, state, and federal land use; traffic circulation; and other applicable regulations.

(13) Support of Airport and Comments From Local Officials. This award factor evaluated offerors' support from local and airport officials as well as the offerors' right to develop the proposed site.

(14) Conformance with Solicitation and Contract Provisions. With this award factor, USPS considered the overall response of the offerors to the terms of the solicitation and proposed contract provisions, as well as the quality of the offerors' response to the solicitation in terms of clarity, completeness, organization, and documentation.

USPS held a preproposal conference on May 30, 1991, 2 weeks after issuing the solicitation, to give prospective offerors a better understanding of the solicitation requirements. Following the preproposal conference, USPS amended the solicitation to provide additional time for offerors to prepare proposals. The amendment extended the proposal submission date from

June 24, 1991, to July 8, 1991, and placed the 14 award factors in the order of relative importance as listed earlier. Fourteen airports submitted offers in response to the solicitation.

The Eastern FSC reviewed and evaluated the 14 offers to recommend a site for the Eagle Air Hub facility. The contracting officer's source selection plan identified and established the role of two evaluation panels (cost and technical) and the methods and procedures to be used to determine the most advantageous proposal for USPS. The plan distinguished between technical award factors (factors 1 through 4 and 8 through 14) and cost award factors (factors 5, 6, 7, and 8) and stipulated that the technical panel would evaluate the technical factors and the cost panel would evaluate the cost factors.

The cost panel consisted of three USPS employees and a USPS consultant, who collectively had experience in facility cost estimating, economic analysis, and requirements planning. The cost panel used an economic analysis to better understand and translate each proposal into the net present value to USPS.

The technical panel consisted of eight USPS employees with experience in design and construction, airmail operations, transportation, real estate acquisition, fixed mechanization, and environmental engineering. This panel developed narrative evaluations of the technical factors for each proposal and provided these evaluations to the selection committee.

The cost and technical panels provided their evaluations to the selection committee, which used the evaluations to recommend to the contracting officer the site it considered the best value for the Eagle Air Hub. The selection committee consisted of four USPS general managers—two from the Eastern FSC, one from the Network Analysis Division at USPS headquarters, and one from the New York Air Mail Facility.

USPS Evaluation of Proposals

The contracting officer's source selection plan identified two phases of the evaluation process. Under Phase I, the initial technical evaluation of the offerors' proposals was made by the technical panel, which used a checklist to facilitate the evaluation of the technical award factors. Then the technical panel prepared a summary indicating the strengths and weaknesses of each proposal. The cost panel prepared a cash flow analysis that included investment and selected operating costs and

developed a net present value for each proposal.[1] Because of limited time and incomplete cost data, the cost panel was unable to provide the selection committee with reliable cost data with which the committee could establish a cost-competitive range for Phase I.

Independent of the cost and technical panels, the selection committee met to determine the number of points assigned to each award factor. The 11 technical award factors were worth a total of 100 points. The selection committee then developed subfactors to establish the points to be assigned to each specific award factor. The technical panel revised its narrative evaluation of the award factors to better address the selection committee's subfactors and provided the selection committee with narrative evaluations of each proposal by award factor and subfactor. The selection committee used these narrative evaluations to assign technical points to each of the 14 proposals. USPS policy prohibits the assigning of points to cost award factors.

Table II.1 shows the selection committee's initial scoring of each of the 14 offers in descending order.

Table II.1: Initial Technical Scores

Offeror	Score
Columbus, OH (Rickenbacker)	90
Dayton, OH	89
Indianapolis, IN	87
Fort Wayne, IN	86
Toledo, OH	73
Peoria, IL	69
Terre Haute, IN	65
Mansfield, OH	59
Rockford, IL	51
Lawrenceville, IL	43
Springfield, IL	29
Grissom Air Force Base, IN	23
Chanute Air Force Base, IL	14
Youngstown, OH	12

[1]USPS investment policy provides that a capital investment project must be analyzed in terms of discounted cash flow (i.e., net present value) to determine the long-term costs and benefits of competing offers. The idea behind using net present value is that a fee occurring in subsequent years is less costly than it would be in year 1. Net present value adjusts for the difference in price that is created by a stream of payments over a 10-year period.

The selection committee eliminated proposals that it judged not to have a reasonable chance of being awarded a contract. This step resulted in the elimination of seven of the offerors with scores below 60 points, as shown in table II.1.

Under Phase II, the selection committee requested additional information from the seven sites still under consideration. In addition, the committee visited the seven sites between August 19-22, 1991, spending equal time with each. After completing this work, the selection committee requested that best and final offers (BAFO) be received by September 9, 1991.

In mid-September 1991, the technical and cost panels provided the selection committee with a narrative summary of the technical factors and a matrix of the net present values of the BAFOs. The selection committee assigned technical points to the offers and forwarded its site recommendation to the contracting officer on September 18, 1991. These scores and the corresponding net present values are shown in table II.2.

Table II.2: USPS Final Technical Scores and Net Present Values of BAFOs at the Time of Selection

Offeror	Technical Score	Net Present Value
Indianapolis, IN	92	$104,966,000
Fort Wayne, IN	90	115,371,000
Dayton, OH	84	105,432,000
Peoria, IL	79	89,147,000
Columbus, OH (Rickenbacker)	78	102,110,000[a]
Toledo, OH	74	120,929,000
Terre Haute, IN	64	141,219,000

[a]Although USPS announced that $102.1 million was the net present value of Rickenbacker's BAFO used in the selection decision, a USPS official later told us that the selection committee considered $108.6 million to be the net present value of that BAFO because the $102.1 million net present value did not include the appropriate landing fees.

After reviewing USPS' rationale for assigned technical scores and visiting four of the competing offerors, we concluded that USPS' technical scoring, with the exception of the assignment of points for award factor 1, was supportable and within the discretion of the evaluators.

Indianapolis was judged the top technical site because it received the highest, or was tied with the highest, technical score for 8 of the 11 evaluation criteria that were assigned technical scores. Its proposal was determined to best conform to the special provisions, and the only

technical area in Indianapolis' proposal that received a low score was its proposed mechanization system.

USPS' Scoring Plan Did Not Follow the Solicitation's Stated Evaluation Scheme

The solicitation said that offers would be evaluated against a number of criteria in order of relative importance. In addition, USPS' Procurement Manual requires that proposals be evaluated in accordance with the evaluation criteria specified in the solicitation. The first listed criterion, and therefore the one that should have been most heavily weighted, was delivery time or move-in date.

The solicitation required delivery of the hub facility to be made within 365 days following the date of the contract award. The solicitation stipulated that any offer proposing a delivery time of more than 365 days was unacceptable. The 365-day delivery requirement was stressed several times in the solicitation, which also said that "time is of the essence." Specifically, USPS used the following criteria to score offers for the delivery time and move-in date evaluation factor. Offerors proposing delivery of the facility within

- 305 days were to receive 20 points,
- 335 days were to receive 19 points,
- 365 days were to receive 18 points, and
- more than 365 days were to receive 10 or fewer points.

Although the delivery time criterion was evaluated against a maximum score of 20 points (more points than any other criterion except the second award factor, which was also assigned a maximum of 20 points), under the scoring plan that USPS had developed, any delivery time that met the minimum acceptable time of 365 days was automatically given 18 points. Thus, an offer for a much earlier delivery time, such as Rickenbacker's offer of 8 months (240 days), was scored only two points higher than the minimally acceptable delivery time of an offer from Indianapolis. This scoring scheme had the effect of diluting the significance of the 20 points attributed to the most important evaluation factor. In effect, the most important criterion was given a relatively low differential of two points.

USPS determined that an offeror proposing delivery of the facility in 305 or fewer days would have received the total 20 points available for this award factor. Dayton and Rickenbacker proposed 6-month (180-day) and 8-month (240-day) delivery times, respectively, and each received 20

points. The other 5 offerors received 18 points for proposing a 365-day delivery.

USPS contends that while it required a delivery time of 365 days, it did not desire a delivery time of less than 305 days and that is why no extra points were given to Rickenbacker for a proposed 8-month (240-day) delivery. However, by placing delivery time as the most important criterion and by not revealing the fact that proposed delivery times less than 305 days were not considered advantageous, USPS misstated its requirements and misled offerors as to the importance of early delivery. This misstatement may have led some offerors to place less emphasis on other aspects of their proposals, thereby unknowingly reducing their potential technical scores.

Criteria for Site Selection Were Valid and Credible

The written criteria for the Eagle Air Hub facility contract award specified in the solicitation were valid and credible. We determined that these criteria were similar to those used by USPS in other solicitations. Moreover, no offeror objected to any of the criteria during the solicitation and evaluation process or in the subsequent bid protest to the award decision.

The correspondence from offerors to USPS contained no objection to the criteria during the solicitation and evaluation processes. Moreover, three of the four offerors we visited said that USPS' criteria were relevant to site selection for a hub facility. The fifth offeror we contacted said the criteria in the solicitation were too vague and ambiguous but did not say they were irrelevant.

Finally, we found that the criteria used to select a site for the Eagle Air Hub were similar to the criteria USPS used in other site selections. Although many of the Eagle Air Hub requirements, such as airport capabilities and mechanization system design, were unique to an expedited mail hub facility, other requirements, such as availability of utilities, offerors' financial plans, and conformance with USPS environmental policies, were similar to criteria used for many USPS facilities.

USPS' Selection of Indianapolis as Hub Facility Was Not Based on All Criteria

The solicitation required that the Eagle Air Hub contract be awarded to the offeror with the best combination of technical and cost proposals. USPS' selection of Indianapolis was based on assigned technical scores, and USPS did not compare the proposed costs of all offers as required by the solicitation. Further, we believe the selection committee assigned improper scores for award factor 1.

The solicitation set forth the primary factors with which USPS was to determine the proposal most advantageous to it. The solicitation required that the contract award be made to the responsible offeror who submitted the best combination of technical and cost proposals, with time, cost, and other factors considered. The solicitation also said that the award would not necessarily be made to the offeror submitting the lowest price.

The contracting officer's source selection plan further described how the selection decision was to be made. That plan required that the final selection was to be based on the best overall value to USPS, with proposals being ranked on a weighted formula of the technical criteria factors in comparison to the cost differences.

Given the final technical scoring of the BAFOs, the selection committee considered the top 2 technical proposals, Indianapolis and Fort Wayne, with 92 and 90 points respectively, to be technically superior to the remaining 5 proposals. USPS officials determined that Indianapolis and Fort Wayne were technically superior to the other five contending offers and said the costs associated with these five offers were not relevant to the selection decision.

Because Indianapolis had both a higher technical score and a lower net present value cost than Fort Wayne, the selection committee said the decision to recommend Indianapolis was clear and needed no further evaluation. Thus, the selection committee compared the net present values of only the top two technical proposals rather than all seven offers in the competitive range. However, USPS had determined that at the time of selection, Peoria and Rickenbacker had proposals with lower net present values than Indianapolis. The failure to include the costs of all seven offerors in the decisionmaking process violated the solicitation and the USPS Procurement Manual. The manual mandates that "the decision logic must require that price differences be compared with the value of other differences to determine which proposal provides the best overall value to the Postal Service." More significantly, by failing to compare the other five offerors' costs, USPS did not know whether it selected the best value—the best combination of technical and cost proposals.

In addition to failing to properly consider the costs of all the offers, USPS did not include award factor 5—offeror's bonding capacity and financial plan—in the cash flow analysis, nor was it assigned points by the selection committee.

The technical panel evaluated award factors 1 through 4 and 8 through 14, for which the selection committee assigned points. The cost panel included award factors 6, 7, and 8 in a cash flow analysis of the data provided in response to these award factors. The solicitation asked offerors to submit information on award factor 5—offeror's bonding capacity and financial plan—as part of the technical proposal. This award factor was not assigned points, nor was it included in the net present value analysis. Although the factor was included in the technical panel's narrative evaluation, it was not given any weight in the selection decision.

USPS Cost Estimates Were Inconsistent and Contained Errors

We identified weaknesses in the methodology USPS used to calculate the net present values, which we believe raised questions about their reliability and usefulness as a basis for comparing offerors' proposals. Areas in which we identified inconsistencies included landing fees, residual value, and mechanization system operating costs. In addition to these inconsistencies, USPS officials informed us that USPS had made some additional errors in calculating the net present values that it had reported at the time the site selection was announced on October 8, 1991.

Landing Fee Estimates Based on Different Aircraft Weights

Landing fees provide airports with revenue to cover airport operating costs. Airports calculate the rate to charge users by dividing required airport revenue by the total estimated landed weight of aircraft for that year. This rate is then charged to all users for every 1,000 pounds of aircraft weight that each user lands during the year.

The solicitation instructed offerors to estimate landing fees based on the number of aircraft for the fleet in years 1 and 5 and the number of yearly flights.[2] Offerors were to use the fleets' size in the solicitation to estimate the yearly landed weight for USPS. However, the solicitation did not provide sufficient detail about each aircraft for offerors to calculate uniform total landed weight for the fleet. In addition, the solicitation contained conflicting information regarding the number of flights per year because it said that "the Eagle Air Network would operate Monday through Saturday, 365 days per year." As a result of these ambiguities in the solicitation, offerors submitted varying landed weights, with no two offerors submitting the same year 1 weight. Offerors' estimates of year 1 landed weights ranged from 1.3 billion to 4.1 billion pounds. These differing

[2]The Eagle Air fleet for years 1 through 4 consisted of 26 aircraft. In the solicitation, USPS projected that the fleet would increase to 34 planes in year 5.

landed weights were used by USPS to estimate landing fees included in the net present value cost for the offerors.

The Indianapolis offer assumed that because USPS would only be operational for a portion of the first year, the landed weight for that year should have been reduced accordingly. However, no other offeror made this assumption and therefore included landed weights for the full year. USPS did not adjust Indianapolis' or any other offeror's year 1 landed weight to make the offers comparable. As a result, USPS' treatment of the disparities in the landed weights and rates was inconsistent among offerors.

The solicitation specified a year 1 fleet and a year 5 fleet of aircraft for the Eagle Air Network. The year 5 fleet was about 31 percent larger than the year 1 fleet. The solicitation did not specify that offerors should use the year 1 fleet in the interim years although that was what USPS intended, and USPS told only those offerors that asked to use the year 1 fleet number for years 1 through 4.

One offeror, Rickenbacker, increased the year 1 fleet annually until year 5, at which time, it used the year 5 fleet stipulated in the solicitation. By increasing the size of the fleet annually, Rickenbacker's total landed weight was higher than the other offerors, as were its related landing fees.

We found that USPS used the landing fees as proposed by the offerors. USPS officials said they could not adjust landing fees by changing the landed weight without changing the rate because total landing fees would then not equal the needed revenue. USPS officials also said they did not have time to request that offerors resubmit landing fee estimates based on a uniform landed weight.

Methodology for Calculating Residual Values Not Consistent

Residual value estimates the worth of an asset at a point in time in the future when the asset's primary use is no longer applicable. The cost panel included residual value in the net present value for those offers that proposed purchased facilities. USPS investment policy provides that the residual value for a building in year 10 is 1.014 times the building cost. For new facilities, the cost panel used the proposed purchase price of the facility as the building cost. The cost panel also used the proposed purchase price for existing facilities. However, this practice did not conform to USPS guidelines that recommend an appraisal to establish the residual value for existing buildings that involve specialized space.

The cost panel based the residual value of new facilities in Indianapolis, Fort Wayne, Toledo, and Peoria on the proposed purchase price of each of the facilities. Although Dayton and Rickenbacker both proposed existing facilities, USPS calculated residuals for these two offers differently. The cost panel calculated the residual for Dayton based on an appraisal of the existing facility that Dayton included with its proposal. The residual for Rickenbacker was calculated using the proposed purchase price of the existing facility, without an appraisal. The cost panel determined that the year 1 price was a good estimate of the appraised value of the facility.

By calculating the residual values for the two existing facilities in this manner, USPS not only made these net present values for the two offers noncomparable but may have incorrectly estimated the value of locating the hub at either site.

USPS Used Uniform Labor Rate to Estimate Mechanization System Operating Costs

The mechanization system at the hub facility relies on a conveyor system to transport mail through the facility but requires manual labor provided by a contractor to unload and load the mail and place each package on the appropriate conveyor belt, given the package's destination. USPS considered labor to be the only mechanization system operating cost when calculating each offers' net present value. This was the largest cost in the net present value calculation, yet USPS' mechanization consultant used a standard hourly labor rate to calculate the mechanization system operating costs for all sites rather than obtaining proposals from the offerors reflecting labor rates for their specific areas.

USPS calculated the mechanization system operating costs by multiplying the number of direct sort personnel required for the system proposed in the technical proposals by 4 hours per tour, 2 tours per day, 5.5 days per week, and 52 weeks per year. The product was then multiplied by a standard hourly rate of $9.20. USPS said it used the standard hourly rate in order to make all proposals comparable. In so doing, USPS failed to account for differences in labor costs to operate the mechanization system that may exist among offerors' locations.

Any variance in labor costs would be magnified for a labor-intensive system because the standard hourly rate would be applied to a greater number of labor hours. For example, the mechanization system proposed by Indianapolis was more labor-intensive, with 332 direct sort personnel, than systems proposed by other offerors, which required from 196 to 296 direct sort personnel.

USPS Identified Errors in Its Cost Estimates

The selection committee used a matrix of all of the offerors' cost proposals to discuss the cost of the competing offers, considering each offerors' proposal with the lowest net present value to be their best offer. However, USPS noted numerous problems associated with the BAFOs of the seven contending offers that affected its comparison of net present values.

Specifically, USPS noted that the selection committee was not sure that the net present values it calculated from the BAFOs were reliable. Errors that USPS identified included (1) the net present value for the Rickenbacker cost proposal used landed weights that were inappropriate for the Eagle Air fleet and omitted the ground lease costs that were required by the proposal; (2) the net present value calculation for Peoria's proposal assumed a grant from the Federal Aviation Administration that was not guaranteed; (3) the net present value for Toledo's proposal was based on an incorrect initial investment cost, understating the Toledo proposal's net present value by $7.2 million; (4) the net present value calculation for Terre Haute's proposal assumed a leased facility with an indeterminate amount of additional costs, although the other contending offers were all for purchased facilities; and (5) the net present value calculations for the Dayton and Rickenbacker proposals do not reflect the cost of the required year 10 buildings, making these net present value calculations inaccurate.

Because USPS cost estimates were inconsistent, contained errors, and were based on incomplete data, we were not able to determine the correct net present value for the competing sites.

We Disagree With USPS' Bid Protest Decision

USPS announced on October 8, 1991, that it had selected Indianapolis as the site for its Eagle Air Hub. The proposed award was protested by one of the competitors, Rickenbacker, on October 15, 1991. Another competitor (Dayton, Ohio) joined the protest. On February 10, 1992, USPS' Associate General Counsel denied the protest in part and dismissed it in part.

Among other things, the protest questioned the evaluation process used by USPS. The protest alleged that the emphasis USPS placed on the importance of early completion of the hub was not reflected in the technical scoring and that the Indianapolis proposal appeared to be substantially more costly than Rickenbacker's. It further claimed that the evaluation factors, as applied, were not ranked in the order of importance as required by the solicitation.

USPS' Associate General Counsel decided that the scoring panel did not violate the solicitation requirement that evaluation factors be ranked in order of importance. USPS' Associate General Counsel based his decision on the fact that with the exception of award factors 1—delivery time and move-in date—and 2—airport operating characteristics, capabilities, and history—which were both assigned a maximum of 20 points, the award factors were assigned a declining maximum number of points consistent with their relative order of importance.

Timeliness of delivery of the air hub was emphasized in the solicitation. However, USPS assigned only two additional points—a relatively low point differential—for offerors that proposed delivery times that took less than 365 days. This low point differential negated the significance of the most important evaluation factor. We agree with the protester that the scoring plan for delivery of the facility was flawed. However, we do not characterize this difference to mean that USPS was unfair or biased in its decision. We simply point out our disagreement with USPS' rationale for disallowing the bid protest.

Our review of the bid protest and related documents leads us to conclude that the allegation pertaining to assigning scores in rank order of importance had merit. Therefore, we believe that USPS disallowed the bid protest without satisfactorily resolving the key issue that was protested.

USPS Obtained Adequate Competition

USPS did not advertise the solicitation for the Eagle Air Hub facility in the Commerce Business Daily but obtained competition for the procurement in alternative ways. Because USPS sent solicitations to 36 airports and 14 offerors responded, we conclude that the competition USPS obtained was adequate.

USPS' Procurement Manual does not require that solicitations for transportation contracts be advertised in the Commerce Business Daily. Rather, it requires that the contracting officer establish a list of potential offerors for each solicitation and mail the solicitation to all potential bidders on the list. USPS' Realty Acquisition and Management Handbook states that although it is general USPS policy to advertise requirements for new properties to identify all sources and secure adequate competition, there are exceptions to the policy. These exceptions include when the FSC director concludes that it is not in USPS' best interest to advertise. Because of the necessary involvement of any airport at which the facility would be located, the director believed it was necessary for airports to take the lead

in submitting proposals rather than a more passive role in the submission of a proposal by a general contractor.

USPS did not advertise the solicitation for the Eagle Air Hub facility but sent the solicitation to 36 airports identified by the Federal Aviation Administration within the 4-state preferred area with sufficient runways to handle the Eagle Air Network fleet. USPS further obtained competition by extending the proposal submission deadline by 14 days to allow offerors to submit proposals to lease or purchase facilities, new or existing buildings, and automated or manual material sorting systems.

No Evidence That Site Selection Was Affected by Undue Political Influence

We found no evidence that the selection of Indianapolis as the permanent site for the Eagle Air Hub was affected by undue political influence.

During the solicitation and evaluation process for this procurement, numerous members of Congress contacted USPS on behalf of their constituents. Our review of the letters in the Eastern FSC's congressional contact file relating to the Eagle Air Hub procurement showed that the letters were generally concerned about the solicitation requirements, such as runway length, instrument landing capability, and delivery date. Many of the congressional letters also attempted to emphasize to USPS the reasons the sites proposed by their constituents were ideally suited to be the permanent hub site. In our opinion, the letters and USPS' responses represented normal congressional support for a project of this type and magnitude, and we found no evidence that undue political influence was exercised or affected the final decision.

The contracting officer, in his sworn statement in response to the bid protest, said that he was in no way pressured or influenced to select or not select, any site. He verbally reaffirmed his statement to us.

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